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Grant Audit of
PARTNERSHIP FOR PRODUCTIVITY
INTERNATIONAL, INC.

Audit Report No. 84-21

February 22, 1984

Grant Audit of
PARTNERSHIP FOR PRODUCTIVITY INTERNATIONAL, INC.

Grant Nos.
AID/Afr-G-1328 (Kenya), AID/Afr-G-1395 (Liberia),
AID/Afr-G-1391 (Upper Volta), AID/78-633-29 (Botswana),
AID/SOD/PDC-G-0257, AID/Afr-G-1693 (Liberia) and
AID/Afr-0249-G-SS-1107-00 (Upper Volta)

Audit Report No. 84-21

Introduction

The Office of the Regional Inspector General for Audit/Washington (RIG/A/W) reviewed three audit reports (No. 6131-0A160.060 dated July 2, 1981, No. 6261-2C160.330 dated May 17, 1982, and No. 6261-3C160.027 dated May 5, 1983) issued by the Defense Contract Audit Agency (DCAA) on an examination of the above agreements with the Partnership for Productivity International, Inc. (PFPI).

The primary purpose of the agreements with PFPI was to foster the development of small enterprises overseas. PFPI has attempted to act as a small business extension service by providing training, advice and small loans. In some cooperating countries they established PFP organizations to service local small enterprises so that the program can continue without PFPI support.

The purpose of the examination was to determine whether the direct and indirect expenses claimed by PFPI for Fiscal Years ended March 31, 1978, 1979, 1980, 1981 and 1982 are allowable and reimbursable under the AID funded agreements.

Special Circumstances Affecting the DCAA Examination

DCCA auditors were unable to subject these costs to the same audit procedures that were used for the home office expenses because they could not review source documents. Instead the auditors used certified financial statements to verify the costs incurred at overseas locations. Therefore, the results are qualified to the extent that additional costs may have been questioned if the auditors had been able to review source documents.

RIG/A/W and RIG/A/Nairobi made independent verification of costs incurred at overseas locations (Kenya and Upper Volta). These efforts supplemented the DCAA procedures. Based on our test checks, we are reasonably satisfied that costs recommended for acceptance are valid and reasonable.

Grant Information

A summary of costs claimed and accepted is shown in Exhibit A.

- 1 -

FINDINGS AND RECOMMENDATIONS

Grant Costs

Claimed costs of \$3,860,199 for Fiscal Years (FY) ended March 31, 1978, 1979, 1980, 1981 and 1982 have been audited. As a result of the audit, costs totaling \$77,619 are questioned, cost totaling \$282,628 are suspended, and the balance of costs totaling \$3,499,952 is accepted as shown in Exhibit A.

Costs were questioned because: claimed direct costs exceeded direct costs recorded on the books and included in the overhead bases by \$89,145; costs exceeded grant ceilings by \$12,090; overhead adjustment from provisional to actual \$(2,431); costs reclassified \$(18,848); allowable costs not billed (\$10,416); and costs not supported \$8,079. See Exhibit B for details by Grant.

On Grant Numbers AID/Afr-G-1391 and AID/Afr-0249-G-SS-1107-00, PFPI did not segregate FY 1982 costs by the respective grant. Therefore, the costs (\$282,628) are suspended pending review and determination of acceptability by the Office of Contract Management.

Recommendation No. 1

The Office of Contract Management (M/SER/CM) and USAID/BOTSWANA should ensure settlement of suspended costs totaling \$282,628, and questioned costs totaling \$77,619.

Overhead Methodology Needs Improving

One of PFPI's primary objectives is organizing and providing guidance in establishing small enterprise organizations in cooperating countries. Where the local activity has not been incorporated, all costs are classified as PFPI direct costs. Where the local activity has been incorporated, expenditures from funds generated directly by the local activity are not classified as PFPI costs. Generally, only direct costs recorded on PFPI books are included in the overhead allocation base.

Some of the local activity costs (approximately \$300,000) were used as matching costs on Grant Number AID/SOD/PDC-G-0257, but were not included in the overhead allocation base. All costs utilized for matching purposes should be included in the base for computing and allocating indirect costs. In our opinion, the Office of Contract Management (CM/SOD/OSC) should enter into a Memorandum of Understanding with PFPI stipulating the basis for computing future overhead rates. Since the overhead rates for fiscal years 1978, 1979, 1980, 1981, and 1982 have been negotiated, any change in methodology should start with FY 1983.

Recommendation No. 2

The Office of Contract Management (CM/SOD/OSC) should negotiate a Memorandum of Understanding with Partnership for Productivity International, Inc. that specifies in detail how overhead will be computed and what costs will be included in the base.

Grantee's Financial Viability

Based on a review of PFPI's audited financial statement as of March 31, 1983, liabilities exceed assets if the figures are adjusted to reflect the \$109,969 in questioned costs. As summarized below, PFPI will be operating with a deficit fund balance.

Fund Balance 3/31/83	\$ 31,445
Stock Donated to PFPI 6/10/83	19,429
Available Funds	<u>\$ 50,874</u>
Less: Questioned Costs	77,619
Deficit Fund Balance	<u><u>\$(26,745)</u></u>

PARTNERSHIP FOR PRODUCTIVITY INTERNATIONAL, INC.
Summary of Costs Claimed and Accepted

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Suspended</u>	<u>Costs Accepted 3/31/82</u>
<u>Grants</u>				
AID/Afr-G-1328(Kenya)	\$ 360,000	\$ - 1/	\$ -	\$ 360,000
AID/Afr-G-1395(Liberia)	164,000	- 2/	-	164,000
AID/Afr-G-1391(Upper Volta)	620,383	75,300 3/	79,371 4/	465,712
AID/78-633-29(Botswana)	513,846 5/		-	513,846
AID/SOD/PDC-G-02572 Matching Grant	577,674	41,735 6/	-	535,939
AID/Afr-G-1693(Liberia)	1,422,027	(38,428) 7/	-	1,460,455
AID/Afr-0249-G-SS- 1107-00(Upper Volta)	<u>202,269</u>	<u>(988) 8/</u>	<u>203,257 4/</u>	<u>-</u>
TOTAL	<u>\$3,860,199</u>	<u>\$ 77,619</u>	<u>\$282,628</u>	<u>\$3,499,952</u>

Explanatory Notes:

1/ Costs applicable to Grant No. AID/Afr-G-1328 are adjusted as follows:

a. Claimed direct costs not incurred					\$ 5,400
b. Adjustment of overhead from provisional to actual:					
Overhead Claimed				\$60,000	
Direct Costs Accepted - FY 1978	\$ 94,594				
Negotiated Overhead Rate	<u>x26.19%</u>	\$24,774			
Direct Costs Accepted - FY 1979	\$ 86,535				
Negotiated Overhead Rate	<u>x24.47%</u>	21,175			
Direct Costs Accepted - FY 1980	\$113,471				
Negotiated Overhead Rate	<u>x18.60%</u>	<u>21,106</u>	<u>67,055</u>	(7,055)	
c. Grant costs in excess of Grant ceiling					<u>1,655</u>
Net Costs Questioned					<u>\$ -0-</u>

2/ Costs applicable to Grant No. AID/Afr-G-1395 are adjusted as follows:

a. Allowable direct costs not claimed					\$(8,036)
b. Adjustment of overhead from provisional to actual:					
Overhead Claimed				\$32,000	
Direct Costs Accepted - FY 1978	\$ 7,659				
Negotiated Overhead Rate	<u>x26.19%</u>	\$ 2,076			
Direct Costs Accepted - FY 1979	\$132,377				
Negotiated Overhead Rate	<u>x24.47%</u>	<u>32,393</u>	<u>34,399</u>	(2,399)	
c. Grant costs in excess of grant ceiling					<u>10,435</u>
Net Costs Questioned					<u>\$ -0-</u>

3/ Costs applicable to Grant No. AID/Afr-G-1391 are adjusted as follows:

a. Claimed direct costs not incurred									\$49,983
b. Adjustment of overhead from provisional to actual:									
Overhead claimed									\$120,074
Direct Costs Accepted - FY 1978	\$ 41,395								
Negotiated Overhead Rate	<u>x26.19%</u>							\$10,841	
Direct Costs Accepted - FY 1979	\$162,515								
Negotiated Overhead Rate	<u>x24.47%</u>							39,767	
Direct Costs Accepted - FY 1980	\$ 81,576								
Negotiated Overhead Rate	<u>x18.60%</u>							15,173	
Direct Costs Accepted - FY 1981	\$100,258								
Negotiated Overhead Rate	<u>x14.15%</u>							14,187	
Direct Costs accepted - FY 1982	\$ 64,582								
Negotiated Overhead Rate	<u>x22.90%</u>							<u>14,789</u>	<u>94,757</u> <u>25,317</u>
Net Costs Questioned									<u>\$75,300</u>

4/ Fiscal Year 1982 costs applicable to Grant No. AID/Afr-G-1391 and Grant No. AID/Afr-0249-G-SS-1107-00 were not segregated. Therefore, the costs are suspended pending a technical evaluation to determine acceptability.

