

Financial Audits

**AUDIT OF
TRANSCENTURY CORPORATION
Federal Contracts
October 1, 1987 to September 30, 1991**

Report No. 0-000-92-12-N
July 31, 1992



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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 31, 1992

MEMORANDUM FOR USAID/Swaziland, Roger D. Carlson
FROM: *R. Howard*
IG/A/FA, Reginald Howard, Director
SUBJECT: Audit of Transcentury Corporation's Federal
Contracts

The accounting firm of Deloitte & Touche performed a financial-related audit of four A.I.D. contracts administered by Transcentury Corporation. Five copies of the report are enclosed for your action.

Transcentury Corporation (TCC), a small closely-held firm, provides a wide range of technical, management and economic development services in overseas locations. TCC's principal contract (645-0218-C-00-5009) with USAID/Swaziland was signed in 1984. The objective of the contract is to provide technical assistance to help the Government of Swaziland implement the Swaziland Manpower Development project.

Other fixed price A.I.D. contracts administered by TCC were:

- * Operations & Maintenance PO# 263-0182-0-00-8039-00
- * Customs Clearance PO# 263-CSO-3-60028
- * Cairo Warehouse PO# 263-CSO-C-00-6127

Deloitte & Touche audited TCC's disbursements totalling \$11.8 million under the four contracts for the period October 1, 1987 through September 30, 1990.

The audit objectives were to determine whether: the Statement of Contract Expenditures was presented fairly in accordance with generally accepted accounting principles; the internal control structure was sufficient and adequate for TCC's compliance with the contracts; and TCC had complied with applicable laws, regulations, and terms of the contract.

Deloitte & Touche determined that TCC's Statement of Federal Contract Expenditures was presented fairly in all material respects. However, the audit identified questionable costs totalling \$504 for alcoholic beverage purchases. The questioned costs were included in TCC's indirect cost pool. TCC concurred with the finding at the exit conference.

Recommendation No. 1: We recommend that USAID/Swaziland resolve the \$504 in questioned costs identified in the audit report (page 9).

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 of the amount sustained or not sustained. It can be closed when the amounts determined to be owed to A.I.D. are paid by TCC.

We appreciate the courtesies and cooperation that TCC extended the auditors and our staff during the course of the audit. Within 30 days, please provide this office with the status of actions planned or taken to resolve and close the recommendation.

**Deloitte &
Touche**



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TRANSCENTURY CORPORATION

REPORT ON AUDIT OF U.S. GOVERNMENT CONTRACTS

FOR THE PERIOD FROM OCTOBER 1, 1987
TO SEPTEMBER 30, 1990

TRANSCENTURY CORPORATION
REPORT ON AUDIT OF U.S. GOVERNMENT USAID CONTRACTS
FOR THE PERIOD FROM OCTOBER 1, 1987
TO SEPTEMBER 30, 1990

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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 TransCentury Corporation (TCC), United States Government contracts, for the period from October 1, 1987 to September 30, 1990 (the Contracts).

BACKGROUND

TransCentury Corporation 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.

TCC's principal contract with USAID/Swaziland was signed in December 1984 for an amount of \$6,174,387, as amended (Contract # 645-0218-C-00-5009). The objective of the contract is to provide management assistance to help the Government of Swaziland implement the Swaziland Manpower Development Project.

The following fixed price contracts were also subject to testing:

Operations & Maintenance Spare Parts	PO # 263-0182-0-00-8039-00
Customs Clearance	PO # 263-CSO-3-60028
Cairo Warehouse	PO # 263-CSO-C-00-6127

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to perform a financial audit of the Contracts administered by TCC.

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:

Director
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1. The Statement of Contract Expenditures presents fairly the expenditures from October 1, 1987 to September 30, 1990 according to contract terms, and whether costs claimed for reimbursement by TCC were reasonable, allowable and allocable, and to examine documentation supporting such direct and indirect costs.
2. TCC's internal control structure was sufficient to record data under the contract, and was adequate for compliance with the contracts.
3. TCC 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 TCC'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.

Director
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RESULTS OF THE AUDIT

Statement of Contract Expenditures

We have audited the Statement of Contract Expenditures of TCC for the period from October 1, 1987 through September 30, 1990. The Statement of Contract Expenditures is the responsibility of TCC'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 procedures.

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

As part of our audit, we performed tests of TCC'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 is not considered to be material:

- . certain unallowable costs (related to the purchase of alcoholic beverages) were charged to USAID as reimbursable costs.

The results of our tests of compliance indicate that with respect to the items tested, TCC 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 TCC may have violated the terms of the contracts or applicable laws and regulations.

