

PD-ABE-318
11/11/92

Financial Audits

Audit of
CHECCHI AND COMPANY CONSULTING, INC.
Federal Contracts
July 1, 1989 to June 30, 1991

Report No. 0-000-92-11-N
July 15, 1992



CONTRACTOR INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 15, 1992

MEMORANDUM FOR FA/OP, Terrence J. McMahon

FROM: IG/A/FA, Richard A. Barth *Richard A. Barth*

SUBJECT: Audit of Checchi and Company Consulting, Incorporated.

The accounting firm of Deloitte & Touche performed a financial-related audit of Agency contracts with Checchi and Company, Incorporated. Five copies of the report are enclosed for your action.

Since the early 1960's, Checchi has provided technical assistance, training, strategic planning, design and evaluation services for A.I.D. programs and projects. The firm offers specialized capabilities in institution strengthening, banking and finance, agriculture, education and training and private enterprise development. For the audited period, Checchi expended \$13.2 million under U.S. Government contracts.

Deloitte audited Checchi's expenditures under A.I.D. contracts during the period July 1, 1989 to June 30, 1991. The audit objectives were to determine whether: the Statement of Contract Expenditures presented fairly the contract expenditures; the internal control structure was adequate for contract compliance; and Checchi had complied with contract terms, applicable laws and regulations.

In Deloitte's opinion, the **Statement of Contract Expenditures was fairly presented in all material respects**, in conformity with generally accepted accounting principles.

The auditors also noted no matters involving the internal control structure and its operations that were considered to be material weaknesses.

With respect to the items tested, Checchi complied, in all material respects, with the provisions of the contracts, laws, regulations and binding policies and procedures. Only one immaterial instance of non-compliance was noted by the auditors:

Other Direct Costs under an Agency Contract was overbilled by about 21 percent (\$1,333) of the budgeted amount.

The applicable contract provided that costs could not exceed budgeted amounts by more than 15 percent. Checchi's management concurred with this condition at the exit conference.

Recommendation No. 1: We recommend that the Agency's Office of Procurement (FA/OP) resolve the \$1,333 in questioned costs, which are ineligible as identified in the audit report. (page 8)

The recommendation will be included in the Inspector General's audit recommendation follow up system. Until we are advised of FA/OP's determination regarding the questioned costs, the recommendation will be considered unresolved. The recommendation can be resolved when we receive the contracting officer's determination as to the amounts sustained or not sustained. It can be closed when the amounts determined to be owed to A.I.D. are paid by Checchi.

Within 30 days, please provide this office with the status of actions planned or taken to resolve and close the recommendations. We appreciate the courtesies extended to the staff of KPMG Peat Marwick and our staff.

**Deloitte &
Touche**



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CHECCHI AND COMPANY CONSULTING, INC.

REPORT ON AUDIT OF U.S. GOVERNMENT CONTRACTS

FOR THE PERIOD FROM JULY 1, 1989
TO JUNE 30, 1991

CHECCHI AND COMPANY CONSULTING, INC.
REPORT ON AUDIT OF U.S. GOVERNMENT CONTRACTS
FOR THE PERIOD FROM JULY 1, 1989
TO JUNE 30, 1991

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March 11, 1992

Director
IG/A/FA SA-16 (RPE)
Room 514
Washington, D.C. 20523-1604

Dear Director:

This report presents the results of our audit of Checchi and Company Consulting, Inc. (Checchi), United States Government contracts, for the period from July 1, 1989 to June 30, 1991 (the Contracts).

BACKGROUND

Checchi of Washington, D.C. provides aid to third world countries in the form of management services, economic development projects, recruitment, personnel support, and procurement services.

The following contracts were subject to testing:

AID 492-0343-C-00-9051-00
LAC-0002-C-00-9034-00
LAC-0001-C-00-9035-00
LAC-0001-C-00-6003-00
NEB-0101-C-00-4077-00
PDC-0085-I-00-6097-00
PDC-0085-I-10-9060-00
388-0074-C-00-9077-00
511-0472-C-00-7064-00
519-0177-C-00-9667-00
519-0296-C-00-1023-00
520-0369-C-00-0023-00
660-0105-C-00-8014-00
388-005-104 (Commitment Number)
AIFLD/EI Salvador (No contract Number)

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to perform a financial audit of all the U.S. Government Contracts administered by Checchi.