Explanatory Notes - continued

5/ Costs claimed under agreement No. AID/78-633-29 were not available so we are presenting direct costs incurred plus applicable overhead costs as follows:

Direct Costs Incurred Per PFP Records \$430,889

Applicable Overhead Costs:

Direct Costs - FY 1979	\$ 47,442		
Negotiated Overhead Rate	<u>x24.47%</u>	\$ 11,609	
Direct Costs - FY 1980	\$ 97,508		
Negotiated Overhead Rate	<u>x18.60%</u>	18,136	
Direct Costs - FY 1981	\$140,201		
Negotiated Overhead Rate	<u>x14.15%</u>	19,838	
Direct Costs - FY 1982	\$145,738		
Negotiated Overhead Rate	<u>x22.90%</u>	<u>33,374</u>	<u>82,957</u>
Total			<u>\$513,846</u>

- | | |
|---|-----------------|
| a. Direct costs for FY 1979 recorded and claimed by both PFP/USA and PFP/Botswana | \$25,990 |
| b. Overhead on FY 1979 questioned cost (\$25,990 X 24.47%) | <u>6,360</u> |
| Total | <u>\$32,350</u> |

6/ Costs applicable to Grant No. AID/SOD/PDC-G-0257 are adjusted as follows:

- | | |
|--|----------|
| a. Claimed direct costs not recorded on PFP books | \$22,691 |
| b. Costs erroneously reclassified from another grant | 1,401 |
| c. Recruiting costs reclassified to indirect costs | 1,380 |
| d. Direct Labor, travel and other direct costs not supported | 8,079 |
| e. Direct costs reclassified from indirect costs | (21,629) |
| f. Adjustment of overhead from provisional to actual: | |

Overhead claimed \$111,808

Explanatory Notes - continued

Direct Costs Recorded - FY 1980	\$ 97,024			
Less: Audit Adjustments	<u>2,781</u>			
	\$ 94,243			
Negotiated Overhead Rate	<u>x18.60%</u>	\$17,529		
Direct Costs Recorded - FY 1981	\$200,201			
Add: Audit Adjustments	<u>(4,439)</u>			
	\$204,640			
Negotiated Overhead Rate	<u>x14.15%</u>	28,957		
Direct Costs Recorded - FY 1982	\$145,950			
Audit Adjustment	<u>(9,111)</u>			
	\$155,061			
Negotiated Overhead Rate	<u>x22.90%</u>	<u>35,509</u>	<u>81,995</u>	<u>29,813</u>
Net Cost Questioned				<u>\$41,735</u>

7/ Costs applicable to Grant No. AID/Afr-G-1693 are adjusted as follows:

a. Claimed costs not incurred				\$11,071
b. Adjustment of overhead from provisional to actual:				
Overhead Claimed				\$185,482
Direct Costs Accepted - FY 1981	\$521,744			
Negotiated Overhead Rate	<u>x14.15%</u>	\$ 73,827		
Direct Costs Accepted - FY 1982	\$703,730			
Negotiated Overhead Rate	<u>x22.90%</u>	<u>161,154</u>	<u>234,981</u>	<u>(49,499)</u>
Additional Costs Due Grantee				<u>\$(38,428)</u>

8/ Costs applicable to Grant No. AID/Afr-0249-G-SS-1107-00 are adjusted as follows:

a. Allowable direct costs not claimed				\$(2,380)
b. Adjustment of overhead for provisional to actual:				
Overhead claimed		\$39,265		
Direct Costs Accepted - FY 1982	\$165,384			
Negotiated Overhead Rate	<u>x22.90%</u>	<u>37,873</u>		<u>1,392</u>
Additional Costs Due Grantee				<u>\$ (988)</u>

PARTNERSHIP FOR PRODUCTIVITY INTERNATIONAL, INC.
Summary of Costs Claimed and Accepted

<u>Grant</u>	<u>Claimed Costs Exceeded Costs on Books</u>	<u>Costs Exceeded Grant Ceilings</u>	<u>Overhead Suspended</u>	<u>Costs Reclasification</u>	<u>Allowable Costs not Billed</u>	<u>Costs not Suspended</u>
AID/afr-G-1328	\$ 5,400	\$ 1,655	\$(7,055)	\$	\$	\$
AID/afr-G-1395	-	10,435	(2,399)	-	(8,036)	-
AID/afr-G-1391	49,983	-	25,317	-	(8,036)	-
AID/SOD/PDC-G-02572	22,691	-	29,812	(18,848)	-	8,079
AID/afr-G-1693	11,071	-	(49,499)	-	-	-
AID/afr-0249-G-SS-1107-00	<u>-</u>	<u>-</u>	<u>1,392</u>	<u>-</u>	<u>(2,380)</u>	<u>-</u>
<u>Total</u>	<u>\$89,145</u>	<u>\$12,090</u>	<u>\$(2,431)</u>	<u>\$(18,838)</u>	<u>\$(10,416)</u>	<u>\$ 8,079</u>

PARTNERSHIP FOR PRODUCTIVITY INTERNATIONAL, INC.

List of Report Recipients

Associate Assistant to the Administrator for Management Services, M/AAA/SER	1
Audit Liaison Office, M/AAA/SER	1
Office of Financial Management, M/FM/ASD	7
Mission Director, USAID/Botswana	2
Assistant Administrator, Bureau of Africa, AA/AFR	3
Audit Liaison Office, AFR/PMR/EMS	1
Office of Contract Management, M/SER/CM	1
Office of Contract Management, CM/ROD/AFR	4
Office of External Relations, EXRL	1
Office of Legislative Affairs, LEG	2
Office of Public Affairs, OPA	1
Office of General Counsel, GC	1
Assistant to the Administrator for Management, AA/M	1
Senior Assistant Administrator, Bureau for Science and Technology SAA/S&T	1
Office of Evaluation, PPC/E	1
Development Information Utilization Division, PPC/E/DIU	2
Office of Management Operations, M/SER/MD	1
M/SER/EDMS	1
Office of the Inspector General, IG	1
AIG/II	1
IG/PPP	1
IG/EMS/C&R	12
RIG/A/Nairobi	1
RIG/A/Dakar	1

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REPORT ON AUDIT OF INCURRED COSTS
FOR THE FISCAL YEAR ENDED
31 MARCH 1982
PARTNERSHIP FOR PRODUCTIVITY INTERNATIONAL, INC.

The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the Contracting Officer, to the duly authorized representatives of Partnership for Productivity International, Inc.

Under the provisions of Title 32, Code of Federal Regulations, Part 290.26 (b)(2) (as amended August 10, 1977), all Freedom of Information Act requests for audit reports received by DCAA will be referred to the cognizant Contracting Officer who will determine releasability and respond to the requestor.

Contractor information contained in this audit report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public.

This report may not be released to any Federal agency outside the Department of Defense without the approval of Headquarters, DCAA, except to an agency requesting the report for negotiating or administering its contract.

DEFENSE CONTRACT AUDIT AGENCY
PHILADELPHIA REGION
DISTRICT BRANCH OFFICE
LANDOVER, MARYLAND

AUDIT REPORT NO. 6261-3C160.027

DATE OF REPORT: 5 May 1983

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DEFENSE CONTRACT AUDIT AGENCY

PHILADELPHIA REGION
DISTRICT BRANCH OFFICE
8181 PROFESSIONAL PLACE, SUITE 101
LANDOVER, MARYLAND 20785

IN REPLY REFER TO

6261-3C160.027

5 May 1983

SUBJECT: Report on Audit of Incurred Costs
For the Fiscal Year Ended 31 March 1982
Partnership for Productivity International, Inc.
Washington, D.C.
Audit Report No. 6261-3C160.027

TO: Contracting Officer
Department of State
Agency for International Development
Washington, D.C. 20523

ATTN: Mr. Harry White
SOD/OSC

1. Purpose and Scope of Audit. We have examined the books and records of Partnership for Productivity International, Inc. (PfP) for the fiscal year ended 31 March 1982 to determine the acceptability of claimed direct and indirect expenses and for the establishment of final negotiated overhead rates based on PfP's submissions dated 28 December 1982.