Director
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Internal Control Structure

We studied and evaluated TCC'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 TCC and not to provide assurance on TCC's internal control structure taken as a whole. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

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



TRANSCENTURY CORPORATION

U.S. GOVERNMENT CONTRACTS

STATEMENT OF CONTRACT EXPENDITURES

Independent Auditors' Report

We have audited the Statement of Contract Expenditures of TransCentury Corporation (TCC) for the period from October 1, 1987 through September 30, 1990. The Statement of Contract Expenditures is the responsibility of TCC'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 Statement of Contract Expenditures 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 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.

March 11, 1992

TRANSCENTURY CORPORATION

U.S. GOVERNMENT CONTRACTS

STATEMENT OF CONTRACT EXPENDITURES

FOR THE PERIOD OCTOBER 1, 1987 THROUGH SEPTEMBER 30, 1990

<u>Expenditures</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Salaries and Fringe Benefits	\$ 874,129	\$ 923,294	\$ 944,402
Contract Services	342,750	269,925	275,881
Travel and Transportation	139,836	167,155	145,693
Allowances	79,747	56,273	82,709
Office Space	146,599	115,776	101,192
Other	348,673	424,190	433,513
Pass-through Expenses	<u>2,013,782</u>	<u>2,004,493</u>	<u>1,875,343</u>
	<u>\$3,945,516</u>	<u>\$3,961,106</u>	<u>\$3,858,733</u>

See note to the Statement of Contract Expenditures.

TRANSCENTURY CORPORATION

U.S. GOVERNMENT CONTRACTS

NOTE TO THE STATEMENT OF CONTRACT EXPENDITURES

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) TransCentury Corporation was incorporated on February 7, 1967 under the laws of the District of Columbia. The Corporation provides domestic and international services to the U.S. Government and other clients in the areas of management of economic development projects, recruitment and personnel support, and procurement services.

TCC's principle contract with USAID/Swaziland was signed in December 1984 for an amount of \$6,174,387, as amended (Contract # 645-0218-C-00-5009). The objective of the contract is to provide management assistance to help the Government of Swaziland implement the Swaziland Manpower Development Project.

- 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.
- c) Pass-through expenses include two types of expenditures 1) operational costs incurred in connection with sending experts overseas and 2) payments made to students, including tuition, airfare, monthly allowances, books, insurance, etc. These expenses are covered under delivery orders under the above mentioned contract.



TRANSCENTURY CORPORATION

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 TransCentury Corporation's (TCC) U.S. Government contracts for the period from October 1, 1987 to September 30, 1990, 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 TCC is the responsibility of TCC's management. As part of our audit, we performed tests of TCC'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 TCC 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 TCC 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 TCC. 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

TRANSCENTURY CORPORATION

U.S. GOVERNMENT CONTRACTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

<u>Problem Area:</u>	<u>Unsupported Costs</u>	<u>Other Questioned Costs</u>	<u>Notes</u>
Alcoholic Beverages	<u> </u>	<u>\$504</u>	Finding 1, page 10
Total	<u> -</u>	<u>\$504</u>	

TRANSCENTURY CORPORATION

U.S. GOVERNMENT CONTRACTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

According to USAID 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 cost is questioned because it was not in compliance with the contracts, applicable laws or regulations:

1. UNALLOWABLE COST

Condition: A purchase of alcoholic beverages used for various meetings and conferences was charged to USAID for reimbursement.

Criteria: Alcoholic beverages are an unallowed cost under USAID contracts. (FAR 31.205-14)

Cause: The charge appears to have been an oversight error on the part of TransCentury (TCC).

Effect: Reimbursable expenses, used in TCC's indirect cost pool, reported by TCC to USAID are overstated for this purchase.

Recommendation: A review process for incidental expenses related to the programs should be more firmly established in order to detect/prevent such errors. Invoices for such expenses, upon receipt, should be earmarked for exclusion from project costs.

Questioned Costs: \$504.



TRANSCENTURY CORPORATION

U.S. GOVERNMENT CONTRACTS

INTERNAL CONTROLS

Independent Auditors' Report

We have audited the Statement of Contract Expenditures of TransCentury Corporation (TCC) and their compliance with terms of their contracts with the United States Government for the period from October 1, 1987 to September 30, 1990, and have issued our report thereon dated March 11, 1992.

We conducted our audit in accordance with generally accepted auditing 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 TransCentury Corporation 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 TCC 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 TCC 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.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management.

A material weakness is a reportable 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that none of the matters described in the Schedule of Findings and Questioned Costs represents a reportable condition or material weakness.

This report is intended solely for the use of TCC 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.



March 11, 1992

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