PD-ABH-031
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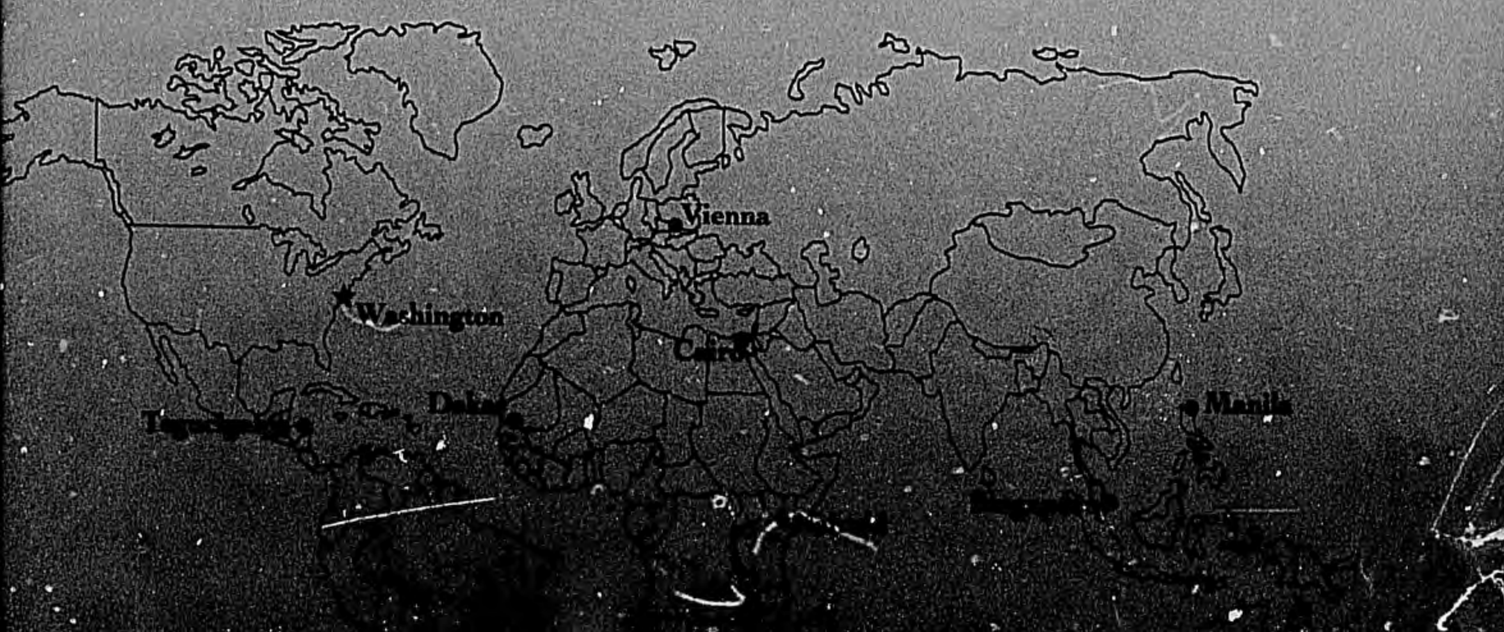
Financial Audits

# AUDIT OF
# DEVELOPMENT ALTERNATIVES, INC.
## Federal Contracts
## December 1, 1989 to November 30, 1990

Report No. 0-000-94-01-N
October 29, 1993




INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

October 29, 1993

MEMORANDUM FOR FA/OP, Frederick A. Gill

FROM: IG/A/FA, Reginald Howard

SUBJECT: Audit of Development Alternatives, Inc.

The accounting firm of Myint & Buntua performed a financial-related audit of Development Alternatives, Inc. (DAI). Five copies of the report are enclosed for your action.

DAI, headquartered in Bethesda, Maryland, works primarily for A.I.D. as an international consulting firm. DAI provides planning, technical assistance, and applied research to public and private organizations in developing countries. DAI provides these services mainly in the fields of rural and agricultural development, financial management, and economics. Myint & Buntua audited $18,676,719 in expenditures incurred by DAI during the audit period December 1, 1989 to November 30, 1990.

The audit objectives were to determine whether: the Statement of Contract Expenditures was presented fairly in accordance with the terms of the contracts; DAI complied with contract provisions, and applicable laws and regulations; and DAI's internal control structure was adequate.

Myint & Buntua determined that DAI's Statement of Contract Expenditures was presented fairly in all material respects. However, the auditors questioned $529,551 in costs, which represented $337,934 in potentially ineligible costs and $191,617 in unsupported costs.

Of the $337,934 of potentially ineligible costs, $334,566 resulted when Myint & Buntua reduced DAI's proposed indirect cost rates for the audited fiscal year. The auditors reduced DAI's proposed indirect cost rates because they questioned a large amount of indirect costs. In addition, the auditors removed bid and proposal costs from the overhead pool and set up the bid and proposal costs as a separate indirect cost pool.

The auditors reported two material instances of noncompliance with contract provisions and applicable laws and regulations. First, DAI did not comply with a number of provisions in the Federal Acquisition Regulations (FAR) dealing with cost allowability. Second, DAI neither required subcontractors to submit cost or pricing data nor performed cost or price analysis of subcontractors' cost or pricing data as required by FAR.

The auditors identified two material weaknesses in DAI's internal control structure. First, according to the auditors, DAI did not maintain adequate documentation to support a significant amount of claimed costs. Second, the auditors found that DAI's timekeeping system was deficient in several respects. Principally, Myint & Buntua found that timesheets either were missing or had been prepared by someone other than the employee.

DAI's management disagreed with many of the audit's findings. For example:

- DAI disagreed with the auditors' determination that DAI lacked adequate supporting documentation for claimed costs. DAI believed that the auditors were requiring documentation that was above and beyond that required by FAR.

- Concerning preparation of timesheets, DAI stated that while it understood the need for original timesheets, consideration should be given to the fact that much of its labor was attributable to overseas locations, where local conditions often made it difficult to obtain original timesheets. DAI emphasized that labor costs for the period covered by the audit were accurately transmitted and recorded using one of several modes: telephone, telex, facsimile, or mail. DAI stated further that the audit covered the 1989-1990 timeframe and that timesheets are now adequately controlled.

- Concerning Bid & Proposal costs, DAI acknowledged that its method for allocating these costs is "not traditional". Nevertheless, DAI stated that its system was not previously questioned by other audits, although it has used its current system since its inception. DAI also contended that its method of allocating Bid & Proposal costs has no impact on total costs charged to projects.

DAI's management comments are synopsized within each finding and are included in their entirety as Appendix B to this report.

Recommendation No. 1: We recommend that A.I.D.'s Office of Procurement (FA/OP) in coordination with mission and A.I.D. representative contracting officers resolve the $529,551 ($337,934 ineligible and $191,617 unsupported) in questioned costs identified in the audit report (page 9).

Recommendation No. 2: We recommend that A.I.D.'s Office of Procurement (FA/OP) finalize the indirect cost rates with Development Alternatives, Inc. for the period December 1, 1989 to November 30, 1990. (Audit Report, page 10)

Recommendation No. 3: We recommend that A.I.D.'s Office of Procurement (FA/OP) require Development Alternatives, Inc. to strengthen its accounting procedures and internal controls to ensure: (1) the retention and maintenance of adequate support documentation and (2) adherence to Federal contract provisions. (Audit Report, pages 11 and 18)

We are not making a recommendation to require that DAI improve its timekeeping system because this internal control weakness was satisfactorily resolved in response to a Defense Contract Audit Agency report that addressed this same subject.

The recommendations will be included in the Inspector General's audit recommendations follow up system. Within 30 days, please provide this office with the status of actions planned or taken to resolve and/or close the recommendations.

C

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# DEVELOPMENT ALTERNATIVES, INC.

# REPORT ON AUDIT OF AID CONTRACTS

# FOR THE PERIOD DECEMBER 1, 1989 TO NOVEMBER 30, 1990

DEVELOPMENT ALTERNATIVES, INC.

REPORT ON AUDIT OF AID CONTRACTS
For The Period December 1, 1989 To November 30, 1990

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DEVELOPMENT ALTERNATIVES, INC.

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For The Period December 1, 1989 To November 30, 1990

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September 8, 1993

Mr. Reginald Howard
Director of Financial Audits
IG/A/FA SA-16 (RPE)
Room 514
Washington, D.C. 20523-1604

Dear Mr. Howard:

This report presents the results of our audit of the direct costs claimed under contracts between the Development Alternatives, Inc. (DAI) and the United States Agency for International Development (AID) and of the overhead and fringe benefit rates proposed for the period December 1, 1989 to November 30, 1990 (the audit period).

## BACKGROUND

DAI, headquartered in Bethesda, Maryland, provides technical assistance, consulting, project design and implementation services in the field of rural and agricultural development, financial management, and economics.

During the audit period, DAI performed services under various AID contracts/subcontracts listed on the Statement of Contract Expenditures (Appendix A). Costs incurred by types of contracts, for AID subcontracts, as well as for non-AID programs, and the percent of each to total expenditures during the audit period are summarized on the next page:

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| | Direct Labor | Fringe Benefits | Other Direct Costs | Overhead | Total Costs | Percent to Total |
|---|---|---|---|---|---|---|
| AID CPFF Contracts | $3,045,940 | $340,047 | $7,957,090 | $2,415,290 | $13,758,367 | 71% |
| AID Fixed Price Contracts | 34,811 | 1,075 | 65,051 | 27,351 | 128,288 | 1 |
| AID T&M Contracts | 950,240 | 64,419 | 1,184,741 | 781,294 | 2,980,694 | 16 |
| Subcontracts (AID) | 704,970 | 84,895 | 452,566 | 566,939 | 1,809,370 | 9 |
| Total AID Contracts/Subcontracts | $4,735,961 | $490,436 | $9,659,448 | $3,790,874 | $18,676,719 | 97 |
| Non-AID Contracts | 229,310 | 35,403 | 211,488 | 197,568 | 673,769 | 3 |
| Total AID & Non-AID Contracts/Subcontracts | $4,965,271 | $525,839 | $9,870,936 | $3,988,442 | $19,350,488 | 100% |

## AUDIT OBJECTIVE AND SCOPE

The objective was to perform a financial related audit of direct and indirect costs in connection with all U.S. Government contracts administered by DAI during the audit period and to audit the proposed overhead and fringe benefit costs and rates for Fiscal Year 1990.