Our review was performed in accordance with generally accepted auditing standards and included such tests of the contractor's accounting data and records and other such auditing procedures we considered necessary under the circumstances except as stated in Section II. The terms of the individual contracts and cost principles contained in the applicable Government procurement regulations were used as criteria in the determination of acceptable costs.

2. Special Circumstances Affecting the Examination. We utilized the audit workpapers of the company's certified public accountants to verify the cost incurred at overseas locations. The procedures involved tracing large dollar transactions from overseas quarterly reports to invoices and other source documents.

During our review, we observed that some accounting and internal control deficiencies noted in our report number 6261-2C160.330 dated 17 May 1982 still existed to a lesser degree during this period. We did note that the period ending 31 March 1982 was prior to the time of our letter which recommended corrective actions for the subject deficiencies. However, because some deficiencies were still apparent, we were unable to provide a definitive summary of costs for contracts AID/afr-G-1391 and AID/afr-0249-G-55-1107-00 since these contracts were both recorded under the same internal project name.

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5 May 1983

3. Conclusions. The detailed conclusions and recommendations resulting from our audit are included in the Exhibits of this report.

We discussed our findings with Ms. Jean Thomas, Financial Officer, who concurred with our findings.

We will be pleased to furnish accounting counsel and any additional audit service which you may require.

If you should have any further questions, please contact Mr. John P. Blaine, Supervisory Auditor. Our telephone number is (301) 436-2090.

The information contained in this report should not be used for purposes other than that intended without prior consultation with this office regarding its applicability.

Upon final negotiations, we would appreciate receiving a copy of the negotiation memorandum in accordance with your directives.

DEFENSE CONTRACT AUDIT AGENCY


CLYDE S. DeHOFF, JR., Branch Manager

Copy to: Office of Regional Inspector
General for Audit/Washington
Department of State
Agency for International Development
Washington, D.C. 20523
Attention: Mr. Charles Browne

Partnership for Productivity International, Inc.
Washington, D.C.

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Partnership for Productivity International, Inc.
Washington, D.C.

Summary of Direct Costs Questioned for the Fiscal Year Ended 31 March 1982
- Note 1 -

<u>Contractor Grant Number</u>	<u>FY 1982</u>	<u>Notes</u>
AID/SOD/PDC-G-0257	\$(9,111)	2
AID/OTR-C-1878	(1,514)	2
522-0157	(417)	2

() Denotes Upward Adjustment

Explanatory Notes:

1. The results of our audit are qualified as explained in Paragraph 2.
2. The questioned amounts represent labor costs and associated fringe benefits which were included in indirect expense prior to receipt of timesheets for the subject employees. The adjustments reflect the actual time charges for these employees.

Partnership for Productivity International, Inc.
Washington, D.C.

Summary of Contractor's Proposed Indirect Expenses and
Results of Audit Review for the Fiscal Year Ended 31 March 1982

<u>Indirect Expenses</u>	<u>Contractor's Proposal</u>	<u>Results of Audit Review (Note 1)</u>	
		<u>Questioned Cost/Rate</u>	<u>Reference</u>
<u>Fiscal Year 1982</u>			
Expense Pool	\$356,926	\$16,477	Exhibit C
Allocation Base (a)	\$1,474,912	\$(11,909)	Note 2
Rate	24.20%	1.30%	

(a) The allocation base consists of total direct costs.
() Denotes Upward Adjustment

Government participation in the indirect allocation base is shown below:

<u>Contract Type in Allocation Base</u>	<u>FY 1982</u>
Cost and Flexible Contracts/Grants	91.5%
Firm Fixed-Price and Commercial Work	8.5%
Total	<u>100.0%</u>

Explanatory Notes:

1. The results of audit are qualified as explained in Paragraph 2.
2. The questioned costs consist of the amounts included in Exhibit A, Note 2 and \$867 of labor and fringe benefits for non-Government work which was included in the indirect expense pool.

Partnership for Productivity International, Inc.
Washington, D.C.

Statement of Contractor's Proposed Indirect Expenses and
Results of Audit Review for the Fiscal Year Ended 31 March 1982

	Contractor's Statement	Results of Audit Review (Note 1)	
		Questioned Cost	Notes
Salaries	\$187,737	\$ 9,119	2
Benefits	57,466	2,790	3
Professional Fees	13,514		
Travel	27,352		
Supplies	12,006	300	4
Equipment Rental and Repair	5,661		
Office and Other Expense	53,190	4,268	5
Total	<u>\$356,926</u>	<u>\$16,477</u>	

Explanatory Notes:

1. The results are qualified as explained in Paragraph 2.
2. The questioned indirect salary cost represents labor which was incorrectly included in the indirect expense pool. These labor costs related to direct cost objectives as supported by timesheet entries, but the costs were not shown as direct costs by the contractor.
3. The questioned fringe benefit costs relates to the indirect salaries question in Note 2 above.
4. The questioned indirect office supplies expense represents the difference between the amount shown in the contractor's cost records for a printing and duplication entry (\$1,121.76) and the amount shown on the invoice (\$821.76) for the same expense.
5. The questioned amount consists of \$1,800 of rent expense, \$1,000 for expensing a travel advance and \$1,468 for the correction of tax liability balances. The questioned rent expense represents rent for separate facilities used exclusively by David Skull, the founder of the company. The contractor could not demonstrate the necessity of the expense to the overall operation as required by FPR 1-15.201-4(iii). The other amounts represent adjustments for prior period expenses for which the contractor was unable to provide any supporting documentation.

Partnership for Productivity International, Inc.
Washington, D.C.

Schedule of Cost Reimbursable Type Contracts/Grants

Department of State - AID

AID/SOD/PDC-G-0257
✓ AID/afr-G-1693
✓ AID 78-633-29 ✓
✓ AID/afr-G-1391 ✓
Aid/afr-0249-G-55-1107-00
AID/522-0157
AID/OTR-C-1828
AID/538-0000-C-00-2007-00
AID/532-0080
AID/521-0118

**REPORT ON AUDIT OF
INCURRED COSTS
FOR THE FISCAL YEARS ENDED
31 MARCH 1980 AND 1981
PARTNERSHIP FOR PRODUCTIVITY FOUNDATION/USA, INC.**

The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the Contracting Officer, to the duly authorized representatives of Partnership for Productivity Foundation/USA, Inc.

Under the provisions of Title 32, Code of Federal Regulations, Part 290.26 (b)(2) (as amended August 10, 1977), all Freedom of Information Act requests for audit reports received by DCAA will be referred to the cognizant Contracting Officer who will determine releasability and respond to the requestor.

Contractor information contained in this audit report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public.

This report may not be released to any Federal agency outside the Department of Defense without the approval of Headquarters, DCAA, except to an agency requesting the report for negotiating or administering its contract.

**DEFENSE CONTRACT AUDIT AGENCY
PHILADELPHIA REGION
DISTRICT BRANCH OFFICE
ARLINGTON, VIRGINIA**

AUDIT REPORT NO. 6261-2C160.330

DATE OF REPORT: 17 May 1982

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of 11/21/87
Initial *[Signature]*

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DEFENSE CONTRACT AUDIT AGENCY

PHILADELPHIA REGION
District BRANCH OFFICE
COMMONWEALTH BUILDING - 10TH FLOOR
1300 WILSON BOULEVARD
ARLINGTON, VIRGINIA 22209

IN REPLY REFER TO

SUBJECT: Report on Audit of Incurred Costs
For the Fiscal Years Ended
31 March 1980 and 1981
Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.
Audit Report No. 6261-2C160.330

TO: Office of Regional Inspector General for Audit/Washington
Department of State
Agency for International Development
Washington, D.C. 20523

ATTN: Mr. Charles Brown

I. PURPOSE OF AUDIT.

We have examined the books and records of Partnership for Productivity Foundation/USA, Inc. (PFP) for the fiscal years ended 31 March 1980 and 1981 to determine the acceptability of claimed direct and indirect expenses and for the establishment of final negotiated overhead rates based on PFP's submissions dated 18 March 1982.

Our review was performed in accordance with generally accepted auditing standards and included such tests of the contractor's accounting data and records and other such auditing procedures we considered necessary under the circumstances except as stated in Section II. The terms of the individual contracts and cost principles contained in the applicable Government procurement regulations were used as criteria in the determination of acceptable costs.

