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TRUST FUND ADMINISTRATORS, INC.

Contract No. AID/SOD/IT-C-0011

Audit Report No. 0-000-82-87

July 19, 1982

Trust Fund Administrators, Inc.

Contract no. AID/SOD/IT-C-0011

Introduction

On February 1, 1980, AID awarded a three-year, cost plus fixed fee contract to Trust Fund Administrators (TFA), Inc. of Washington, D.C. The contractor was to administer a claims processing service for the self-funded AID program of participant Health and Accident Coverage (HAC).

The contractor was incorporated in the District of Columbia and has administered accident and sickness programs for more than 24 years. On June 1, 1979, TFA became the wholly owned subsidiary of Tandern Enterprises, Inc.

It is Agency policy that all AID-sponsored participants, regardless of funding source, be covered by health and accident insurance during their official training in the United States, Puerto Rico or Canada. Insurance coverage commences on the date of departure for the country of training and continues until the end of the AID-sponsored training (AID Handbook 10, Chapter 23, Health and Accident Insurance). Accordingly, since 1954 AID has contracted for health and accident insurance with private carriers.

Handbook 10 Chapter 23 also states that Medical expenses are limited to usual, customary, and reasonable costs that are provided under the health and accident coverage program. Claims between \$5,000 and \$10,000 are adjudicated by the Director, S&T/IT. Any claim which exceeds \$10,000 must be approved by the Senior Assistant Administrator/Bureau for Science and Technology .

There are six categories of participants eligible for coverage under the contracts. These categories are:

AID-Financed Participants

Participants receiving financial support as part of their sponsorship, having identifying Project Implementation Order (PIO/P) numbers, and studying in the United States or a third country, or countries, or both.

Independently-Financed Participants

Participants receiving AID sponsorship only with regard to programming, insurance coverage and visa support and possessing identifying PIO/P numbers.

Contract or Grant Participants

Participants whose sponsorship is financed by AID contracts or grants; such participants are given identifying contract or grant numbers.

Third Country Participants

Participants whose training, study or observation takes place in a country other than the United States, Puerto Rico or Canada and whose

sponsorship is financially and otherwise supported by AID; such participants also possess identifying PIO/P numbers. Arrangements for their coverage and premium payments are made directly with the contractor by the United States AID mission located in the participant's home country.

Special Program Participants

A participant or group of participants not falling within the categories of eligibility enumerated above, who shall thereby be designated as eligible to participate based upon special circumstances. Coverage for special program participants shall be approved, in advance, in writing by the Chief, Training Support Division, Office of International Training.

Dependents of AID Participants

Dependents of AID participants described in the above categories are eligible for the coverage at their own expense if they so desire.

Scope

The Office of the Regional Inspector General for Audit, Washington, (RIG/A/W) has performed an audit of the contractor's administrative costs claimed for the period February 1, 1980 through January 31, 1982. The purpose of the audit was to determine the propriety and allowability of direct costs billed to AID and the reasonableness of indirect cost rates proposed for fiscal years 1981 and 1982. Our scope was limited to an examination of direct and indirect costs claimed. We did not review Health and Accident Coverage Claims or contractor performance.

The examination was conducted in accordance with generally accepted auditing standards and included such tests of records and discussions with TFA officials as were considered necessary in the circumstances.

Findings and Recommendations

Contract Costs

We examined \$332,146 of costs and fixed fee claimed during the period February 1, 1980 through January 31, 1982. As a result of our audit \$239,322 is recommended for acceptance. The balance of \$92,824 represents costs questioned and part of the fixed fee in excess of the annual budget limitation. Details relating to questioned costs are summarized as follows:

- Salaries totaling \$6,169 were questioned because of days not worked or errors in calculations. This also includes \$406 payable to Temporaries, Inc. employment service which was reclassified to Other Direct Costs.

- Overhead billings totaling \$63,317 is questionable because actual overhead rates were lower than the provisional overhead rates utilized for billing purposes. Details relating to overhead rate computations are presented on Exhibit B.
- Fixed fee in excess of annual contract limitation (\$4,285) is questioned. The contract established a fee based on 5.75 percent of each year's obligated contract cost. TAF continued billing 5.75 percent on all costs, even though it exceeded the contract budgeted costs. Therefore, they exceeded the contract limitation.
- During FY 1982 acceptable costs exceeded contract obligations by \$19,459 because the volume of participants was greater than anticipated when the proposed costs were developed. If contract obligations are increased, this cost would be allowable.