We performed our work 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 and the proposed overhead and fringe benefit rates present fairly the direct costs and indirect costs incurred during the audit period according to the terms of the contracts and the allowability criteria established in the Federal Acquisition Regulations (FAR).

2. DAI complied with the terms of each contract and applicable laws and regulations.

3. DAI's internal control structure was sufficient to capture data under each contract and was adequate for the purpose of each contract.

4. DAI's proposed overhead and fringe benefit rates were acceptable.

The audit included direct, overhead and fringe benefit costs incurred during the audit period.

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

<u>Salaries</u>

Examination of selected employees' timesheets to determine the propriety of amounts charged to the contracts and to overhead.

<u>Allowances</u>

Analysis of selected allowances charged to the contracts to verify employees' eligibility to receive the allowances and determine whether the allowances were in accordance with applicable laws and regulations.

<u>Subcontractor Costs</u>

Evaluation of the support for and reasonableness of charges incurred by subcontractors and the allowability of those charges within the terms of the contracts.

<u>Other Direct Costs</u>

Examination of documentation supporting selected costs to determine allowability of the costs and compliance with the terms of the contracts and applicable laws and regulations.

<u>Overhead and Fringe Benefit Costs</u>

Examination of documentation supporting selected overhead and fringe benefit costs for reasonableness, allocability and allowability. These costs are included in the overhead and fringe benefit pools from which the overhead and fringe benefit rates are calculated.

<u>Internal Control Review</u>

Study and evaluation of DAI's internal control structure relative to the contracts in order to assess control risks and as a basis for our auditing procedures.

## RESULTS OF THE AUDIT

<u>Statement of Contract Expenditures</u>
<u>and Proposed Overhead and Fringe Benefit Rates</u>

Our audit resulted in questioned costs totaling $529,551, consisting of $194,985 of questioned direct costs and $334,566 of questioned indirect costs (fringe benefits, overhead and bid and proposal (B&P) costs.) The questioned costs are summarized in the Schedule of Questioned Costs (page 9).

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

As part of our audit, we performed tests of DAI's compliance with certain provisions of the contracts and applicable laws and regulations. We performed those tests of compliance in conjunction with our procedures to obtain reasonable assurance about whether the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance that we found, detailed in the Schedule of Compliance Findings (page 11), are summarized below:

- DAI did not comply with a number of FAR provisions dealing with cost allowability.

- DAI neither required subcontractors to submit cost or pricing data, nor performed cost or price analysis of subcontractors' cost or pricing data, as required by FAR.

Internal Control Structure

We studied and evaluated DAI'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 Statements of Contract Expenditures and the proposed overhead and fringe benefit rates, and not to provide assurance on DAI's internal control structure taken as a whole.

We found the following reportable conditions (detailed in the Schedule of Internal Control Findings - page 18):

- DAI did not maintain adequate documentation to support a significant amount of costs incurred.

- DAI's timekeeping system was deficient in several significant respects.

Management Comments

DAI responded to a draft of this report (issued on June 21, 1993) on July 28, 1993. The response is appended to this report as Appendix B. The auditee's response and our comments are summarized at the end of each applicable finding or group of questioned costs. DAI stated that it has located additional supporting documents and that the documents are available for our review. Due to the time limitation of the contract with AID, we did not review the additional documents. DAI should submit such documents to the AID Office of Procurement at the time of negotiation.

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Myint & Buntua, CPAs

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# DEVELOPMENT ALTERNATIVES, INC.

## AUDIT OF AID CONTRACTS

## For The Period December 1, 1989 To November 30, 1990

## STATEMENT OF CONTRACT EXPENDITURES AND PROPOSED OVERHEAD AND FRINGE BENEFIT RATES INDEPENDENT AUDITOR'S REPORT

We have audited the Statement of Contract Expenditures of Development Alternatives, Inc. (DAI) -- APPENDIX A -- for the period December 1, 1989 to November 30, 1990, under the terms of various contracts between DAI and the United States Agency for International Development (AID), and the overhead and fringe benefit rates proposed for the period December 1, 1989 to November 30, 1990 (the proposed overhead rates are summarized on Schedule B and the proposed fringe benefit rates on Schedule C.) The Statement of Contract Expenditures and the proposed overhead and fringe benefit rates are the responsibility of DAI's management. Our responsibility is to express an opinion on the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision), 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 and the proposed overhead and fringe benefit rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates. 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 and the proposed overhead and fringe benefit rates. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the effects, if any, of the ultimate resolution of the questioned costs, the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates referred to above present fairly, in all material respects, the direct, overhead and fringe benefit costs incurred by DAI for the period December 1, 1989 to November 30, 1990, in accordance with the terms of the contracts referred to above and the applicable cost principles of the Federal Acquisition Regulations. As described in Note 2, Basis of Presentation, the Statement of Contract Expenditures only include DAI's expenditures and are not intended to present DAI's financial position, results of its operations or changes in its stockholders' equity in accordance with general accepted accounting principles.

This report is intended solely for the use of the U.S. Agency for International Development and DAI. 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.

Falls Church, VA
June 10, 1993

Wright & Bunker

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# DEVELOPMENT ALTERNATIVES, INC.

## AUDIT OF AID CONTRACTS

## For The Period December 1, 1989 To November 30, 1990

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates of Development Alternatives, Inc. (DAI) for the period December 1, 1989 to November 30, 1990 and have issued our report thereon dated June 10, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision) 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 and the proposed overhead and fringe benefit rates are free of material misstatement.

Compliance with the terms of the contracts and the applicable laws and regulations is the responsibility of DAI's management. As part of our audit, we performed tests of DAI's compliance with certain provisions of the contracts, laws, and regulations. However, it should be noted that we performed those tests of compliance as part of our procedures designed to obtain reasonable assurance about whether the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance are failure to follow requirements, or violations of prohibitions, contained in statutes, regulations, or contracts that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates. The results of our tests of compliance disclosed the following material instances of noncompliance. (See the Schedule of Compliance Findings for details).

- DAI did not comply with a number of Federal Acquisition Regulations (FAR) provisions dealing with cost allowability.

- DAI neither required subcontractors to submit cost or pricing data, nor performed cost or price analysis of subcontractors' cost or pricing data, as required by FAR.

We considered these material instances of noncompliance in forming our opinion on whether DAI's Statement of Contract Expenditures and proposed overhead and fringe benefit rates are presented fairly, in all material respects, in conformity with the terms of the contracts and the cost principles of FAR, and this report does not affect our report, dated June 10, 1993, on the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates.

The results of our tests of compliance indicate that, with respect to the items tested, DAI did not comply, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, the extent of noncompliance noted in our testing indicates that there is more than a relative low risk that DAI may have violated the provisions 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 DAI. 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.

Falls Church, VA
June 10, 1993

Wright & Bentley

## DEVELOPMENT ALTERNATIVES, INC.

## AUDIT OF AID CONTRACTS

### For the Period December 1, 1989 to November 30, 1990

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

### SCHEDULE OF QUESTIONED COSTS

Our audit resulted in total questioned costs of $529,551 and in the recommended fringe benefit, overhead and bid and proposal (B&P) rates, as shown below:

1. Direct Costs

| | Ineligible Costs | Unsupported Costs | Total | Reference |
|---|---|---|---|---|
| Direct Labor Costs | $ - | $ 173,563 | $ 173,563 | Sch. A-1 |
| Other Direct Costs | 3,368 | 18,054 | 21,422 | Sch. A-2 |
| Total | $ 3,368 | $ 191,617 | $ 194,985 | |

2. Indirect Costs (Ref: Exhibit A)

| | Ineligible Costs |
|---|---|
| Fringe Benefits | $ 933 |
| Overhead | 980,784 |
| B&P Costs | (647,151) |
| | $ 334,566 |

The questioned amounts represent the differences between the amounts of fringe benefits and overhead actually <u>billed</u> by DAI and the amounts of recommended fringe benefits, overhead, and B&P using the respective recommended rates (see 3. below).

"Questioned Cost" means a cost that is questioned because of (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. (Inspector General Act of 1978, as amended.)

3. Indirect Cost Rates

| | Proposed | Recommended | Questioned | Reference |
|---|---|---|---|---|
| Overhead | | | | Schedule B |
| Home Office | 78.05% | 60.75% | 17.30% | |
| Home Office Associates | 78.42 | 60.75 | 17.67 | |
| Overseas | 69.68 | 51.31 | 18.37 | |
| Overseas Associates | 68.86 | 51.31 | 17.55 | |
| Fringe Benefits | | | | Schedule C |
| Home Office | 26.03 | 25.86 | 00.17 | |
| Overseas | 11.72 | 11.59 | 00.13 | |
| Bid and Proposal | 0 | 12.81 | (12.81) | Schedule B-4 |

(Note: The proposed rates are based on DAI's "Overhead Submission 1990," dated February 28, 1991.)