II. SPECIAL CIRCUMSTANCES AFFECTING THE EXAMINATION.

We used certified financial statements to verify the costs incurred at overseas locations. We were unable to subject these costs to the same audit procedures as used for the home office expenses since we could not review source documents. Therefore, the results are qualified to the extent that additional costs could have been questioned from such additional audit procedures.

Because of the accounting and internal control deficiencies as noted in Appendix 1, we were unable to reasonably assure the acceptability of all costs that were not otherwise questioned.

III. CONCLUSIONS.

The detailed conclusions and recommendations resulting from our audit are included in the Exhibits and Appendix of this report.

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Audit Report No. 6261-2C160.330

We discussed our findings with Mr. Andrew Oerke, President, who generally concurred with our findings. However, Mr. Oerke plans to search for missing source documents relating to items questioned in this report for lack of documentation and to provide these during rate negotiations.

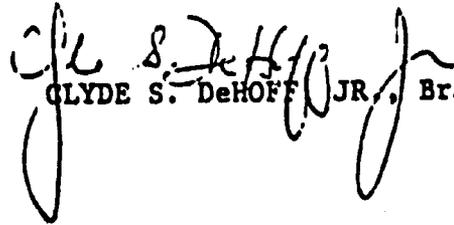
We will be pleased to furnish accounting counsel and any additional audit service which you may require.

If you should have any further questions, please contact Mr. John P. Blaine, Supervisory Auditor.

The information contained in this report should not be used for purposes other than that intended without prior consultation with this office regarding its applicability.

Upon final negotiations, we would appreciate receiving a copy of the negotiation memorandum in accordance with your directives.

DEFENSE CONTRACT AUDIT AGENCY


CLYDE S. DeHOFF, JR., Branch Manager

Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

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Statement of Contractor's Proposed Indirect Expenses and Results of Audit Review for the Fiscal Years Ended 31 March 1980	Exhibit C	7-8
Statement of Contractor's Purposed Indirect Expenses and Results of Audit Review for the Fiscal Year Ended 31 March 1981	Exhibit D	9-10
Schedule of Cost Reimbursable Type Contracts/ Grants	Exhibit E	11
Contractor's Accounting System	Appendix 1	12

Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

Summary of Direct Costs Questioned for the
Fiscal Years Ended 31 March 1980 and 1981 (Note 1)

<u>Contract or Grant Number</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>Total</u>	<u>Notes</u>
AID/521-0118	\$(1,254)		\$(1,254)	2
AID/SOD/PDC-G-0257	2,781	\$(4,439)	(1,658)	3
AID/OTR-C-1828		270	270	4

() Denotes Upward Adjustment

Explanatory Notes:

1. The results of our audit are qualified as explained in Section II.

2. The questioned amount consists of salary \$(975) and fringe benefits \$(279) reclassified from the indirect expenses. The expenses were direct costs on Grant No. AID/521-0118 which were reclassified to indirect expense at the insistence of the Grant Officer.

3. The questioned FY 1980 expenses consist of \$1,401 reclassified from another grant because funds on that grant had expired and \$1,380 of recruitment costs. We have reclassified the recruitment expenses to indirect expenses since these expenses related to a general secretary benefitting the overall business. We reclassified the remaining expenses to the grant on which they were incurred.

The FY 1981 expenses consist of \$12,518 of reclassification from indirect expense to this grant and \$3,750 of reclassifications from this grant to other direct cost objectives. Our reclassifications were based on the source documents. In addition we questioned \$833 of labor costs and \$3,496 of travel costs. The labor costs were questioned as unallocable since the contractor was unable to provide a source document (timesheet) to substantiate the distribution of this cost. The questioned travel costs consisted of \$1,018 questioned on the basis of reasonableness and allocability. The questioned amount of \$2,478 results from the inability of the contractor to provide supporting detail to substantiate the incurrence and distribution of this expense. The remaining costs were questioned since the contractor incurred additional expenses due to the use of different travel routes and modes than were previously utilized in the same circumstances and because there was no benefit to the Government from the changes.

4. Questioned costs represent airfare expenses which were subsequently refunded and therefore, did not constitute an expense to the company.

Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

Summary of Contractor's Proposed Indirect Expenses and Results of Audit Review
for the Fiscal Years Ended 31 March 1980 and 1981

<u>Indirect Expenses</u>	<u>Contractor's Costs</u>		<u>Reference</u>
	<u>Proposed</u>	<u>Questioned</u>	
<u>Fiscal Year 1980</u>			
Expense Pool	\$143,005	\$36,804	Exhibit C
Allocation Base (a)	\$565,149	(5,930)	2
Rate	25.30%	6.70%	
<u>Fiscal Year 1981</u>			
Expense Pool	\$202,052	\$28,807	Exhibit C
Allocation Base (a)	\$1,188,220	(35,761)	3
Rate	17.00%	2.85%	

(a) The allocation base consists of direct costs.
() Denotes Upward Adjustment

Government participation in the indirect allocation bases is shown below:

<u>Contract Type in Allocation Base</u>	<u>FY 1980</u>	<u>FY 1981</u>
Cost and Flexible Contracts/Grants	80.2%	86.9%
Firm Fixed Price and Commercial Work	19.8%	13.1%
Total	<u>100.0%</u>	<u>100.0%</u>

Explanatory Notes:

- The results of our audit are qualified as explained in Section II.
- The questioned costs consist of the amounts included in Exhibit A, Note 2, and \$(4,676) of payroll taxes and fringes benefits for a non-Government grant. The questioned non-Government costs resulted from a reclassification of these expenses from indirect expense. These expenses directly benefit that grant, but were not funded by that grant.

3. The questioned costs consist of the adjustments shown in Exhibit A, Note 3 (\$12,518 - \$3,750), \$2,688 of non-Government grant costs reclassified from indirect expense and \$24,305 for errors and unallowable costs not included by the contractor. The costs reclassified from indirect expense consist of expenses which directly benefit projects, but were included as part of indirect expenses. The remaining adjustments consist of differences between the contractor's presentation of overseas expenditures and the amounts shown on certified financial reports and unallowable expenses which should be included in accordance with FPR 1-15.203(c).



Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

Statement of Contractor's Proposed Indirect Expenses and Results of Audit Review
for the Fiscal Year Ended 31 March 1980

	<u>Contractor's Statement</u>	<u>Results of Audit Review (Note 1)</u>	
		<u>Costs Questioned</u>	<u>Notes</u>
Salaries	\$ 79,954	\$25,975	2
Fringe Benefits	6,094	5,004	3
Payroll Taxes	9,775	3,422	4
Consultant Fees	2,581		
Secretarial Services	480		
Accounting Fees	4,255		
Headquarters Travel	9,461	454	5
Other Travel	96		
Board Travel	3,746	2,334	6
Rent	8,280	700	7
Utilities	205		
Repairs & Maintenance	80		
Office Supplies	2,322		
Telephone	4,522		
Postage	982		
Printing	1,331		
Dues and Subscriptions	620		
Books	171		
Equipment Rental	1,276		
Miscellaneous	240		
Public Information	755		
Training & Education	26		
Licenses & Taxes	36		
Freight	267		
Meetings & Conferences	484		
Board Meetings	4,094		
Recruitment	124	(1,380)	8
Depreciation	527	295	9
Total	221		
	<u>\$143,005</u>	<u>\$36,804</u>	

1. The results of audit are qualified as explained in Section II.

2. The questioned salaries consist of \$975 of salaries reclassified to direct costs (See Note 2, Exhibit A) and \$25,000 of salaries and bonus for D. Skull, the president and founder of the company. The contractor was unable to provide any timesheets to support either the reasonableness or the allocability of the amount paid to the president. In addition, Partnership for Productivity was unable to show that the bonus complied with FPR 1-15.205-6(c).

3. Questioned fringe benefits represent \$3,099 which were reclassified to direct costs and \$1,905 for the associated fringe benefit for D. Skull (See Note 2 of this Exhibit).

4. Questioned payroll taxes represent \$1,856 which were reclassified to direct costs and \$1566 for the associated payroll taxes for D. Skull (See Note 2 of this Exhibit).

5. The questioned travel costs relate to D. Skull. The contractor could not support the allocability of these expenses in accordance with FPR 1-15.201-4.

6. The questioned amount relates to travel costs for Stanley Marshall, Chairman of the Board. Partnership for Productivity Foundation was unable to provide source documents in support of the claimed amount.