Recommendation No. 1

The Office of Contract Management (SER/CM) should take appropriate action to settle questioned costs and fixed fee, and negotiate final overhead rates.

Accounting System

TFA's accounting system and related administrative practices disclosed problems in allocating proper costs to the AID contract. They did not maintain a job cost ledger or other breakdown that segregated direct and indirect costs. For example, time sheets prepared by TFA employees were merely attendance records and do not show the amount of time actually spent on a particular job. Hours charged to AID could not readily be verified for employees who worked only part of their time on the AID contract.

We accepted the salary costs claimed because the Contractor had an informal system for allocating the costs. A Vice President retained a record that showed how many hours various individuals devoted to the AID contract. We reviewed the records maintained by the Vice President and consider them acceptable. However, if the contractor anticipates continued business with AID or any government agency, they should implement subsidiary job cost ledgers that segregate and accumulate direct and indirect costs as required for government cost-type contracts.

Recommendation No. 2

The Office of Contract Management (SER/CM) should require Trust Fund Administrators to implement adequate job cost subsidiary ledgers and time records.

Performance Problems

After operating under the contract for a year, TFA notified the Office of International Training (OIT) and Contract Management (CM) of the following problems:

- The number of participants projected in the budget was substantially less than the number actually covered by health and accident protection.
- Participant data received from AID was inadequate which made claim processing difficult and time-consuming.
- The above problems caused actual expenses to exceed original budget projections by approximately 57 percent.

However, the problems were not one sided. The OIT staff reported that claim delays under the current program are greater than those experienced with prior health coverage firms. OIT's health insurance claim researchers and counselors have received numerous telephone calls from irate doctors, schools, bill collectors, and participants themselves as a result of delayed claims payments. In 1981 AID awarded an Indefinite Quantity Contract (IQC) work order to Development Associates (DA) to review the HAC program and analyze the above mentioned problems.

Development Associates, Inc. made a study of the Health and Accident Coverage Program (HAC). They concluded that the HAC Program suffers from a number of problems that reduce its ability to serve effectively the participants and medical providers. They also concluded that these problems have a significant impact on the costs that have been experienced. In order to overcome program problems, Development Associates, Inc. made the following recommendations:

- Enrollment process for participants should be changed to allow TFA to enroll participants upon receipt of an HAC card.
- Premium payments should be handled solely by the Financial Management Division of AID.
- Controls should be established in the claims processing system to ensure that claims are not lost or misplaced.
- The contract between AID and TFA should be tightened.
- Office of International Training should establish a closer and more effective monitoring system of TFA operations and claims processing.
- AID should retain the self-funded approach for the HAC Program, but should also try to generate a better estimate of the contingent liability and consider cost control provisions if the monthly HAC fee does not appear to be sufficient.

--TFA should make partial payments up to \$5,000 on large claims.

In our opinion, the Development Associates, Inc. review was sound and the recommendations should be implemented. Therefore, in order to avoid duplicate effort, we focused the thrust of our review on the financial aspect.

Recommendation No. 3

The Office of Contract Management (SER/CM), in conjunction with the Office of Financial Management (FM) and Office of International Training (OIT), should implement the recommendations presented in Development Associates, Inc. Evaluation report dated October 30, 1981.

Trust Fund Administrators, Inc.
AID/SOD/IT-C-0011
Summary of Costs Claimed and Accepted
for Fiscal Years Ending January 31, 1981 and 1982