## DEVELOPMENT ALTERNATIVES, INC.

## AUDIT OF AID CONTRACTS

## For The Period December 1, 1989 to November 30, 1990

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

## SCHEDULE OF COMPLIANCE FINDINGS

### 1. COMPLIANCE WITH FAR ALLOWABILITY PROVISIONS

**Condition:**

We questioned $194,985 of direct costs and $334,566 (net) of fringe benefits, overhead, and B&P costs. Aside from unsupported costs (see Schedule of Internal Control Findings - page 18), the questioned costs consisted mainly of noncompliance with the following FAR provisions:

| FAR Provisions | Cost Items/Description |
|---|---|
| 31.205-1(f)(5) | Advertising/Public Relations - Brochures designed to call favorable attention to contractor and its activities are unallowable. |
| 31.205-6(a)(3) | Compensation (fringe benefits) - Allowable if based on established compensation plan or consistent practice. |
| 31.205-6 | Severance Pay - Allowable if based on established policy. |
| 31.205-14 | Entertainment - Unallowable. |
| 31.205-18(b)(2) | Bid and Proposal (B&P) Costs - All allocable costs, except general and administrative expenses, must be allocated to B&P costs. |

| | |
|---|---|
| 31.205-27(a) | Organization Costs - Expenditures related to mergers and acquisitions are unallowable. |
| 31.205-33(a) | Professional and Consultant Services - Defined as services rendered by persons who are not officers or employees. |
| 31.205-33(e) | Professional and Consultant Services - Retainer fees, to be allowable, must be supported by documented evidence of actual services performed. |
| 31.205-33(f) | Professional and Consultant Services - Fees for services rendered are allowable only when supported by documented evidence of work performed. |
| 31.205-46(a)(2) | Travel/Per Diem - Lodging, meals, and incidental expenses are limited to the maximum per diem rates established in the Federal Travel Regulations and Standardized Regulations. |

**Criteria:**

AID contracts and subcontracts incorporate the FAR provisions for the determination of allowable costs.

**Cause:**

We attributed the numerous instances of noncompliance with the FAR provisions to DAI management's unfamiliarity with such provisions.

**Effect:**

Noncompliance with the FAR provisions resulted in substantial questioned costs and could result in substantial questioned costs in the future.

**Recommendation:**

DAI should require its accounting staff to attend periodic training courses on FAR and hold in-house training sessions on FAR as well as the requirement for adequate documentation (See Schedule of Internal Control Findings - page 18) for all management personnel.

*Auditee's Response*

*DAI objected to the auditor's assertion that DAI did not comply with a number of FAR provisions dealing with cost allowability, stating that it is DAI's practice to adhere to all applicable FAR requirements and GAAP.*

*Auditor's Comments*

*We continue to believe that the various findings and the reasons for the substantial amounts of questioned costs support our conclusion.*

## 2. SUBCONTRACTOR COST OR PRICING DATA

**Condition:**

DAI neither required subcontractors to submit cost or pricing data for subcontracts expected to exceed $100,000, nor performed cost or price analysis of subcontractors' cost or pricing data. In this regard, we note that DAI's subcontract costs totaled about $3.7 million in 1990.

**Criteria:**

FAR 52.215-24, Subcontractor Cost or Pricing Data, incorporated in AID contracts, states that contractors shall require subcontractors to submit cost or pricing data before awarding any subcontract expected to exceed $100,000. FAR 15.806 also provides that contractors or higher tier subcontractors are responsible for conducting cost or price analysis and including the results of subcontract reviews and evaluations as part of their own cost or pricing data submission.

**Cause:**

We attributed the condition to DAI management's unfamiliarity with the cited FAR provisions.

**Effect:**

The Government cannot be assured that all subcontract costs reimbursed to DAI are fair, reasonable and allowable.

**Recommendation:**

We recommend that DAI comply with the FAR provisions on subcontractors' cost or pricing data.

***Auditee's Response***

*DAI objected to this finding, stating (1) it is DAI's practice to pay for subcontractor services at rates "based on market prices and negotiations between DAI and the subcontractor in accordance with" AID guidelines, (2) DAI requires all subcontractor costs to be properly supported before payment occurs, (3) "FAR 52.215.24 only requires cost or pricing data for subcontracts that are expected to exceed $100,000 or $500,000 for some agencies" and the majority of DAI's subcontracts are much less than these thresholds, and (4) contracts of a material nature involve organizations which have supplied DAI with their approved NICRA (Negotiated Indirect Cost Rate Agreement) rates.*

***Auditor's Comments***

*We continue to believe that DAI did not comply with the FAR requirements dealing with subcontractors' cost or pricing data, and, as a result, the Government has had little or no assurance that the $3.7 million in subcontract costs are fair, reasonable and allowable. DAI does not appear to understand the real purpose of the FAR requirements, which are to ensure that cost or price is negotiated, based on cost or price analysis, (obviously, before the award of subcontracts) to establish fair and reasonable subcontract cost or price. These requirements have little to do with payments after the subcontract award, because even if properly supported, the payments could be excessive or unallowable if the cost or price established in the subcontract was "faulty." Obtaining NICRA is only one of several procedures that must be followed in performing cost or price analysis. The FAR provision cited by DAI clearly establishes the threshold amount at $100,000 (not $500,000). In this regard, it should be noted that 31 of 47 subcontracts open during Fiscal Year 1990 exceeded $100,000.*

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# DEVELOPMENT ALTERNATIVES, INC.

## AUDIT OF AID CONTRACTS

## For The Period December 1, 1989 To November 30, 1990

## INTERNAL CONTROLS
## INDEPENDENT AUDITOR'S REPORT

We have audited the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates of Development Alternatives, Inc. (DAI) for the period December 1, 1989 to November 30, 1990, and have issued our report thereon dated June 10, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision) 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 and the proposed overhead and fringe benefit rates are free of material misstatement.

In planning and performing our audit of the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates of DAI for the period from December 1, 1989 to November 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Contract Expenditures and the proposed overhead and fringe benefit rates and not to provide assurance on the internal control structure.

The management of DAI 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 DAI applicable to the contracts in the following categories:

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

For all of 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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 judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Statement of Contract Expenditures, including overhead and fringe benefits. We noted the following reportable conditions (see the accompanying Schedule of Internal Control Findings):

- DAI did not maintain adequate documentation to support a significant amount of costs incurred.

- DAI's timekeeping system was deficient in several significant respects.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 data 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 necessary 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 the reportable conditions described above are material weaknesses.

This report is intended solely for the use of the U.S. Agency for International Development and DAI. 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.

Falls Church, VA
June 10, 1993

**DEVELOPMENT ALTERNATIVES, INC.**

**AUDIT OF AID CONTRACTS**

**For The Period December 1, 1989 to November 30, 1990**

**SCHEDULE OF INTERNAL CONTROL FINDINGS**

## 1. INADEQUATE DOCUMENTATION

**Condition:**

DAI either could not locate supporting documentation or did not maintain the documentation required by the Federal Acquisition Regulations (FAR). Of the total questioned costs of $194,985 for direct labor costs and other direct costs, $191,617 was due to inadequate documentation, mostly due to missing timesheets and timesheets signed by someone other than the employees involved. In the Schedule of Questioned Overhead Expenses (Schedule B-3), we presented a number of cases where DAI could not locate the supporting documentation to permit us to determine the allowability of the costs involved. Of the total $652,175, we questioned from the overhead pool of $3.5 million, about $120,000 was due to DAI's failure to maintain either the required documentation or the supporting documentation that explained the reasons for cost incurrence. Most, if not all, travel expense vouchers and journal entries involving travel costs did not describe the purposes and other details of the trips involved.

Inadequate documentation has been a recurring problem because the Defense Contract Audit Agency (DCAA), in two reports, dated August 8, 1990, and September 28, 1990, respectively, questioned about $49,000 of direct costs due to inadequate supporting documentation. Based on our audit which was based on sampled transactions, we believe that the incidence of inadequate documentation during Fiscal Year 1990 was frequent and pervasive.

**Criteria:**

FAR 31.201-2 provides that among the factors to be considered in determining whether a cost is allowable are allocability and "any limitations set forth in this subpart." Without adequate documentation, the allowability of costs cannot be determined. In addition, the subpart of FAR 31.205 establishes documentation requirements (e.g., FAR 31.205-33 requires documented evidence of the actual services performed by consultants).

**Cause:**

DAI's rapid growth (total revenues of $13.8 million in 1988 compared to total revenues of $20.3 million in 1990) may have contributed to the problem. We believe, however, that the lack of management attention and management's unfamiliarity with the FAR documentation requirements (or allowability criteria) are the major contributing factors to the problem.

**Effect:**

The Government cannot be assured that all costs reimbursed to DAI are allocable to the AID contracts and are allowable under such contracts.

**Recommendation:**

DAI should establish policies and procedures to ensure adequate documentation for all major cost categories and should monitor the implementation of such policies and procedures.