We conducted our audit in accordance with Generally Accepted Auditing Standards and the Comptroller General's Government Auditing Standards and, accordingly, included such tests of the accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. **The Statement of Contract Expenditures presents fairly the expenditures from July 1, 1989 to June 30, 1991 according to the Contracts and whether costs claimed for reimbursement by Checchi were reasonable, allowable and allocable, and to examine documentation supporting such direct and indirect costs.**
2. **Checchi's internal control structure was sufficient to record data under the contract, and was adequate for compliance with the Contracts.**
3. **Checchi complied with U.S. Government regulations, U.S. laws, and the terms of the Contracts.**

Audit procedures conducted in order to meet the audit objectives included the testing of a sample of transactions incorporating the following:

Internal Control Structure

Studying and evaluating Checchi's internal control structure relative to the Contracts in order to assess control risks and as a basis for our auditing procedures.

Contract Provisions

Comparing costs to the contracted budgets.

Direct Costs

Examining supporting documentation for selected expenses to determine allowability of expenditures and compliance with the terms of the Contracts, applicable laws and regulations.

Indirect Costs

Reviewing the allocation of overhead costs and analyzing selected overhead charges to determine whether the charges were in accordance with the Contracts, applicable laws and regulations.

RESULTS OF THE AUDIT

Statement of Contract Expenditures

We have audited the Statement of Contract Expenditures of Checchi for the period from July 1, 1989 to June 30, 1991. The Statement of Contract Expenditures is the responsibility of Checchi's management. Our responsibility is to express an opinion on the Statement of Contract Expenditures based on our audit.

In our opinion the Statement of Contract Expenditures is fairly presented, in all material respects, in conformity with generally accepted accounting principles.

Director
March 11, 1992
Page 3

Compliance with the Terms of the Contract and Applicable Laws and Regulations

As part of our audit, we performed tests of Checchi's compliance with certain provisions of the Contracts and laws, regulations, grants, and binding policies and procedures. We performed those tests of compliance as part of obtaining reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our tests of compliance disclosed the following instance of non-compliance, which was not considered to be material:

"Other Direct Costs" under a USAID Contract was overbilled by 21.24% (\$1,333) of the budgeted amount.

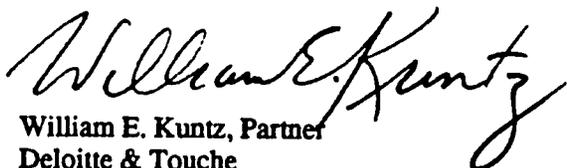
The results of our tests of compliance indicate that with respect to the items tested, Checchi complied, in all material respects, with the provisions of the Contracts and laws, regulations, grants, and binding policies and procedures. With respect to the items not tested, the extent of non-compliance noted in our testing indicates that there is a relatively low risk that Checchi may have violated the terms of the Contracts or applicable laws and regulations.

Internal Control Structure

We studied and evaluated Checchi's internal control structure relative to the Contracts in order to assess the control risks and in order to determine our auditing procedures for the purpose of expressing an opinion on the Statement of Contract Expenditures of Checchi and not to provide assurance on Checchi's internal control structure taken as a whole. We noted no matters involving the internal control structure and its operations that we consider to be a material weakness.

Management Comments

The finding included in this report has been presented to management, and management has orally concurred with the factual accuracy of this finding.


William E. Kuntz, Partner
Deloitte & Touche



CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

STATEMENT OF CONTRACT EXPENDITURES

Independent Auditors' Report

We have audited the Statement of Contract Expenditures of Checchi and Company Consulting, Inc. (Checchi) for the period from July 1, 1989 through June 30, 1991. The Statement of Contract Expenditures is the responsibility of Checchi's management. Our responsibility is to express an opinion on the Statement of Contract Expenditures based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Contract Expenditures. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Statement of Contract Expenditures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Statement of Contract Expenditures referred to above is fairly presented, in all material respects, in conformity with generally accepted accounting principles.