7. Questioned rent expenses relate to separate facilities used exclusively by D. Skull. The contractor could not demonstrate the necessity of the expense to the overall operation as required by FPR 1-15.201-4 (iii).

8. The questioned amount for recruitment relates to the hiring of a general secretary under which no specific cost objective was benefitted (See Note 3, Exhibit A). This amount was reclassified to indirect expense since the benefit was to the overall business.

9. Questioned amounts are for claimed costs for which no source documents could be provided by the contractor.

Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

Statement of Contractor's Proposed Indirect Expenses and Results of Audit Review
for the Fiscal Year Ended 31 March 1981

	<u>Contractor's Statement</u>	<u>Results of Audit Review (Note 1)</u>	
		<u>Costs Questioned</u>	<u>Notes</u>
Salaries	\$ 87,037	\$15,885	2
Fringe Benefits	9,410	441	3
Payroll Taxes	5,283	970	3
Consultant Fees	8,415	4,558	
Secretarial Services	1,107		
Accounting Fees	3,040		
Headquarters Travel	2,924		
Other Travel	110		
Board Travel	9,119	1,529	5
Rent	15,010	1,800	6
Utilities	3,839		
Repairs & Maintenance	133		
Office Supplies	6,420		
Telephone	8,823	112	7
Postage	2,335		
Printing	13,916		
Dues and Subscriptions	1,801		
Books	618		
Equipment Rental	1,366		
Miscellaneous	394		
Bank Charges	246		
Training & Education	67	26	7
Licenses & Taxes	52		
Freight	247		
Meetings & Conference	1,057	419	8
Board Meetings	610		
Recruitment	930		
Depreciation	493		
Special Consultant	8,250	1,375	9
Legal	6,554		
Consultant Travel	1,330	761	10
Insurance	185		
Donations	50	50	11
Promotion	248	248	11
Penalties	533	533	11
Other Unallowables	100	100	11
Total	<u>\$202,052</u>	<u>\$28,807</u>	

Explanatory Notes:

1. The results of our audit are qualified as explained in Section II.
2. Questioned indirect salaries consist of \$15,052 which were reclassified to direct cost objectives and \$833 of labor for which no timesheet could be provided. Our reclassifications were based on source documents.
3. The questioned amounts consist of associated fringe benefits and payroll taxes for the reclassified salaries in Note 2 above.
4. Questioned consulting fees represent \$4,018 of consulting fees for D. Skull and \$540 of consulting fees which were reclassified to direct cost objectives. The contractor did not have any source documents to support the consulting fees which were questioned and the reclassified amounts were based on source documents.
5. Questioned board travel relates to travel costs fee Stanley Marshall. The questioned amount consists of \$1,000 which was contributed by Mr. Marshall to offset the travel cost, but was not credited to indirect expense as required by FPR 1-15.201-5 and \$529 of excessive expenses, questioned in accordance with FPR 1-15.201-3. The excessive expenses included frist class airfare and excessive luggage charges.
6. Questioned rent expenses relate to separate facilities used exclusively by D. Skull. The contractor could not demonstrate the necessity of this expense to the overall operation as required by FPR 1-15.201-4 (iii).
7. The expenses represent costs allocable to direct cost objectives and accordingly, these amounts were reclassified.
8. The questioned amounts consist of lunches and dinners for which insufficient documentation was available to support the allowability of these costs in accordance with FPR 1-15.205-43. Accordingly, these expenses are questioned in accordance with FPR 1-15.205-11.
9. Questioned special consultants costs represent direct costs as shown on the individual's timesheets and accordingly, these expenses have been reclassified.
10. The questioned consultant travel includes \$635 of travel reclassified to direct cost objectives and \$126 of travel for D. Skull. The travel costs of D. Skull were questioned as unallocable costs since the company was unable to support the allocability of D. Skull's consulting costs (See Note 4 of this Exhibit).
11. The questioned expenses are unallowable costs which the contractor erroneously included as claimed cost.

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Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

Schedule of Cost Reimbursable Type Contracts/Grants

Department of State - Agency for International Development

Indirect Expense Ceiling Provisions

√AID/afr-G-1328
√AID 78-633-29
√AID/afr-G-1391
AID/521-0118
AID/DS/OTR-C-0013
√AID/SOD/PDC-G-0257
AID/afr-G-1693
AID/OTR-C-1828
AID/522-0157
AID/525-421T

24% of direct costs

Partnership for Productivity Foundation/USA, Inc.
Washington, D.C.

Contractor's Accounting System

During our review of incurred costs for the fiscal years ended 31 March 1980 and 1981, we noted accounting and internal control deficiencies which significantly inhibited the contractor's ability to accurately record and accumulate costs on Government contracts.

In our opinion, because of the weaknesses as outlined below, the contractor's system of internal controls has been rendered ineffective. These weaknesses are as follows:

Timekeeping

1. Timesheets were not filled out on a daily basis.
2. There were no time requirements for forwarding of timesheets to supervisors and to the accounting department.
3. Overtime hours were not recorded on timesheets.
4. Timesheets did not provide sufficient detail to determine if costs applied to original or follow-on contracts since these costs were recorded under the same internal project name.

Labor Charging

1. Postings were made in error.
2. Timesheets were missing in some cases.
3. Timesheets provided insufficient detail for determining proper cost distribution.
4. Labor distribution was based on percentages rather than actual hours.

Journal Entries

1. Entries were incorrect in some cases.
2. There was no evidence of authorization or approval for non standard entries.
3. Some entries were not timely.

Direct Costs

1. There was insufficient detail for determining proper cost distribution.
2. In some instances, source documents were missing.
3. Source documents did not provide sufficient detail to determine if costs applied to original or follow-on contracts since these costs were recorded under the same internal project name.

Indirect Costs

1. There was insufficient detail for determining proper cost distribution.
2. In some instances, source documents were missing.

JUL 6 10 12 AM '81

REPORT ON AUDIT OF INCURRED COSTS
FOR FISCAL YEARS ENDED MARCH 31, 1978 AND 1979
PARTNERSHIP FOR PRODUCTIVITY FOUNDATION/USA INC.
WASHINGTON, D.C

The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the Contracting Officer, to the duly authorized representatives of Partnership for Productivity Foundation/USA Inc.

Under the provisions of Title 32, Code of Federal Regulations, Part 290.26(b)(2) (as amended August 10, 1977), all Freedom of Information Act requests for audit reports received by DCAA will be referred to the cognizant Contracting Officer for determination as to releasability and a direct response to the requestor.

Contractor information contained in this audit report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public.

This report may not be released to any Federal agency outside the Department of Defense without the approval of Headquarters, DCAA, except to an agency requesting the report in negotiating or administering its contract.

DEFENSE CONTRACT AUDIT AGENCY
PHILADELPHIA REGION
CAPITAL BRANCH OFFICE
ARLINGTON, VIRGINIA

AUDIT REPORT NO. 6131-0A160.060

DATE OF REPORT: July 2, 1981

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of 11/21/67
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DEFENSE CONTRACT AUDIT AGENCY
PHILADELPHIA REGION
CAPITAL BRANCH OFFICE
COMMONWEALTH BUILDING - 10TH FLOOR
1300 WILSON BOULEVARD
ARLINGTON, VIRGINIA 22209
Telephone - (202) 694-8543

IN REPLY REFER TO

6131-A

July 2, 1981

SUBJECT: Report on Audit of Incurred Costs
For Fiscal Years Ended March 31, 1978 and 1979
Partnership for Productivity Foundation/USA Inc.
(PFP/USA)
Washington, D.C.
Audit Report No. 6131-0A160.060

TO: Department of State
Agency for International Development
Area Auditor General/Washington
Washington, D.C. 20523

ATTN: Mr. A. A. LeBlanc

I. PURPOSE AND SCOPE OF AUDIT.

We have examined the books and records of Partnership for Productivity (PFP/USA) for the fiscal years ended March 31, 1978 and 1979 as required by the general provisions of cost reimbursable grants with the Government. The audit was performed to determine the acceptability of claimed direct and indirect costs and for the establishment of final overhead rates based on the PFP/USA submission of September 26, 1979 and additional information submitted on December 26, 1979. The proposed indirect rates are primarily applicable to the cost-reimbursable type grants listed in Appendix 1 of this report, which provide for procurement determined indirect expense rates.

Our evaluation was performed in accordance with generally accepted auditing standards and included such tests of the contractor's data and records and such other auditing procedures as were considered necessary in the circumstances. The terms of the individual contracts, grants and the costs principles contained in Federal Procurement Regulation 1-15.2 were used as criteria in the determination of acceptable cost.