***Auditee's Response***

*DAI refuted this finding, stating, among other things, that (1) the auditors requested documentation that was "above and beyond requirements detailed under GAAP or the FAR," and (2) DAI "always received clean opinions from our independent auditors."*

***Auditor's Comments***

*We continue to believe that DAI should establish policies and procedures to ensure adequate documentation for all costs incurred. As presented in detail in Schedule B-2 and elsewhere in this report, our tests disclosed that evidence of consulting work performed by consultants (a prerequisite for allowability of consulting fees) was not available in a number of cases. We agree that FAR provisions on travel costs do not specifically mention any documentation requirement. Like timesheets (not mentioned in FAR), however, without the purpose and certain other details on the travel expense vouchers, neither management nor the Government can be assured that the costs involved have been properly charged as direct costs (and to the proper contract) or as indirect costs (and to the proper indirect cost account). We believe that DAI should follow the practice of requiring all employees to give the purpose and certain other details on their travel expense vouchers -- a practice commonly followed by Government contractors. The fact that DAI has always received clean opinions on its financial statements does not mean that its documentation is adequate for <u>Government contract costing</u> purposes since audits of financial* *statements are not concerned with proper costing among contracts.*

## 2. TIMEKEEPING SYSTEM

In the Schedule of Questioned Direct Labor (Schedule A-1) and the applicable notes, we questioned $173,563 of direct labor costs as unsupported based on the results of our review as described below:

a. December 1989 Timesheets

Of a total of about 230 timesheets for December 1989, we found that 40 timesheets were either missing or prepared by **someone other than** the employees involved.

b. Selected Timesheets for 11 Months

Of the 33 timesheets (3 timesheets per month) we selected for review, 5 timesheets were prepared by **someone other than** the employees involved and 14 original timesheets could not be located.

c. Timesheets for 10 Public Vouchers
(1 public voucher per contract for 10 contracts)

Of the 48 timesheets involved that we reviewed, 3 timesheets were prepared by **someone other than** the employees involved and 7 original timesheets could not be located.

In addition to the missing timesheets and the timesheets prepared by someone else, we found the following deficiencies which were previously reported by the Defense Contract Audit Agency in two reports dated September 22, 1988 and May 25, 1990, respectively:

- Timesheets were not adequately controlled by management.
- Employees were not required to post timesheets on a daily basis.
- Employees posted their time and signed their timesheets in advance.
- Separation of the preparation and review of the payroll functions was not present.
- Timesheets were corrected by erasures or whiteout and without employee's initials and written explanations. There were no indications of supervisory approvals of the corrections.

**Criteria:**

FAR 31.202(a) states that "Costs identified specifically with the contract are direct costs of the contract and are to be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly." Timesheets are the only means to identify labor costs specifically with contracts.

**Cause:**

Because of the continuing problems dating back to 1988, we believe that DAI management has not paid enough attention to this significant area. (Direct labor costs are about 26 percent of DAI's total costs.)

**Effect:**

Without a reliable timekeeping system, DAI management, as well as AID program and procurement personnel, have no assurance that labor costs being charged to AID contracts and projects are accurate and proper.

**Recommendation:**

There are indications that improvements have been made; however, we did not review the current timekeeping system in detail because it is outside our audit period and scope. Nonetheless, we believe that DAI should establish a special monitoring team to ensure that its timekeeping system is working properly.

*Auditee's Response*

*DAI disagreed with this finding, stating (1) time for overseas employees, recorded via telephone, telex and facsimile, was incorporated into invoices which were subsequently approved by various AID project officers who are aware of each and every employee participating on the project, and (2) no current year procedures were tested by the auditors.*

*Auditor's Comments*

*We doubt whether an AID project officer knows or can accurately remember, on a daily and* *hourly basis, whether <u>every</u> DAI employee (the number of employees can range from four to ten depending on the project) had worked on a particular project (employees often work on multiple projects and task orders). We did say, in the recommendation, that there are indications that improvements have been made, but we did not review the current timekeeping system because it is outside our audit period and scope. In view of the longstanding problems, we continue to believe that DAI's top management should ensure that the timekeeping system is working properly.*

EXHIBIT A

# DEVELOPMENT ALTERNATIVES, INC.

## Summary of Statement of Contract Expenditures and Results of Audit

(Total AID Contracts and Subcontracts)

For the Period December 1, 1989 to November 30, 1990

| | Billed Contract Costs* | Results of Audit: Recommended Rates | Results of Audit: Recommended Costs | Results of Audit: Questioned Costs | Reference |
|---|---|---|---|---|---|
| Direct labor | | | | | |
| Home Office | $ 1,012,188 | | $ 995,929 | $ 16,259 | |
| Home Office Associate | 1,056,085 | | 1,056,085 | 0 | |
| Overseas | 2,116,245 | | 2,001,357 | 114,888 | |
| Overseas Associate | 551,443 | | 509,027 | 42,416 | |
| Total Direct Labor | $ 4,735,961 | | $ 4,562,398 | $ 173,563 | Schedule A-1 |
| Fringe Benefits | | | | | |
| Home Office | $ 268,229 | 25.86% | $ 257,546 | $ 10,683 | |
| Overseas | 222,207 | 11.59% | 231,957 | (9,750) | |
| Total Fringe Benefits | $ 490,436 | | $ 489,503 | $ 933 | Note 1 |
| Overhead | | | | | |
| Home Office | $ 998,724 | 60.75% | $ 761,499 | $ 237,225 | |
| Home Office Associate | 827,023 | 60.75% | 641,576 | 185,447 | |
| Overseas | 1,590,145 | 51.31% | 1,145,847 | 444,298 | |
| Overseas Associate | 374,982 | 51.31% | 261,168 | 113,814 | |
| Total Overhead | $ 3,790,874 | | $ 2,810,090 | $ 980,784 | Note 1 |
| Other Direct Costs | $ 9,659,448 | | $ 9,638,026 | $ 21,422 | Schedule A-2 |
| Total Costs | $18,676,719 | | $17,500,017 | $1,176,702 | |
| Bid and Proposal | | 12.81% | 647,151 | (647,151) | Note 2 |
| Total Costs Plus B&P | | | $18,147,168 | $ 529,551 | |

* Per Contractor's Statement of Contract Expenditures

Notes: 1. The recommended costs for fringe benefits and overhead were calculated by applying the various rates to the respective direct labor and/or fringe benefit amounts. For example, Home Office Fringe Benefits were obtained by applying 25.86% to the recommended Home Office Direct Labor. Similarly, Home Office Overhead was obtained by applying 60.75% to the sum of Home Office Direct Labor and Home Office Fringe Benefits.

2. The recommended B&P was calculated by applying the B&P rate (shown on Schedule B-5) to total direct labor and total fringe benefits.

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Questioned Direct Labor

For the Period December 1, 1989 to November 30, 1990

| Contract Number | Project Number | Questioned Hours | Questioned Amount |
|---|---|---|---|
| **CPFF** | | | |
| 538-0140-C-00-6035 | 0405 | 903 | $22,578 |
| 497-0311-C-00-5096 | 0409 | 512 | 10,955 |
| DHR-5438-C-00-6054-00 | 0414 | 72 | 1,620 |
| 696-0126-C-00-777700 | 0466 | 488 | 14,422 |
| 492-0366-C-0-804500 | 0497 | 416 | 4,671 |
| 383-0086-C-00-8075-00 | 0500 | 776 | 9,101 |
| 511-0543-C-00-9022-0 | 0505 | 664 | 17,284 |
| 306-0204-C-00-9829 | 0508 | 776 | 23,163 |
| DHR-5448-C-00-9080-0 | 0510 | 16 | 486 |
| 383-0058-C-00-502300 | 0958 | 184 | 4,900 |
| 497-0341-C-00-5092 | 0990 | 176 | 2,798 |
| DHR-5438-C-00-6054-00 | 1147 | 800 | 11,417 |
| 583-0140-C-00-6035 | 5002 | 184 | 4,777 |
| Total CPFF Contracts | | 5,967 | $128,172 |
| **T&M** | | | |
| PDC-5315-I-00-8101-00 | 1130 | 40 | $1,340 |
| PDC-5317-I-00-8127-00 | 2261 | 112 | 3,767 |
| PDC-1096-I-15-8043-00 | 2263 | 136 | 4,574 |
| PDC-5317-I-00-8127-00 | 4003 | 80 | 2,850 |
| " | 4011 | 152 | 4,180 |
| PDC-5315-I-00-8101-00 | 4103 | 72 | 2,565 |
| PDC-1096-I-15-8043-00 | 4208 | 176 | 4,840 |
| PDC-0095-I-03-9097 | 4302 | 144 | 5,144 |
| " | 4303 | 112 | 4,001 |
| " | 4305 | 16 | 572 |
| DHR-5448-Q-00-9081-0 | 5213 | 152 | 5,604 |
| Total T&M Contracts | | 1,192 | $39,437 |
| **Subcontracts** | | | |
| 497-0347-C-00-7139-00 | 0477 | 120 | $2,344 |
| 391-0467-C-00-9830-0 | 0509 | 48 | 1,475 |
| 520-0276-A-00-5062-00 | 1152 | 24 | 857 |
| 520-0000-0-00-9178-00 | 2257 | 48 | 1,278 |
| Total Subcontracts | | 240 | $5,954 |
| Total Questioned Direct Labor | | 7,399 | $173,563 |

We questioned the direct labor costs for a number of overseas employees as unsupported costs, because the employees' original timesheets were either missing or were prepared by **someone other than** the employees involved.

DAI's procedure is to process and record the monthly payrolls based on estimated hours faxed or telephoned from overseas locations 5 days before the end of the month. Overseas employees are required to submit their original, signed and approved timesheets to DAI so that the estimated hours (and dollars) previously recorded can be adjusted based on the actual hours reported on the original, signed and approved timesheets.

We found the following deficiencies:

a. **December 1989 Timesheets**

Of a total of about 230 timesheets for December 1989, we found that 40 timesheets were either missing or prepared by **someone other than** the employees involved.

b. **Selected Timesheets for 11 Months**

Of the 33 timesheets (3 timesheets per month) we selected for review, 5 timesheets were prepared by **someone other than** the employees involved and 14 original timesheets could not be located.

c. **Timesheets For 10 Public Vouchers (1 public voucher per contract for 10 contracts)**

Of the 48 timesheets involved that we reviewed, 3 timesheets were prepared by **someone other than** the employees involved and 7 original timesheets could not be located.