	<u>2/1/80-1/31/81</u>			<u>2/1/81-1/31/82</u>		
	<u>Claimed</u>	<u>Questioned</u>	<u>Accepted</u>	<u>Claimed</u>	<u>Questioned</u>	<u>Accepted</u>
Salaries	\$ 43,678	\$ 1,752 ^{1/}	\$ 41,926	\$ 74,559	\$ 4,417 ^{1/}	\$ 70,142
Fringe Benefits	15,780	-	15,780	20,976	-	20,976
Equipment	4,265	-	4,265	8,867	-	8,867
Other Direct Costs	<u>17,762</u>	<u>(406) ^{2/}</u>	<u>18,168</u>	<u>6,373</u>	<u>-</u>	<u>6,373</u>
Total Direct Costs	\$ 81,485	\$ 1,346	\$ 80,139	\$ 110,775	\$ 4,417	\$ 106,358
Overhead	<u>45,234</u>	<u>19,546 ^{3/}</u>	<u>25,688</u>	<u>76,590</u>	<u>43,771 ^{3/}</u>	<u>32,819</u>
Subtotal	\$ 126,719	\$ 20,892	\$ 105,827	\$ 187,365	\$ 48,188	\$ 139,177
Fixed Fee	<u>7,296</u>	<u>403 ^{4/}</u>	<u>6,893</u>	<u>10,766</u>	<u>3,882 ^{4/}</u>	<u>6,884</u>
Grand Total	<u>\$ 134,015</u>	<u>\$ 21,295</u>	<u>\$ 112,720</u>	<u>\$ 198,131</u>	<u>\$ 52,070</u>	<u>\$ 146,061</u>
Less Cost Overrun	-0-	-0-	-0-	-0-	\$ 19,459 ^{5/}	\$ 19,459
Total Cost Accepted	<u><u>\$ 134,015</u></u>	<u><u>\$ 21,295</u></u>	<u><u>\$ 112,720</u></u>	<u><u>\$ 198,131</u></u>	<u><u>\$ 71,529</u></u>	<u><u>\$ 126,602</u></u>

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Explanatory Notes:

1/ Represents contractor's billings for direct salaries that did not correspond with the number of days reflected on attendance reports, errors in calculation of direct salaries and billings for Temporaries, Inc. employment service that is not allowable as direct salaries but is accepted as other Direct Costs.

FY-1981

<u>Employee</u>	<u>Salary</u>		
Berry	*Amount claimed - \$5.77 x 191 hrs. Amount accepted - \$5.77 x 163 hrs.	\$ 1,102 <u>940</u>	\$ 162
Best	Amount claimed - \$5.964 x 410 hrs. Amount accepted - \$5.9972 x 350 hrs.	\$ 2,445 <u>2,099</u>	346
Dixon	Amount claimed - \$7.133 x 1583 hrs. Amount accepted - \$7.4072 x 1476 hrs.	\$ 11,292 <u>10,933</u>	359
Powell	Amount claimed - \$8.1073 x 176 hrs. Amount accepted - \$3.493 x 176 hrs.	\$ 1,427 <u>1,495</u>	(68)
Wagstaff	Amount claimed - \$5.9266 x 74 hrs. Amount accepted - \$6.3272 x 74 hrs.	\$ 438 <u>468</u>	(30)
Williams	Amount claimed - \$6.9021 x 1108 hrs. Amount accepted - \$6.8116 x 1038 hrs.	\$ 7,648 <u>7,071</u>	577
Temporaries, Inc.	Amount claimed - \$40,625 Amount accepted - -0-	406 <u>-</u>	<u>406</u>
	Net Adjustment		<u>\$ 1,752</u>

FY-1982

<u>Employee</u>	<u>Salary</u>		
Best	Claimed - \$6.595 x 1742.4 Accepted - \$6.476 x 1602.4	\$ 11,491 <u>10,377</u>	\$ 1,114
Cannon	Claimed - \$15.3706 x 1056 Accepted - \$14.90 x 1056	\$ 16,232 <u>15,742</u>	490
Dixon	Claimed - \$8.173 x 1765 hrs. Accepted - \$8.09 x 1625 hrs.	\$ 14,431 <u>13,147</u>	1,284
Givons	Claimed - \$6.928 x 476 Accepted - \$6.85 x 476	\$ 3,298 <u>3,261</u>	37

Explanatory Notes (Continued)FY-1982

<u>Employee</u>	<u>Salary</u>		
Jarrett	Claimed - \$5.7664 x 297.5 Accepted - \$5.77 x 297.5	\$ 1,716 <u>1,717</u>	\$ -0-
Patterson	Claimed - \$9.74 x 110 Accepted - \$9.89 x 110	\$ 1,071 <u>1,088</u>	(17)
Powell	Claimed - \$10.4659 x 127 Accepted - \$ 10.2364 x 127	\$ 1,329 <u>1,300</u>	29
Shell	Claimed - \$6.1733 x 120 Accepted - \$5.77 x 120	\$ 741 <u>693</u>	48
Shoulders	Claimed - \$10.3017 x 370 Accepted - \$10.1411 x 370	\$ 3,812 <u>3,753</u>	59
Williams	Claimed - \$7.442 x 1723 hrs. Accepted - \$7.41 x 1583 hrs.	\$ 12,823 <u>11,731</u>	1,092
Unidentified Claims	Claimed Accepted	\$ 281 <u>-</u>	<u>281</u>
	Net Adjustment		<u>\$ 4,417</u>

* Hourly rates claimed and accepted reflect auditors computation of average rates during the period.