II. SPECIAL CIRCUMSTANCES AFFECTING THE EXAMINATION.

Our review of the contractor's submitted direct costs was limited to the extent that the majority of the costs were said to be incurred and recorded overseas and could not be reviewed at the contractor's Washington, D.C. location. The costs incurred overseas

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were \$234,847 in FY 1978 and \$488,180 in FY 1979. The claimed allocation bases were \$307,517 and \$599,152, respectively. Our detailed review of the contractor's indirect expense pool in the fiscal years ended March 31, 1978 and 1979 appear in Exhibits A and B, respectively. Since we can not attest the validity of the direct costs, we can not provide any recommendation for the indirect rates in FY 1978 and FY 1979. We have included information on the direct costs in the exhibits and appendices of this report.

For the Contracting Officer's information, the allocation bases were funded by various grantors including AID. The only projects entirely funded by AID are "Upper Volta" (Grant No. AID/afr-G-1391) and "Pisces" (subcontract with ACCION International/AITEC under AID/DS/otr-C-0013). The remaining projects have at least 2 different grantors. (See Exhibits C and D for additional information).

"Liberia" was funded by 2 - 3 grantors, including AID (AID/afr-G-1395). During this period, "Liberia" did not have a fund accounting system; and, as such, Pfp/Liberia could not provide a detail accounting of the monies received from each grantor.

At this time, the contractor does not have an adequate accounting system to report costs for Government grants. This is especially important when there are multi-grantors funding the same project. The written company policies and procedures were not enforced so that there is no adequate information included in the documentation of travel costs and conferences. Also the accounting staff is neither thoroughly familiar with the "accounting system" nor employed by Pfp/USA during the entire period under audit. Accordingly, the results of our audit are qualified.

The problems we encountered were highlighted in AID's Pre-Award Review of Pfp/USA (Audit Report No. 77-155, dated June 8, 1977). The report stated that the (then) present system utilized by Pfp/USA was not adequate for accumulating cost under a government financed program. The report stated that the grantee was planning to revise its system; however, the system was still not adequate for fiscal year ended March 31, 1979. Pfp/USA has been awarded 5 grants since the pre-award survey. The last grant that we are aware of was awarded September 19, 1980.

III. CONCLUSIONS.

The detailed conclusions resulting from our review of direct and indirect expenses are shown in the Exhibits and Appendices of this report.

We discussed our audit results with Ms. Jean Thomas, contractor's representative.

We will be pleased to furnish accounting counsel and any additional audit services which you may require. If you should have any further questions, please contact Mr. Joseph Seader, Supervisory Auditor.

The information contained in this report should not be used for purposes other than that intended without prior consultation with the auditor regarding its applicability.

DEFENSE CONTRACT AUDIT AGENCY

John P. Blaine
for HENRY W. YOUNG, Branch Manager

Partnership for Productivity
Washington, D.C.

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Partnership for Productivity
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED INDIRECT EXPENSES
AND RESULTS OF AUDIT FOR THE FISCAL YEAR
ENDED MARCH 31, 1978

	Contractor's Claimed Costs (Note 1)	Auditor's Reclassified Costs (Note 2)	Questioned Costs	Reference
Headquarters Staff Salaries and Benefits	\$ 44,114	\$ 60,365	\$ 1,502	Note 3
Travel and Per Diem	20,106	7,295	4,247	Note 4
Meetings and Conferences	6,336	6,215	5,022	Note 5
Miscellaneous	1,235	374	297	Note 6
Remaining Expenses	19,742	17,297		
Math Error			(13)	Note 7
Totals	<u>\$ 91,533</u>	<u>\$ 91,546</u>	<u>\$11,055</u>	
Allocation Base: Direct Costs	<u>\$307,517</u>	<u>\$307,517</u>	<u>\$ 191</u>	Note 8

() Represents upward adjustment.

GOVERNMENT PARTICIPATION IN ALLOCATION BASE

Note 9

Government cost reimbursable work
Other work

79.25%
20.75%
100.00%

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Explanatory Notes.

1. Contractor's Claimed Costs. The contractor's FY 1978 Federal Tax Return is the basis for the claimed costs, excepting Headquarters Staff Salaries and Benefits. The contractor could not demonstrate how the cost for the Headquarters Staff Salaries and Benefits was determined. However, \$44,114 is the difference between the General and Administrative Expenses reported in the financial statements and the sum of the expenses taken from the tax return. In our opinion, the Federal Tax Return is not a good basis for the preparation of the overhead submission since the costs on the tax return are a combination of direct and/or indirect expenses. Therefore, the indirect costs, as submitted, could not be used in the audit review.

2. Auditor's Reclassified Costs. The basis for the reclassified costs is the general ledger adjusted for year end journal entries.

We reconciled the direct and indirect costs to the Federal Tax Return.

3. Headquarters Staff Salaries & Benefits. The amount is comprised of the following accounts:

	<u>Reclassified Costs</u>	<u>Questioned Costs</u>	
Salaries	\$ 57,740	\$ 1,425	a
Taxes	2,625	77	b
	<u>\$ 60,365</u>	<u>\$ 1,502</u>	

a. Our review of salaries consisted of reviewing tax returns, payroll journal and supporting documents. A discrepancy was discovered between the claimed costs and the amount noted on the tax returns. The majority of this difference was due to the salaries paid to employees working overseas. However, the contractor was unable to account for the additional \$1,425 claimed indirect salaries. We questioned \$1,425 since the reasonableness of the claimed costs can not be determined (FPR 1-15.201-3(a)) and since the proper allocation of the claimed costs could not be determined from the Pfp/USA submission (FPR 1-15.201-4(c)).

b. The cost questioned of \$77 is the payment of D.C. withholding tax and interest by Pfp/USA. This amount is not a

company expense since it represents an employee's tax liability and, as such, should be paid by the employee.

4. Travel and Per Diem. Based on our review of Pfp/USA's written travel policy and a sample of employees' travel vouchers, we questioned \$4,247 of the claimed travel costs. The reasonableness of the claimed costs could not be determined since Pfp/USA did not enforce their written travel policies; and the employees did not include adequate supporting information to account properly for any travel expenditures (FPR 1-15.201-3(c)(d)) (See Appendix 2 for Contractor's Accounting System).

5. Meeting and Conferences. Based on our review of employees' expense reports, we found that the employees' methods of accounting for expenses incurred on behalf of the contractor were inadequate. We could not determine whether the purposes of the meetings were stated adequately, that all expenses were accounted for; and that all credits for advances were listed. Therefore, we questioned \$5,022 of the claimed costs (FPR 1-15.205-43(c) and FPR 1-15.201-3(c)). (See Appendix 2 for Contractor's Accounting System).

6. Miscellaneous. The expenses that Pfp/USA included in miscellaneous expenses are (a) the cost of a medical examination for an employee returning from Kenya; and (b) reimbursement of FICA taxes deducted from two employees whose earnings exceeded the FICA limit.

According to Pfp/USA's policies, employees are required to have a medical examination at the end of their overseas service. This cost (\$112) was directly related to the "Kenya" project (AID/afr-G-1328); and, therefore, \$112 will be reclassified to direct cost - "Kenya" (50% AID grant; 50% PACT grant).

Reimbursement of monies deducted from employees' salaries in error does not constitute an expense to the contractor but a reduction of a liability. As such, the entire amount (\$185) is questioned.

Medical Exam	\$112
Overdeduction of FICA	185
Cost Questioned	<u>\$297</u>

7. According to the contractor's trial balance prepared by their CPA firm, the indirect expenses were \$91,546. Therefore, the contractor's submission was adjusted for the difference.

8. Allocation Base. The allocation base is total direct costs incurred in the US and overseas. The composition of the costs is listed below:

	<u>Claimed</u>	<u>Questioned</u>	
Home Office Expenditures	\$ 63,670	\$ 191	a
Overseas Expenditures	243,847		b
	<u>\$307,517</u>	<u>\$ 191</u>	

a. The questioned costs include expenses and credits that were directly associated with the grants but were charged to indirect expenses and other income. A brief description is listed below:

- (S112) The cost of a medical examination that was charged to indirect expenses. The expense is associated with the "Kenya" project (see note 6).
- 127 The unused portion of an advance to an employee for air cargo expense. The entire advance was charged to "Upper Volta" and the unused portion was credited to Miscellaneous Income rather than a reduction of air cargo expense--"Upper Volta" (funded by AID).
- 176 The reimbursement of medical costs by Blue Cross/Blue Shield. The medical expense was charged to "Upper Volta" (funded by AID) and the reimbursement was credited to Miscellaneous Income rather than reducing the expense.