***Auditee's Response***

*DAI explained that "[t]he difficulty in the system occurred at the point where the original timesheets are mailed to the home office." However, DAI stated that "We are very confident that the work was performed ..." (emphasis in original text.)*

*Auditor's Comments*

*Based on the facts presented, we continue to believe that the costs involved should be disallowed.*

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Questioned Other Direct Costs(ODC)

For the Period December 1, 1989 to November 30, 1990

| Contract Number | Project Number | Post Differential | Other | Total | Notes |
|---|---|---|---|---|---|
| **CPFF** | | | | | |
| 538-0140-C-00-6035 | 405 | $237 | | $237 | 1 |
| | | | $9,030 | 9,030 | 2 |
| 497-0311-C-00-5096 | 409 | 1,790 | | 1,790 | 1 |
| 383-0086-C-00-8075-00 | 500 | 1,270 | | 1,270 | 1 |
| 511-0543-C-00-9022-0 | 505 | 1,220 | | 1,220 | 1 |
| 306-0204-C-00-9829 | 508 | 794 | | 794 | 1 |
| DHR-5448-C-00-9080-0 | 510 | | 933 | 933 | 3 |
| | | | 2,272 | 2,272 | 4 |
| | | | 3,368 | 3,368 | 5 |
| 383-0058-C-00-502300 | 958 | 213 | | 213 | 1 |
| Total CPFF Contracts | | $5,524 | $15,603 | $21,127 | |
| **Subcontract** | | | | | |
| 391-0467-C-00-9830-0 | 509 | $295 | | $295 | |
| Total Questioned Other Direct Costs | | $5,819 | $15,603 | $21,422 | |

1. Questioned post-differential is based on the application of the post-differential rate to the overseas direct labor costs questioned in Schedule A-1.

2. Questioned costs pertain to Project Support ($8,335) and Education costs ($695) charged to Project 405 (CPFF). There was no supporting documentation for the charges.

3. Questioned costs pertain to travel costs which were initially charged to Project 5219 (AID T&M contract) based on a travel voucher signed by the employee involved and subsequently transferred to Project 510 (AID CPFF contract). Someone altered the travel voucher by crossing out Project 5219 and writing Project 510 in its place, without any explanation for the alteration.

4. Questioned costs pertain to travel costs which were initially charged to Projects 5210 (T&M) and 5213 (T&M) and subsequently transferred to Project 510 (CPFF), without any explanation for the transfer. Moreover, the travel voucher did not identify the specific types of travel costs that were incurred.

5. Questioned costs pertain to food, beverage, banquet, and charges for hotel rooms and meals for six home office employees for a "retreat" at the Ramada Renaissance Hotel, Herndon, Virginia in September 1990. The costs were charged as Workshop Costs to Contract DHR-5448-C-00-9080-0.

   We questioned the entire amount because DAI instructed the hotel to revise the original itemized bill (which showed food, beverage and banquet) to read "conference room rental." The original itemized bill was annotated with this instruction: "... the amount is fine. However, the hotel had agreed to prepare a bill that folded food in as part of conference room rental. That's how we'll need to submit it to AID. So, we should not use **this** bill to submit to AID. New one to be sent to us soon." (Emphasis in original text.)

***Auditee's Response***

*DAI stated, with respect to item 1, that "... we are confident that the corresponding post differential was also properly charged," and, with respect to item 2, that the supporting documentation is available for review. With respect to items 3 and 4, DAI stated that the core ("Gemini Core") could be used to facilitate and support the buy-in projects. With respect to item*

*5, DAI disagreed, stating (1) the auditor's classifying the expense as a "retreat" is incorrect, because the expense was incurred for a workshop, and (2) the expenses are supported by receipts from the hotel.*

**Auditor's Comments**

*Our comments on questioned direct labor costs apply to item 1. As for item 2, DAI should submit the additional documents to the AID Office of Procurement at the time of negotiation. With respect to items 3 and 4, we disagree with DAI that the core could be used to charge the costs of buy-in projects, based on the following contractual language (DHR-5448-C-00-9080): "A buy-in is the acquisition of services and reports and other deliverables from the Contractor which are related and complementary to, and within the scope and in furtherance of, the core activities being implemented under this contract. However, such buy-ins are <u>not</u> included under this contract. Instead, <u>they shall be implemented under a companion Requirements-type contract</u> (DHR-5448-Q-00-9081-00)." (Emphasis added.)*

*With respect to item 5, a memorandum from a DAI Project Director, titled "Second Annual Workplan Retreat," which refers to "retreat" several times, states: "And, a reminder that there will be a social event on Wednesday evening ..." As stated, DAI instructed the hotel to revise the original itemized bill. This may have been done so that the costs of the "social event" on Wednesday evening (and possibly other costs associated with the retreat) would not be disclosed.*

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed and Recommended Overhead Rates

For the Period December 1, 1989 to November 30, 1990

| Overhead Expenses | Proposed | Recommended |
|---|---|---|
| Overhead | $3,344,398 | $2,692,223 |
| Fringe Benefits | 451,233 | 362,096 |
| | $3,795,631 | $3,054,319 |
| Administration | 240,000 | 240,000 |
| Total | $4,035,631 | $3,294,319 |
| Reference | Sch. B-1 | Sch. B-1 |

| | Distribution Bases | | Distribution | Recommended Overhead Expenses | | | | |
|---|---|---|---|---|---|---|---|---|
| | Proposed | Recommended | Rates | Home Office | Home Office Associate | Overseas | Overseas Associate | Bid & Proposal |
| **Administration** | | | | | | | | |
| Home Office | $1,397,602 | $1,429,307 | 56.24% | $134,967 | | | | |
| Home Office Associate | 1,112,304 | 1,112,304 | 43.76 | | $105,033 | | | |
| Total | $2,509,906 | $2,541,611 | 100.00% | | | | | |
| **Overhead & Fringe Benefits** | | | | | | | | |
| Home Office | $1,397,602 | $1,429,307 | 24.01% | 733,342 | | | | |
| Home Office Associate | 1,112,304 | 1,112,304 | 18.68 | | 570,696 | | | |
| Overseas | 2,390,264 | 2,426,911 | 40.77 | | | $1,245,185 | | |
| Overseas Associate | 590,940 | 590,940 | 9.93 | | | | $303,196 | |
| Bid & Proposal | | 393,507 | 6.61 | | | | | $201,900 |
| Total | $5,491,110 | $5,952,969 | 100.00% | $868,309 | $675,729 | $1,245,185 | $303,196 | $201,900 |
| Reference | Sch. B-4 | Sch. B-4 | Note 1 | | | | | |
| Proposed Overhead Rates | | | | 78.05% | 78.42% | 69.68% | 68.86% | |
| Recommended Overhead Rates | | | | 60.75% | 60.75% | 51.31% | 51.31% | |
| Questioned Overhead Rates | | | | 17.30% | 17.67% | 18.37% | 17.55% | |

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed and Recommended Overhead Rates

For the Period December 1, 1989 to November 30, 1990

Note 1: DAI distributes (1) Administration Costs to Home Office and Home Office Associates based on the ratios of Home Office direct labor and fringe benefits to the total, and (2) Overhead expenses, including fringe benefits on indirect salaries, to Home Office, Home Office Associates, Overseas, and Overseas Associates based on the total ratios of direct labor and fringe benefits of each to the total. The distribution rates reflect the audit adjustments made to the various categories plus the bid and proposal costs that we have reclassified from the overhead pool to the allocation base.

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed and Recommended Overhead Expenses

For the Period December 1, 1989 to November 30, 1990

| Description | Proposed | Questioned | Reference | Recommended |
|---|---|---|---|---|
| Overhead | $3,584,398 | $652,175 | Sch. B-2 | $2,932,223 |
| Plus | | | | |
| Fringe Benefits for Indirect salaries | 451,233 | 89,137 | Note | 362,096 |
| Total Overhead Expenses | $4,035,631 | $741,312 | | $3,294,319 |

Note: Questioned fringe benefits for indirect salaries were computed as follows:

| | | Reference |
|---|---|---|
| Questioned Office Management Salaries | $ 30,208 | B-2 |
| Reclassified Bid & Proposal Salaries | 312,233 | B-2 |
| Total | $342,441 | |

Multiplied by the proposed 26.03 percent fringe benefit rate for Home Office. $342,441 X 26.03% = $89,137

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed Overhead Expenses and Results of Audit