2/ Represents Temporaries, Inc. employment service charged incorrectly to salaries but accepted here under other Direct Costs.

3/ Represents overhead adjustments for fiscal years 1981 and 1982, as shown below:

Overhead claimed	\$121,824
Overhead allowed:	

Fiscal Years

	<u>1981</u>	<u>1982</u>	
Salaries Accepted	\$ 41,926	\$ 70,142	
Overhead Rates (See Exhibit B)	<u>61.27%</u>	<u>46.79%</u>	
Overhead allowed	<u>\$ 25,688</u>	<u>\$ 32,810</u>	\$ 58,507
Overhead questioned			<u>\$ 63,317</u>

Explanatory Notes (Continued)

4/ Represents the difference between fixed fees claimed and negotiated fixed fee allowed per contract agreement.

5/ Represents allowable cost in excess of contract ceiling for year ended January 31, 1982

TRUST FUND ADMINISTRATORS, INC.
AID/SOD/IT-C-0011
OVERHEAD RATE COMPUTATION
FOR FY-1981 and FY-1982

<u>FY-1981</u> <u>INDIRECT EXPENSES</u> <u>(POOL)</u>	<u>Proposed</u> <u>Costs</u>	<u>Questioned</u> <u>Costs</u>	<u>Accepted</u> <u>Costs</u>
Rent	\$ 99,891	\$ -	\$ 99,891
Insurance	7,633	(334) <u>1/</u>	7,967
Taxes	1,565	-	1,565
Legal	1,810	1,810 <u>2/</u>	-
Accounting	8,320	-	8,320
Messenger and Delivery	7,373	1,105 <u>1/</u>	6,268
Printing and Supplies	13,287	3,943 <u>1/</u>	9,344
Payroll Services - Bank	1,554	157 <u>1/</u>	1,397
Payroll Services - ADP	-	(669) <u>1/</u>	669
EDP Computer	59,971	59,971 <u>3/</u>	-
Telephone	22,771	(174) <u>1/</u>	22,945
Computer Lease/Maintenance/Upgrade	17,219	(25,608) <u>1/</u>	42,827
Postage	15,502	(3,000) <u>1/</u>	18,502
Temporary Services	4,296	(1,844) <u>1/</u>	6,140
Employee Training	1,422	355 <u>1/</u>	1,067
Stock Purchase	2,630	2,630 <u>4/</u>	-
Equipment Rental, Non-Computer	-	(15,321) <u>5/</u>	15,321
Depreciation	-	(23,740) <u>6/</u>	23,740
Repairs & Maintenance, Non-Computer	-	(1,898) <u>7/</u>	1,898
Miscellaneous Office Expense	-	(2,919) <u>8/</u>	2,919
Addition Error	(934)	(934) <u>9/</u>	-
 Total	 <u>\$ 264,310</u>	 <u>\$ (6,470)</u>	 <u>\$ 270,780</u>
 <u>Base</u>			
Total Labor	<u>\$ 45,497</u>	<u>\$ (396,380) <u>10/</u></u>	<u>\$ 441,877</u>
Overhead Rate	<u>17.21%</u>		<u>61.27%</u>