\$191

() denotes upward adjustment.

b. Our acceptance of these costs is qualified as stated in Section II of the report narrative.

9. Government Participation. The Government participation is our estimate of the Government's share in the allocation base. This information could not be accurately determined from the submission because the multi-grantors for the various projects were not clearly shown in the submission. The estimated participation is based on the grants for all the projects assuming an average rate of disbursing the funds to PFP/USA.

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Partnership for Productivity
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED INDIRECT EXPENSES
AND RESULTS OF AUDIT
FOR THE FISCAL YEAR ENDED MARCH 31, 1979

	<u>Contractor's Claimed Costs (Note 1)</u>	<u>Auditor's Reclassified Costs (Note 2)</u>	<u>Questioned Costs</u>	<u>Reference</u>
Headquarters Staff Salaries and Benefits	\$ 72,168	\$ 92,585	\$ 3,176	Note 3
Travel and Per Diem	44,454	31,290	9,202	Note 4
Professional Fees	13,354	10,064	2,400	Note 5
Meetings and Conferences	3,686	3,686	1,637	Note 6
Office Supplies	8,054	1,673	36	Note 7
Rent		5,476	100	Note 8
Remaining Expenses	<u>14,877</u>	<u>11,819</u>		
Total	<u>\$156,593</u>	<u>\$156,593</u>	<u>\$16,551</u>	
Allocation Base: Direct Costs	<u>\$599,152</u>	<u>\$599,152</u>	<u>\$26,790</u>	Note 9

Government Participation in Allocation Base

Note 10

Government cost reimbursable work	77.56%
Other work	22.44%
	<u>100.00%</u>

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Explanatory Notes.

1. Contractor's Claimed Costs. The contractor's FY 1979 Federal Tax Return is the basis for the claimed costs, excepting Headquarters Staff Salaries and Benefits. The contractor could not demonstrate how the cost for Headquarters Staff Salaries and Benefits was determined. However, \$72,168 is the difference between the General and Administrative Expenses reported in the financial statements and the sum of the expenses taken from the tax return. In our opinion, the Federal Tax Return is not a good basis for the preparation of the overhead submission since the costs on the tax return are a combination of direct and/or indirect expenses. Therefore, the indirect costs, as submitted, could not be used in the audit review.

2. Auditor's Reclassified Costs. The basis for the reclassified costs is the general ledger adjusted for year end journal entries.

We reconciled the direct and indirect costs to the Federal Tax Return.

3. Headquarters Staff Salaries and Benefits. Our review of salaries consisted of reviewing tax returns, payroll journal and supporting documents. A discrepancy was discovered between the claimed costs and the amount noted on the tax returns. The majority of this difference was due to the salaries paid to employees working overseas. However, the contractor was unable to account for the additional \$3,176 claimed indirect salaries. We questioned \$3,176 since the reasonableness of the claimed costs can not be determined (FPR 1-15.201-3(a)) and since the proper allocation of the claimed costs could not be determined from the Pfp/USA submission (FPR 1-15.201-4(c)).

4. Travel and Per Diem. Based on our review of Pfp/USA's written travel policy and a sample of employees' travel vouchers, we questioned \$9,202 of the claimed travel costs. The reasonableness of the claimed costs could not be determined since the Pfp/USA did not enforce their written travel policies; and the employees did not include adequate supporting information to account properly for any travel expenditures (FPR 1-15.201-3(c)(d)) (See Appendix 2 for Contractor's Accounting System).

5. Professional Fees. Based on our review of the contractor's supporting documents for Consultants Fees, we find the methods for documentation inadequate (FPR 1-15.205-31). \$2,400 is questioned since the necessary information was not available to make a determination as to the reasonableness and allocability of the claimed

costs. The contractor does not concur with our findings.

6. Meetings and Conferences. Based on our review of employees' expense reports, we found that the employees' method of accounting for expenses incurred on behalf of the contractor were inadequate. We could not determine that the purpose of the meeting was stated adequately; that all of the expenses were accounted for; and that all credits for advances were listed. Therefore, we questioned \$1,637 of the claimed costs (FPR 1-15.205-43(c) and FPR 1-15.201-3(c)). (See Appendix 2 for Contractor's Accounting System).

7. Office Supplies. Included in Office Supplies are entertainment costs and penalties which are expressly unallowable in the FPR. As such, we question \$36.

8. Rent. We reviewed the lease and additional documentation to determine the reasonableness of the claimed costs. PFP/USA overpaid the rent which was documented in the file; however, there is no indication that PFP/USA tried to recover the overpayment. We question the payment of \$100 on the basis of reasonableness (FPR 1-15.201-3).

9. Allocation Base. The allocation base is total direct costs incurred in the US and overseas. The composition of the costs is listed below.

	<u>Claimed</u>	<u>Questioned</u>	
Home Office Expenditures	\$110,972	\$	
Overseas Expenditures			
-funded through PFP/USA	312,265	800	a
-funded directly to overseas location	175,915	25,990	b
	<u>\$599,152</u>	<u>\$26,790</u>	

a. Our acceptance of these costs is qualified as stated in Section II of the report narrative.

b. The overseas expenditures consist of two parts: (1) expenses incurred overseas and funded by the grantors through PFP/USA (\$312,265); (2) expenses incurred overseas and funded by the grantors directly overseas (\$175,915).

The questioned \$800 is an error in totaling the overseas expenses. The detail expense was \$800 lower than the total amount

claimed. The questioned \$25,990 is a duplication of expenses. The amount of \$25,990 represents funds sent from "Botswana" to PFP/USA in payment of expenses incurred on their behalf. These expenses are duplicated in the overseas costs and the home office costs.

10. Government Participation. The Government participation is our estimate of the Government's share in the allocation base. This information could not be accurately determined from the submission because the multi-grantors for the various projects were not clearly shown in the submission. The estimated participation is based on the grants for all the projects assuming an average rate of disbursing the funds to PFP/USA.

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STATEMENT OF CONTRACTOR'S CLAIMED DIRECT COSTS
AND RESULTS OF AUDIT
FOR THE FISCAL YEAR ENDED MARCH 31, 1978

Project Name	AID Grant No.	Contractor's Claimed Costs - Overseas		Contractor's Claimed Costs - Home Office		Results of Audit Review Costs Questioned Home Office		Reference
		Total	AID Portion	Total	AID Portion	Total	AID Portion	
Kenya	AID/afr-G-1328	\$127,094	\$ 89,477	\$14,357	\$ 5,117	\$(112)	\$(56)	Note 2, 7
Botswana		23,490		20,300				Note 3, 7
Liberia	AID/afr-G-1395	50,681	7,659	1,744				Note 4, 7
Upper Volta	AID/afr-G-1391	42,582	42,582	23,564	23,564	303	303	Note 5, 7
Other				3,705				Note 6
Totals		<u>\$243,847</u>	<u>\$139,718</u>	<u>\$63,670</u>	<u>\$28,681</u>	<u>\$ 191</u>	<u>\$ 247</u>	

() denotes upward adjustment

Explanatory Notes.

1. As stated in Section II of the report narrative, the claimed overseas costs could not be reviewed at the contractor's location. This exhibit is provided for the Contracting Officer's information.

2. The Kenya project (PfP/Kenya) was funded by two major grantors (AID and PACT (Private Agencies Collaborating Together)) and minor grantors - the largest of which is UMCOR (United Methodist Church Organization). The overseas costs for "Kenya" are reported to PfP/USA quarterly. The quarterly reports detail the expenses by line item and by major grantors and other grantors. The costs are reported in local currency and may include the costs in U.S. dollars.

The cost questioned is for medical examination required by company policies for each employee after completion of overseas service (See Note 6, Exhibit A). Since PfP/USA allocated expenses incurred for the "Kenya" project 50 percent to AID and 50 percent to PACT, the cost questioned reflects this method of allocating cost.

3. The Botswana project was funded entirely by PACT during FYE March 31, 1978.

4. The Liberia project (PfP/Liberia) was funded predominantly by PACT during FYE March 31, 1978; the AID grant was awarded March 2, 1978. PfP/Liberia borrowed \$100,000 from LAMCO (the Liberian American Mining Company) J.V. Operating Co. to establish an Industrial Estate project and to make development loans to Liberian enterprises. The note is non-interest bearing and due June, 1985. In the event of default, LAMCO may, to the extent of the deficit, claim title to any assets of PfP/Liberia which are in Liberia at the time the note becomes due. LAMCO also paid the 1977 salary of the General Manager.