For the Period December 1, 1989 to November 30, 1990

| | | Results of Audit | | | | |
|---|---|---|---|---|---|---|
| | | Reclassification of B&P | | | | |
| Description | Proposed | B&P Per DAI | Added B&P Per Audit | Total B&P | Questioned | Recommended |
| Office Management Salaries | $1,244,434 | | | | $30,208 | $1,214,226 |
| Proposal Salaries | 312,233 | $312,233 | | $312,233 | | 0 |
| Marketing Salaries | 73,804 | | | | | 73,804 |
| Consultants - US Duty | 67,827 | | $4,725 | 4,725 | 8,400 | 54,702 |
| Consultants - OS Duty | 18,136 | | | | 11,400 | 6,736 |
| Temporaries | 40,932 | | | | | 40,932 |
| Translating Services | 25,464 | 24,170 | | 24,170 | | 1,294 |
| Other Professional Services | 101,422 | 17,399 | | 17,399 | 63,267 | 20,756 |
| Telephone | 81,131 | 6,854 | 1,768 | 8,622 | | 72,509 |
| Shipping & Delivery | 26,586 | 7,344 | | 7,344 | | 19,242 |
| Bank Charges | 9,012 | | | | 616 | 8,396 |
| Administrative Travel | 41,266 | | | | 8,888 | 32,378 |
| Mkt/Proposal Travel | 81,437 | 45,367 | | 45,367 | 5,950 | 30,120 |
| Recruitment Travel | 2,217 | | | | | 2,217 |
| Mkt/Proposal Per Diem | 19,246 | 6,152 | 545 | 6,697 | 258 | 12,291 |
| Administrative Per Diem | 16,793 | | | | 579 | 16,214 |
| Administrative Meals | 5,937 | | | | 486 | 5,451 |
| Document Printing | 13,730 | | | | 14,681 | (951) |
| Office Rent | 388,954 | | | | 1,592 | 387,362 |
| Employee Moving Expenses | 12,177 | | | | 3,000 | 9,177 |
| Miscellaneous | 10,300 | 2,439 | | 2,439 | | 7,861 |
| Overtime & Business Meals | 6,863 | | | | 252 | 6,611 |
| Sorsogon Management | 6,271 | | | | 6,271 | 0 |
| Subtotal | 2,606,172 | 421,958 | 7,038 | 428,996 | 155,848 | 2,021,328 |
| Other Overhead Expenses | 978,226 | | | | | 978,226 |
| Questioned Overseas Travel | | | | | 67,331 | (67,331) |
| Total | $3,584,398 | $421,958 * | $7,038 * | $428,996 | $223,179 | $2,932,223 |
| Reclassification of B&P | | | | | 428,996 | |
| Total Overhead Adjustments | | | | | $652,175 | |

* See Schedule B-5

# DEVELOPMENT ALTERNATIVES, INC.

## SCHEDULE OF QUESTIONED OVERHEAD EXPENSES

**For The Period December 1, 1989 To November 30, 1990**

1. Office Management Salaries

Accrued severance pay for the former Vice President of Finance and Administration who resigned on January 9, 1991. DAI's Personnel Policy does not address severance pay.

Federal Acquisition Regulations (FAR) 31.205-6(g)(2)(i) states: "Severance pay is allowable only to the extent that, in each case, it is required by (A) law; (B) employer-employee agreement; (C) established policy that constitutes, in effect, an implied agreement on the contractor's part; or (D) circumstances of the particular employment." (Emphasis added.)

We questioned the severance pay based on the above FAR provision. $ 30,208

***Auditee's Response***

*Although admitting that it did not have a policy on severance pay, DAI disagreed with the questioned cost, stating that the severance pay for senior executives is a reasonable and common practice within the industry and geographic area and falls under the "circumstances of the particular employment." (FAR 31.205-6(g)(2)(i)-(D))*

[Intentionally Left Blank]

*Auditor's Comments*

*We continue to believe that the severance pay should be disallowed for the reason stated and because we believe that dismissal of a senior executive could hardly be called "the circumstances of the particular employment."*

**2. Consultants - U.S. Duty**

a. Payment to a member of the Board of Directors for analyzing the impact of a potential acquisition of DAI by another company.

FAR 31.205-27(a) states: "... expenditures in connection with (1) planning or executing the organization or reorganization of the corporate structure of a business, including mergers and acquisitions ... are unallowable."

Accordingly, we questioned the payment as an expressly unallowable cost. $ 2,000

b. Payment to an intermittent employee for writing a memorandum titled "Report on Trip to Vietnam, May 6 to 13, 1990." The memorandum consisted of a 4-page narrative, with one of the captions labeled "Possible Opportunities for DAI Now," a list of Vietnamese contacts, and copies of a 3-page article titled "Vietnam - Queen of Capitalism" from the ASIAWEEK, and a 5-page Vietnam government publication titled "The State Committee for Co-operation and Investment." DAI officials told us that the trip to Vietnam was paid for by another organization.

FAR 31.205-33(d) states: "In determining the allowability of costs [professional and consultant service costs], ... the contracting officer shall consider ... among others ... the nature and scope of the service rendered in relation to the service requested ... [and] the adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, termination provision.)"

We questioned the cost, because (1) there was no consultant agreement, and (2) the amount involved is unreasonable considering the fact that the trip was paid for by another organization. 2,500

c. Payment of retainer fees to an individual for representing DAI in Asia in April and May 1990. The individual involved, who was also doing business as Babb and Associates of Manila, Philippines, was assigned to the Afghan Project as the Chief of Party under AID contract No. 306-0204-C-00-9829. His timesheet for April 1990 showed that he charged 100 percent of his time directly to the Afghan Project until April 23, 1990 when he ceased to be an **employee** of DAI. He then began working in the sole capacity as a **consultant**.

FAR 31.205-33(a) defines "Professional and Consultant Services" as "persons who are members of a particular profession or possess a special skill and who are **not** officers or **employees** of the contractor." (Emphasis added.) In addition, FAR 31.205-33(e) states: "Retainer fees, to be allowable, must be supported by evidence that ... The actual services performed are documented in accordance with paragraph (f) of this subsection." Paragraph (f), in turn, states: "Fees for services rendered shall be allowable **only** when supported by evidence of the nature and scope of work ... Evidence necessary to determine that work performed is proper and does not violate, law or regulation **shall** include ... consultants' work products and related documents,

| | | |
|---|---|---|
| | such as trip reports indicating persons visited and subjects discussed, minutes of meetings, and collateral memorandum and reports." (Emphasis added.)<br><br>We questioned the retainer fees, because (1) the individual involved was an employee in April 1990 and, therefore, did not meet the FAR definition of a consultant to be paid retainer fees, and (2) there was no documented evidence of the work he had performed for DAI in both April and May 1990. | 1,500 |
| d. | May 1990 payment to the individual referred to in 2.c. above of the first installment payment (50 percent) of "performance fees" equal to one percent on DAI's portion of a contract awarded by the Asian Development Bank (Sorsogon Project). The second installment payment (25 percent) of the "performance fees" amounting to $648 was charged as direct costs to the Sorsogon Project.<br><br>We questioned the "performance fees" for two reasons: (1) consistent with the second installment payment, the first installment payment should have been charged directly to the Sorsogon Project, and (2) the individual did not meet the definition of a consultant, FAR 31.205-33(a) previously cited, to be paid retainer fees or performance fees. The work for which he received the performance fees was performed during the time he was an employee of DAI. | 1,297 |
| e. | A journal entry for consultant costs. DAI could not provide any timesheets or reports to show what the consultant did for DAI. More important, the journal entry resulted in a duplicate charge. | 1,103 |
| | | $ 8,400 |

[Intentionally Left Blank]

***Auditee's Response***

*Except for item a., DAI disagreed with the questioned costs for the following reasons:*

*b. $2,500 - DAI stated that, although there was no formal agreement, a request for services was made and the product delivered, and that, prior to March 1990, FAR had no specific documentation requirements for consultant payments.*

*c. $1,500 - DAI stated that Babb & Associates has other employees than the individual involved, implying that other employees performed the work, and that, prior to March 1990, FAR had no specific documentation requirements for consultant payments.*

*d. $1,297 - DAI stated that services were rendered by employees of Babb & Associates and that, prior to March 1990, FAR had no specific documentation requirements for retainer fees.*

*e. $1,103 - DAI stated that no duplicate charges were made and that documentation of the work performed by the consultant is available for review.*

***Auditor's Comments***

*We continue to believe that the questioned costs involved should be disallowed for the following reasons:*

*b. $2,500 - Contrary to DAI's assertion, FAR 31.205-33, as of May 1, 1989, provided:*

*"(b) ... the following factors, among others, should be considered [in determining the allowability of professional and consultant service costs including retainer fees]:*

*(8) ... Adequacy of the contractual agreement for the service (e.g., description of the service; estimate of time required; rate of compensation; termination provisions).*

*(d) ... fees for services rendered shall be allowable only when supported by evidence of the nature and scope of the service furnished." (Emphasis added.)*

*c. $1,500 - As stated above, contrary to DAI's assertion, FAR did include documentation requirements prior to March 1990. Had there been documented evidence of the work performed, DAI would have been able to categorically state the names of the other employees who performed the work and the nature of the work performed.*

*d. $1,297 - See c. above.*

*e. $1,103 - As stated elsewhere in this report, DAI should submit any documentation to the AID Office of Procurement at the time of negotiation. It is true that in January 1990 DAI did reverse the accrual made on December 31, 1989. DAI, however, debited the "Temporaries" account when it paid the consultant and then, on January 30, 1990, debited the "Consultants" account for the same transaction (02AJ075). Thus, there was a duplicate charge.*

3. **Consultants - OS Duty**

November 1990 payment of retainer fees to the individual referred to in 2.c. above. As stated, the individual ceased to be an employee of DAI on April 23, 1990 and began to work in the sole capacity as a consultant.