TRUST FUND ADMINISTRATORS, INC.
AID/SOD/IT-C-0011
OVERHEAD RATE COMPUTATION
FOR FY-1981 and FY-1982

<u>FY-1982</u> <u>INDIRECT EXPENSES</u> (POOL)	<u>Proposed</u> Costs	<u>Questioned</u> Costs	<u>Accepted</u> Costs
Rent	\$ 110,315	\$ -	\$ 110,315
Insurance	7,107	-	7,107
Taxes	9,346	5,660	1/ 3,686
Legal	3,235	3,235	2/ -
Accounting	3,200	-	3,200
Messenger and Delivery	962	143	1/ 819
Printing and Supplies	18,358	9,594	1/ 8,764
Payroll Services - Bank	43	(159)	1/ 202
Payroll Services - ADP	1,266	(476)	1/ 1,742
EDP Computer	104,532	104,532	3/ -
Telephone	16,555	(1,838)	1/ 18,393
Computer Lease, Maintenance/Upgrade	10,518	3,094	1/ 7,424
Postage	15,186	1,000	1/ 14,186
Temporary Services	9,240	2,583	1/ 6,656
Employee Training	1,000	1,000	1/ -
Equipment Rental, Non-Computer	-	(5,743)	5/ 5,743
Depreciation	-	(43,078)	6/ 43,078
Repairs & Maintenance-Non-Computer	-	(3,533)	7/ 3,533
Miscellaneous Office Expense	2,159	(178)	8/ 2,337
 Total	 <u>\$ 313,022</u>	 <u>\$ 75,836</u>	 <u>\$ 237,186</u>
 <u>Base</u>			
Total Labor	<u>\$ 77,037</u>	<u>\$ (429,795)</u> ^{10/}	<u>\$ 506,832</u>
Overhead Rate	<u>24.61%</u>		<u>46.79%</u>

Explanatory Notes

- 1/ Represents difference between proposed costs and costs recorded in contractor's books.
- 2/ Represents legal costs for lawsuits that are not allowable under the Federal Procurement Regulations (FPR-1-15.205-31).
- 3/ Represents costs claimed for EDP computer purchase. This item is considered a tangible capital asset and, as such, is not allowable under overhead expenses. However, depreciation on assets is allowable under FPR 1-15.205-9, as indicated below (see 6/ below).
- 4/ Represents first installment of stock purchase in accordance with stock Purchase Agreement dated 5/25/79, paid to Thomas National Group on 4/25/80. This is not an indirect expense.
- 5/ Represents costs for equipment rental, non-computer that were recorded in TFA's books but not claimed. These are considered allowable overhead expenses.
- 6/ Represents computed depreciation for capital assets (computer hardware) that is allowable under FPR 1-15.205.9 (See 3/ above).
- 7/ Represents costs for repairs and maintenance, non-computer that were recorded in TFA's books but not claimed. These are considered allowable overhead expenses.
- 8/ Represents allowable costs that were not claimed as follows:

	<u>1981</u>	<u>1982</u>
Total Costs per the Books	\$ 3,761	\$ 2,713
Entertainment (unallowable per FPR 1-15.205-11)	<u>842</u>	<u>376</u>
Allowable Costs	\$ 2,919	\$ 2,337
Claimed Costs	<u>-</u>	<u>2,159</u>
Total	<u>\$ 2,919</u>	<u>\$ 178</u>

- 9/ Addition error on Contractor's proposal.
- 10/ Represents difference between AID contract salaries proposed and total TFA salaries incurred in FY-1981 and 1982. Direct and indirect costs were not segregated in TFA's records, therefore we considered total salaries in the labor base to compute an equitable overhead rate.

TRUST FUND ADMINISTRATORS, INC.

List of Report Recommendations

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The Office of Contract Management (SER/CM) should take appropriate action to settle questioned costs and fixed fees, and negotiate final overhead rates.	
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The Office of Contract Management (SER/CM) should require Trust Fund Administrators to implement adequate job cost subsidiary ledgers and time records.	
<u>Recommendation No. 3</u>	5
The Office of Contract Management (SER/CM), in conjunction with the Office of Financial Management (FM) and Office of International Training (OIT), should implement the recommendations presented in Development Associates, Inc. Evaluation report dated October 30, 1981.	

Trust Fund Administrators

List of Report Recipients

Deputy Administrator, DA/AID	3
Assistant to the Administrator for Management, AA/M	1
Senior Assistant Administrator, Bureau for Science and Technology, S&T	1
Deputy Assistant to the Administrator for Management, M/DAA/SER	2
Controller, Office of Financial Management, M/FM	2
Director, Office of Contract Management, M/SER/CM	3
Office of International Training, S&T/IT	2
Office of Legislative Affairs, LEG	1
General Counsel	1
Office of Public Affairs, OPA	1
Office of Evaluation, PPC/E	1
Office of Development Information and Utilization, S&T/DIU	4
Audit Liaison, M/DAA/SER	1
Audit Liaison, S&T	1
Inspector General, IG	1
IG/PPP	1
AIG/II	1
IG/EMS/C&R	16