Deloitte & Touche

March 11, 1992

CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

STATEMENT OF CONTRACT EXPENDITURES

FOR THE PERIOD JULY 1, 1989 TO JUNE 30, 1991

<u>Expenditures</u>	<u>1990</u>	<u>1991</u>
Salaries and wages	\$1,474,928	\$1,754,678
Overhead	1,387,949	1,449,565
Travel	441,859	679,380
Other direct costs	1,311,906	1,755,752
Participant training	419,350	171,334
Subcontract costs	<u>1,424,918</u>	<u>953,832</u>
	<u>\$6,460,910</u>	<u>\$6,764,541</u>

See note to the Statement of Contract Expenditures.

CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

NOTE TO THE STATEMENT OF CONTRACT EXPENDITURES

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) Checchi of Washington, D.C. provides aid to third world countries in the form of management services, economic development projects, recruitment, personnel support, and procurement services.
- b) Expenditures are related to the disbursing of funds provided by USAID to accomplish the objectives of the projects discussed above. Expenditures are recognized as incurred, in accordance with generally accepted accounting principles.



CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

COMPLIANCE WITH THE TERMS OF THE CONTRACTS AND APPLICABLE
LAWS AND REGULATIONS

Independent Auditors' Report

We have audited the Statement of Contract Expenditures of Checchi and Company Consulting, Inc.'s (Checchi) U.S. Government contracts for the period from July 1, 1989 to June 30, 1991, and have issued our report thereon dated March 11, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement.

Compliance with the terms of the Contracts and the laws, regulations, grants, and binding policies and procedures applicable to Checchi is the responsibility of Checchi's management. As part of our audit, we performed tests of Checchi's compliance with certain provisions of the Contracts and laws, regulations, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records selected disclosed instances of non-compliance with the terms of the Contracts and applicable laws and regulations. All instances of non-compliance that we found are identified in the accompanying Schedule of Findings and Questioned Costs.

The results of our tests of compliance indicate that with respect to the items tested Checchi complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to the items not tested, the extent of non-compliance noted in our testing indicates that there is a relatively low risk that Checchi may have violated the terms of the Contracts or applicable laws and regulations.

This report is intended solely for the use of the U.S. Agency for International Development and Checchi. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

March 11, 1992

CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

According to A.I.D. applicable regulations, costs charged to a project must meet the following general criteria:

- a) Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b) Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c) Conform to any limitations or exclusions set forth in the agreement in which the project is based.
- d) Be adequately documented.

Ineligible costs are all those costs unallocable and or unallowable in accordance with the terms of the Contracts, applicable laws and regulations. Unsupported costs are costs not properly supported by the recipient, in excess of the budgeted amount per line item including allowable variances, and costs considered unreasonable under the circumstances.

The following costs were questioned because they were not adequately supported or were not in compliance with the Contracts, applicable laws or regulations:

CONDITION:	"Other Direct Costs" under A.I.D. Contract 511-0472-C-00-7064-00 have been overbilled by 21.24% of the budgeted amount
CRITERIA:	Costs can not exceed budgeted amounts by more than 15%.
CAUSE:	The overbilling appears to be an oversight error on the part of Checchi.
EFFECT:	A.I.D. is being overbilled
RECOMMENDATION:	Checchi should establish procedures that more effectively track costs. These procedures should prevent overbillings of budgeted amounts.
QUESTIONED COSTS:	\$1,333

CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

OTHER OBSERVATIONS

1. Certain subcontract and travel costs incurred by Checchi under A.I.D. Contract LAC-0002-C-00-9034-00 totalling \$1,812 were not billed to A.I.D. during fiscal year 1991.



CHECCHI AND COMPANY CONSULTING, INC.

U.S. GOVERNMENT CONTRACTS

INTERNAL CONTROLS

Independent Auditors' Report

We have audited the Statement of Contract Expenditures of Checchi and Company Consulting, Inc. (Checchi) and their compliance with terms of their Contracts with the United States Agency for International Development (USAID), for the period from July 1, 1989 to July 30, 1991, and have issued our report thereon dated March 11, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement.

In planning and performing our audit of Checchi we considered its internal control structure as a basis for our auditing procedures for the purpose of expressing our opinion on the Statement of Contract Expenditures and not to provide assurance on the internal control structure.

The management of Checchi is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures of Checchi applicable to the Contracts in the following categories:

- . Accounting processes
- . Payroll procedures
- . Allowance and differential procedures
- . Travel and transportation procedures
- . Procurement system

For all the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the statement of contract expenditures being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the use of Checchi and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Deloitte & Touche

March 11, 1992

APPENDIX I

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