DAI could not provide any supporting documents, except for general ledger entries. Accordingly, we questioned the costs under FAR 31.205-33(e) and (f) [retainer fees are allowable only when supported by evidence of work performed], previously cited in full. $ 11,400

**_Auditee's Response_**

*DAI disagreed with the questioned cost, stating that documentation was located and provided to the auditors, the payment was made to Babb & Associates, and specific documentation for retainer fees was not required under FAR prior to March 1990.*

**_Auditor's Comments_**

*We continue to believe that the questioned cost should be disallowed. The documentation referred to above constituted an evidence of the payment made; there were no invoice and other documents explaining the purpose of the payment. Contrary to DAI's assertion about FAR prior to March 1990, FAR 31.205-33, as of May 1, 1989, provided:*

*"(c) Retainer fees to be allowable must be supported by evidence that -*

*(1) The services covered by the retainer agreement are necessary and customary;*

*(2) The level of past services justifies the amount of the retainer fees (if no services were rendered, fees are not automatically unallowable; and*

*(3) The retainer fee is reasonable in comparison with maintaining an in-house capability to perform the covered services, when factors such as cost and level of expertise are considered."*

**4. Other Professional Services**

a. Payment to Cooper Clinic for the above individual to attend a 2-week "Aerobics Program for Total Well-Being" in Dallas, Texas during the period March 25 through April 7, 1990 for cardiovascular treatment. An internal memo approving the payment, from DAI's former Vice President of Finance and Administration, stated that "Since the payment isn't part of an established fringe benefits program, the payment constitutes **taxable income** to Tony, reportable by DAI on W-2 at end of year." (Emphasis added.) In addition, a fax to an AID Project Officer from the President of DAI stated: "I wish to obtain your agreement that Tony will attend this three week program to begin a rehabilitation regime, and to define sensible course of preventative health care. This would be medical leave. The travel and treatment are **at DAI's expense**." (Emphasis added.) We questioned the payment to Cooper Clinic, because, in accordance with the cited memo or fax, the costs should have been treated either as taxable income to the individual involved or costs to be borne by DAI. — $ 4,560

b. Payments of retainer fees to the above individual for the period January through March 1990. As stated, this individual was an **employee** of DAI until April 23, 1990.

Based on FAR 31.205-33(a), we questioned the retainer fees because the individual did not meet the definition of a consultant to be paid retainer fees. In addition, there was no documented evidence of the work performed. — 2,250

c. Payments of retainer fees to the above individual for the period May through November 1990. During this period, the individual worked as a consultant.

DAI could not provide documented evidence of the actual services performed by this individual. Accordingly, we questioned the retainer fees under FAR 31.205-33 (e) and (f) [retainer fees are allowable **only** when supported by evidence of work performed], previously cited in full. | 5,250

d. Payment as professional fees to the Boston Institute for Developing Economies, Ltd. (BIDE) for project development in Pakistan and Bangladesh in anticipation of a joint venture project. The payment represented a daily rate for salary, fringe benefits, overhead, and fee at **$1,100** per day for 10 days of work by the President of BIDE.

We were unable to obtain any documented evidence of the work performed. We questioned the payment to BIDE based on FAR 31.205-33(f) [fees for services rendered are allowable **only** when supported by evidence of the nature and scope of work performed]. | 11,000

e. Payment to Executive Transitions International, Inc. for "Corporate Outplacement Services" for the former Vice President for Finance and Administration to find him an employment. We consider this payment a form of compensation or fringe benefit. FAR 31.205-6(a)(3) states that "compensation must be based upon ... the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment."

Neither does DAI have policies and procedures regarding outplacement service for its employees, nor is the practice followed consistently (this is the first time DAI ever paid for such service).

We questioned the payment for the outplacement services based on the cited FAR provision. | 9,140

f. Payment to an intermittent **employee** from London, England for "retainer" "for services performed and to be performed while ... finishing his doctorate" in

Illinois. Neither did DAI enter into a consulting agreement with this employee for the payment of the retainer, nor did DAI provide any documented evidence of the actual services performed by this employee. Further, the individual does not meet the definition of a consultant to be paid a retainer, because he was an employee. We questioned the retainer fee based on the FAR 31.205-33(a) [consultants are persons who are not employees], (e) and (f) [retainer fees are allowable only when supported by evidence of work performed], previously cited in full. 4,000

g. Payment to the Development Associates, Inc., a joint venture firm with DAI, for management services provided by Development Associates for eight time and material (T&M) projects under AID contracts. The invoice identified the hours worked on each of the eight T&M projects "in accordance with the Joint Venture Agreement." Based on FAR 31.202 [specific identification], previously cited in full, we questioned the payment as a direct cost to the T&M projects involved. 3,539

h. An accrual for "representation services" to be provided by Chemonics International. DAI could not provide the required evidence of the nature and scope of the work performed by Chemonics International.

We questioned the "representation services" based on FAR 31.205-33 (f) [fees are allowable only when supported by evidence of work performed], previously cited in full. 7,505

i. Payment to "DAI New Business Account." DAI could not provide adequate supporting documents for the payment. Accordingly, we questioned the payment. 8,000

j. Payment in November 1990 via wire transfer to the individual referred to in 2.c. above for technical assistance for a Barani Area Development Project in Pakistan under a contract with the Asian Development Bank. Based on FAR 31.202(a) [specific identification], previously cited in full, we questioned the payment as a direct cost to the Asian Development Bank contract. 8,023

$63,267

***Auditee's Response***

*DAI disagreed with the questioned costs for the following reasons:*

*a. $4,557 (should be $4,560) - DAI stated that the auditors misinterpreted a memo written to the AID Project Officer. DAI explained that the memo was "to indicate to him that the costs would not be borne by the project, instead, they would [be] borne by DAI (as a reasonable overhead cost)." DAI further stated that, because the individual involved was critical to the program's success, it incurred a reasonable expense with the hope of ensuring that the program would not suffer a substantial setback.*

*b. $2,250 - DAI gave the same reasons it gave for questioned cost 3. Consultants - OS Duty.*

*c. $5,250 - DAI gave the same reasons it gave for questioned cost 3. Consultants - OS Duty.*

*d. $11,000 - DAI stated that the cost was normal and reasonable for carrying on marketing activities, supporting documentation was provided to the auditors, and prior to March 1990, FAR had no specific documentation requirement for consultant fees.*

*e. $9,140 - Although admitting that it did not have a policy on outplacement services, DAI stated that the payment for outplacement services was part of the severance package, and was dealt with and handled* *responsibly, reasonably and in a manner comparable to other firms in similar situations.*

*f. $4,000 - DAI stated that the expense was misclassified between two different overhead accounts, and it is more appropriately classified as tuition assistance.*

*g. $3,539 - DAI stated that the fee paid to Development Associates was for their work in dealing with the administrative (overhead) responsibilities related to the joint venture contract/project, and, had the agreement not been in place, DAI would have incurred these costs.*

*h. $7,505 - DAI stated that copies of documentation have been found and are available for review.*

*i. $8,000 - DAI stated that copies of documentation have been found and are available for review.*

*j. $8,023 - DAI stated that the payment was not made for technical services, instead, it was made for marketing services equal to 3 percent of the total contract value if the contract in question was won.*

**Auditor's Comments**

*We continue to believe that the questioned costs involved should be disallowed for the following reasons:*

*a. $4,557 (should be $4,560) - Suffice to say we disagree that "at DAI's expense" would mean "the costs would not be borne by the project, instead, they would be borne by DAI (as a reasonable overhead cost)." Here, AID's participation (both prime contracts and subcontracts) in DAI's indirect costs is about 97 percent, which means that 97 percent of the cost involved would be absorbed and paid for by AID. Under these circumstances, it is extremely difficult to assume that the President of DAI* *would knowingly tell the ADI Project Officer that "the travel and treatment are at DAI's expense," without advising the AID Project Officer that AID will end up paying for 97 percent of the cost through indirect costs.*

*b. $2,250 - see Auditor's Comments on 3. Consultants-OS Duty.*

*c. $5,250 - see Auditor's Comments on 3. Consultants-OS Duty.*

*d. $11,000 - We do not know whether the cost was normal and reasonable, as alleged by DAI, because there was no documented evidence of the work performed. The supporting documentation that DAI provided to us was merely an invoice which set forth the hours and amounts that were billed to DAI. As stated, contrary to DAI's assertion about FAR prior to March 1990, FAR, as of May 1, 1989, did require evidence of the nature and scope of the services furnished for consultant fees to be allowable.*

*e. $9,140 - We believe that, for the reason cited in the finding, the questioned cost should be disallowed. Also, see Auditor's Comments on 1. Office Management Salaries.*

*f. $4,000 - Even if we were to accept DAI's explanation that the retainer fee should have been classified as tuition assistance, we point out that DAI's Personnel Policy has no provision for tuition assistance. Furthermore, tuition assistance must meet the allowability criteria set forth in FAR 31.205-44, Training and education costs. Based on the documentation provided to us, we doubt whether DAI meets or can meet this allowability criteria.*

*g. $3,539 - Regardless of who incurred the costs, if a cost is specifically identifiable with a particular final cost objective, it must charged as a direct cost to the final cost* *objective.*

*h. $7,505 - As stated, DAI should submit any additional documentation to the AID Office of Procurement at the time of negotiation.*

*i. $8,000 - As stated, DAI should submit any additional documentation to the AID Office of Procurement at the time of negotiation.*

*j. $8,023* - Contrary to DAI's assertion, a document provided to us clearly identifies the project involved as "Technical Assistance (TA) for NWFP Barani Area Development Project Pakistan."

5. **Bank Charges**

A journal entry to record Non Sufficient Funds from DAI Medical Trust Cash. DAI could not provide supporting documents for us to determine the allowability of the cost. Accordingly, we questioned the cost as unsupported. $ 616

***Auditee's Response***

*DAI stated that a copy of the documentation has been found and is available for review.*

***Auditor's Comments***

*As stated, DAI should submit any additional documentation to the AID Office of Procurement at the time of negotiation.*

6. **Administrative Travel**

a. An American Express charge for airfare for an employee's trip to Oregon State University in Corvallis, Oregon during the period January 8 through January 9, 1990. His timesheet showed that the employee **directly** charged 16 hours to two AID projects.

FAR 31.203(a) states "An indirect cost shall not be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that or any other final cost objective."

We questioned the airfare based on the above FAR provision. $ 1,068

b. A journal entry "To record Afghan Field Report March 1990." This represents airfares from Pershawar, Pakistan to the Philippines every 2 months incurred by the individual referred to in 2.c. above, who was assigned to the Afghan Project as the Chief of Party under AID Contract No. 306-0204-C-00-9829.