PfP/Liberia's fiscal year ends December 31 (PfP/USA's fiscal year end is March 31). PfP/Liberia uses the cash basis as a method of accounting, but the accounting system is not a fund accounting system. At this time (CY 78), some of the fixed assets purchased out of the General Fund were expensed rather than capitalized and depreciated. An audit report dated April 19, 1979 by LAMCO J.V. Operating Company, recommended that PfP/Liberia change its record keeping and financial statement presentation from the cash basis to the accrual basis. Since the liabilities for CY 78 were significantly understated, the accounting system was no longer satisfactory. The audit also suggested the PfP/Liberia capitalize all major assets and depreciate the costs over the useful life. PfP/Liberia changed its method of accounting for fixed assets January 1, 1979.

The financial statements for PfP/Liberia list the "income" received and expenses incurred during the period. The "income"

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received includes the funds received from various grantors including AID. Since Pfp/Liberia does not have a fund accounting system, Pfp/Liberia can not determine which expenses were paid for by which grantor. The total of the expenses recorded under a particular grant is equal to the amount received from a particular grantor. Since the individual expenses are unknown, we cannot determine whether "Liberia" is adhering to any grantor's restriction of funds.

During FY 78, the following direct costs were said to be incurred under the AID grant (AID/afr-G-1395).

Installation for Appropriate Technology Center	\$3,019
Roto Tiller & appropriate technology equipment	4,640
	<u>\$7,659</u>

This information does not agree with previous information; namely, that "Liberia" can not determine costs incurred by grants and that the expenses billed to grantor are based on monies received during the period (no AID monies are reflected on the quarterly statement ended March 31, 1978).

5. The Upper Volta project (Pfp/Upper Volta) was funded entirely by AID.

The costs questioned are reimbursement of medical costs and reduction of air cargo costs that the contractor (Pfp/USA) did not offset against the expenses incurred (see note 8, Exhibit A).

6. This expense was funded by a private organization.

7. One of the notes to the FY 78 financial statements commented on the accounting for the cost incurred for the various grantors. Part of the note is presented here for the contracting officer's information.

"The overseas organizations grant funds are commingled with other funds received and expended for operation of the organization. Accordingly, the reports received of grant expenditures by Pfp/USA from the various organizations are somewhat arbitrary in that separate checking accounts are not maintained. There were no obvious violation of the grant provision in the reports or audited financial statements submitted by the related organization".

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STATEMENT OF CONTRACTOR'S CLAIMED DIRECT COSTS
AND RESULTS OF AUDIT
FOR THE FISCAL YEAR ENDED MARCH 31, 1979

<u>Project Name</u>	<u>AID - Prime Grant No.</u>	<u>Contractor's Claimed Costs -- Overseas</u>		<u>Contractor's Claimed Costs -- Home Office</u>		<u>Results of Audit</u>		
		<u>Total</u>	<u>AID Portion</u> (Note 1)	<u>Total</u>	<u>AID Portion</u>	<u>Costs Questioned Overseas</u>		<u>Reference</u>
						<u>Total</u>	<u>AID Portion</u>	
Kenya	AID/afr-G-1328	\$119,111	\$ 82,984	\$ 5,801	\$ 3,550	\$	\$	Note 2
Botswana (A)	78-633-29	31,577	6,188	28,867	3,904	800		Note 3
Botswana (B)	78-633-29	43,538	43,538			25,990	25,990	Note 3
Liberia (A)	AID/afr-G-1395	41,600		3,143				Note 4
Liberia (B)	AID/afr-G-1395	132,377	132,377					Note 4
Malawi				17,252				Note 5
Upper Volta	AID/afr-G-1391	119,977	119,977	42,540	42,540			Note 6
Fisches (Sub-Contract)	AID/DS/otr-C-0013			13,369	13,369			Note 7
		<u>\$488,180</u>	<u>\$385,064</u>	<u>\$110,972</u>	<u>\$63,363</u>	<u>\$26,790</u>	<u>\$25,990</u>	

(A) The funding for the grant was sent to PEP/USA, and PEP/USA forwarded the monies to the overseas organizations.

(B) The funding for the grant was sent directly to the overseas organizations involved.

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Explanatory Notes.

1. As stated in Section II of the report narrative, the claimed overseas costs could not be reviewed at the contractor's location. This exhibit is provided for the Contracting Officer's information.

2. The Kenya Project (PfP/Kenya) was funded from various sources; namely, AID, PACT, UMCOR and others (see note 2, Exhibit C for information on funding).

3. The Botswana Project (PfP/Botswana) was funded primarily by AID during FY 79 along with PACT, Rockefeller Brothers Fund (RBF) and others.

The direct costs for Botswana (A & B) are included in the allocation base for the indirect expense pool. The cost questioned of \$800 is due to an error in totaling the overseas expenses (See note 9b, Exhibit B). From the information available, no determination can be made if this error has any impact on the costs allocated to AID. The costs questioned of \$25,990 represent the monies sent to PfP/USA in payment of expenses incurred in behalf of PfP/Botswana. Both organizations (PfP/USA and PfP/Botswana) are claiming the same expenses. As such, we are questioning the duplication of costs (see note 9b, Exhibit B).

PfP/USA is claiming additional overhead costs by applying the difference between the claimed actual rate and the provisional rate to the claimed direct AID costs (\$53,630). \$6,188 of the direct costs could not be traced. Additional information should be requested from PfP/USA before allowing the additional amount of overhead.

4. The Liberia Project was funded by AID, PACT and LAMCO (see note 4, Exhibit C on funding).

Beginning January 1, 1979, PfP/Liberia started to use the accrual method of accounting, but it still does not use the fund accounting system. The method of depreciation changed whereby PfP/Liberia is capitalizing and depreciating fixed assets which have a resale value and can be depreciated. Those assets which do not have a resale value are expensed in the year of purchase.

LAMCO paid the 1979 salary of the General Manager for PfP/Liberia and is also assisting it with contributions in kind. (See additional comments in note 4, Exhibit C).

5. The Malawi Project was funded entirely by PACT.

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6. The Upper Volta Project was funded entirely by AID.
7. The Pisces Project was a subcontract with ACCION International/AITEC. The prime contract is with AID.

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SCHEDULE OF REIMBURSABLE GRANTS

<u>Agency for International Development</u>	<u>FY 78</u>	<u>FY 79</u>
AID/afr-G-1328	X	X
78-633-29		X
AID/afr-G-1395	X	X
AID/afr-G-1391	X	X
Subcontract under Prime AID/DS/otr-C-0013		X

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CONTRACTOR'S ACCOUNTING SYSTEM

The contractor and each overseas affiliate maintains its own "accounting system". The overseas affiliates send periodic reports accounting for the funds spent. The reports received from overseas are not converted into U.S. dollars and at times the exchange rates are not indicated on the reports.

"Liberia" did not maintain a fund accounting system during FY 78 and FY 79. "Liberia" noted the various expenses by line item for their statement; however, they could not segregate those expenses by grantor. In this way any special provision regarding funding of certain type expenses could not be reviewed if the vouchers were maintained at PfP/USA. The contractor indicated that P&P/Liberia's accounting system has changed subsequent to the fiscal years being audited (see note 4, Exhibit C for additional information).

PfP/USA's accounting system does not readily provide sufficient information to detail and summarize the costs incurred for the various projects that different organizations are funding. Also, the system does not provide assurance that the costs are assigned to the correct funding organization. PfP/USA maintains its books on the cash method but converts to the accrual method for financial statement presentation.

PfP/USA has written policies and procedures for handling certain costs. In the review of FY 78 and FY 79, we noted that these policies were not followed in most cases. The "methods" used by individual employees are not adequate. Certain key information is omitted; for example, dates of travel vouchers, purpose of trips, purpose of meetings, employees' names, authorization for travel. This information is necessary in order to properly account for the cost incurred whether the cost is direct or indirect in nature.

The contractor indicated that the deficiencies noted during the course of the audit will be taken into consideration when changes are made in the accounting system. The contractor hopes that the new system will be in operation at the start of the new fiscal year (April 1, 1981).

At this time, the contractor's accounting system is not adequate to record, accumulate and report costs for any Government auditable type contract or grant. We have informed the contractor of the inadequacies.