DAI's accounting personnel stated that the costs are not "project-chargeable" and thus should be charged to overhead. We noted, however, that, on September 6, 1989, the President of DAI wrote a memorandum to the individual involved, stating: "The purpose of this memorandum is to authorize, **at DAI expense**, one round-trip from Pershawar to Manila every two months through August 1990, for the purpose of marketing DAI services." (Emphasis added.) Based on the above memorandum, the airfares should have been borne by DAI. Accordingly, we questioned the airfares involved. 2,446

c. A journal entry "to record airfare" for the individual referred to in 2.c. above. This amount represents airfares for (1) a round trip from Pershawar to Manila, referred to in the above memorandum from the President of DAI, (2) a trip to Washington, D.C. for "Sorsogon (Asian Development Bank) Proposal" in June 1989, and (3) a return trip to Manila after a staff conference. DAI inconsistently charged the airfare to attend the staff conference to overhead, while charging 100 percent of his time during the conference as direct to the Afghan Project.

We questioned the airfares for the following three reasons: (1) the round trip between Pershawar and Manila should have been borne by DAI, (2) the trip to Washington, D.C. in **June 1989** is an out-of-period cost, and (3) the return trip to Manila should have been charged to the Afghan Project, consistent with his time charges. 3,172

d. A journal entry "to record DSP Field Report for Dec. 1989." This represents a round trip airfare from Jakarta to Washington, D.C., incurred by a DAI employee who was assigned to the Bappenas Project under AID Contract No. 497-0340-C-00-710400 during the period January 1 through 10, 1990. His timesheet showed that the employee charged 100 percent of his time to the Bappenas Project.

We questioned the airfare based on FAR 31.203(a) [consistency], previously cited in full. 2,202

$ 8,888

***Auditee's Response***

*Except for item a., DAI disagreed with the questioned costs for the following reasons:*

*b. $2,446 - DAI stated that the auditors misinterpreted an attached piece of internal documentation of which the intention was to indicate to the individual involved that he would not be responsible for incurring the* *costs of traveling to and from the Philippines.*

*c. $3,172 - DAI stated that the airfare in question was for travel occurring June 1989 from the Philippines to Washington, D.C. to assist in preparing a proposal.*

*d. $2,202 - DAI stated that the airline ticket was used to attend the annual conference. Because discussions at the annual conference directly affect the project and other non-project issue, a compromise is reached to charge time direct and travel indirect, and "this is the type of consistent treatment" that DAI uses.*

*Auditor's Comments*

*We continue to believe that the questioned costs involved should be disallowed for the following reasons:*

*b. $2,446 - As stated, when AID absorbs and pays for 97 percent of DAI's indirect costs, it is difficult to interpret "at DAI expense" to mean that the President meant to charge the cost to overhead.*

*c. $3,172 - DAI is not responsive to the three reasons that we cited for questioning the cost.*

*d. $2,202 - Charging an employee's time directly and his travel costs indirectly is contrary to the consistency requirement of FAR 31.203(a).*

**7. Mkt/Proposal Travel**

a. Payment to Ana Hallo Tours for a round trip to Tokyo, Japan. DAI's documents did not state the purpose and details of the trip for us to determine the allowability of the costs. Accordingly, we questioned the payment as unsupported. $ 2,536

b. A journal entry "to record Uplands Field Report for

Jan. 1990." This represents airfare and travel costs incurred by an employee who was reimbursed for the same travel expenses in February 1990. We questioned the airfare and travel costs as duplicate charges. 1,091

c. A journal entry for travel costs initially charged to overhead in April 1990. This journal entry, without any support, resulted in a duplicate charge. We questioned the travel costs as duplicate charges. 2,323

$ 5,950

***Auditee's Response***

*Except for item b., DAI disagreed with the questioned costs for the following reasons:*

*a. $2,536 - DAI stated that the travel was incurred for marketing purposes and there is no specific FAR requirement for documentation related to the purpose of indirect travel.*

*c. $2,323 - DAI stated that no duplicate charge resulted from recording this expense.*

***Auditor's Comments***

*We continue to believe that the questioned costs involved should be disallowed for the following reasons:*

*a. $2,536 - As stated, most Government contractors require their employees to provide the purpose and other details on their travel expense vouchers to ensure that charges are made accurately and correctly. The documentation provided to us consisted merely of a copy* *of a ticket and a memo from the travel agency explaining the airfare charged to the traveler. As stated, without the purpose of the trip and other details such as places and individuals visited, we are unable to determine the allowability of the cost involved.*

*c. $2,323 - DAI's internal memo indicated that the travel costs involved were incurred in April 1990 and reported in the April 1990 Field Report (Uplands). DAI made a journal entry 7 months later in November 1990 for the same travel costs. DAI was unable to explain why the journal entry was made in November 1990 when the April 1990 Field Report had included the same travel costs.*

**8. Mkt/Proposal Per Diem**

Excess per diem for an employee's trip to Los Angeles. The claimed expenses for 5 days of $875 exceeded by $258 the maximum allowable per diem specified in the Federal Travel Regulations for Los Angeles.

FAR 31.205-46(a)(2) provides that costs for lodging, meals, and incidental expenses shall be considered to be reasonable and allowable only to the extent that they do not exceed the maximum per diem rates in the Federal Travel Regulations (FTR).

We questioned the excess per diem based on the above FAR provision. $ 258

***Auditee's Response***

*DAI agreed.*

**9. Administrative Per Diem**

a. Excess per diem for DAI's Controller to attend a 5 day management course in Williamsburg, Virginia during the period September 23 through 28, 1990.

The claimed expenses of $891 exceeded by $381 the maximum allowable per diem specified in the FTR for the area during the period.

We questioned the excess per diem based on FAR 31.205-46(a)(2) [per diem limited to FTR], previously cited. $ 381

b. Payment to the Carlyle Suites. The invoice did not itemize the hotel charges.

We questioned the payment as unsupported because we could not determine the allowability of the hotel charges. 198

$ 579

*Auditee's Response*

*DAI agreed.*

10. Administrative Meals

a. Payment to the Carlyle Suites. The invoice did not itemize the hotel charges. We questioned the payment as unsupported because we could not determine the allowability of the hotel charges. $ 361

b. Reimbursement to an employee for meals for three DAI employees at Duke Zeibert's Restaurant. We consider the meals to be entertainment in nature.

FAR 31.205-14 states that costs of amusement, diversion, social activity, and any directly associated costs are unallowable. 125

$ 486

***Auditee's Response***

*DAI disagreed with questioned cost b., stating that the auditors arbitrarily assumed that this was an entertainment expense because of the name of the restaurant.*

***Auditor's Comments***

*We continue to believe that the cost should be disallowed. The charge was based solely on an American Express charge slip. We do not know whether the charge was for lunch or dinner; nonetheless, the charge averages about $42 per person. In addition, there was no stated purpose for the meals.*

**11.** Document Printing

Payment to Kathleen Emmet for designing and printing 5,000 copies of a 5-color brochure, describing DAI's goals and approaches, and showing a map of its global activities and the scope of its projects, which, in our opinion, calls favorable attention to DAI and its activities.

FAR 31.205-1(f)(5) provides that costs of promotional material, motion pictures, video tapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities are unallowable. We questioned the costs for the brochure based on the above cited FAR provision. $ 14,681

***Auditee's Response***

*DAI Agreed.*

12. Office Rent

Payments for office rent for an employee who has been residing in Chapel Hill, N.C., from the inception of his employment in July, 1984 through August 31, 1990, the date of his resignation. During the period from December 1989 through July 1990, DAI paid $2,676 for office rent (several vouchers), charging the entire amount to overhead. Our review of his timesheets and "DAI's Labor Utilization Report by Employee" for the Fiscal Year ended November 30, 1990 disclosed that the employee spent 59.5 percent of his time on direct projects.

FAR 31.201-4 provides that "A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship." Accordingly, we questioned 59.5 percent of the total rent of $2,676 as direct costs. $ 1,592

***Auditee's Response***

*DAI disagreed with the questioned cost, stating that rent is a traditional overhead expense and was treated in that manner, and, if the rent costs in question were charged directly to the contract, the contract would be double charged as it would also be charged for rent through the applied overhead rate, resulting in violation of FAR 31.202.*

***Auditor's Comments***

*We continue to believe that the cost should be disallowed. We disagree that rent is a "traditional overhead expense" because it is completely acceptable to charge a portion of the rent of a building directly to contracts under certain* *circumstances where specific spaces can be identified with the contracts and the rent can be accurately allocated/charged. We also disagree with DAI's assertion that this will result in double charges. DAI charges field office rent directly to contracts. Also, DAI often charges a portion of the travel costs of its executives for the same trip directly to contracts and the remaining portion indirectly to overhead. These practices do not necessarily result in double charges because either the purposes or the circumstances of cost incurrence are different.*

**13. Employee Moving Expense**

Payment to an employee in February 1990 for moving expenses.

There were no vouchers or any other documents to show whether the moving expenses were spent by the employee and what expenses were actually incurred.

We questioned the payment as unsupported. $ 3,000

***Auditee's Response***

*DAI stated that it has obtained documentation which is available for review, and the amount paid to the employees was reasonable and properly included in his wages in 1990.*

***Auditor's Comments***

*As stated, DAI should submit any additional documentation to the AID Office of Procurement at the time of negotiation.*

**14. Overtime & Business Meals**

Reimbursement to the New Business Director for entertaining a family member from Nippon Konei, a Non-AID grantor, at the Grant Hyatt, Washington, D.C.

We questioned the reimbursement based on the previously cited FAR provision on entertainment. $ 252

***Auditee's Response***

*DAI disagreed with the questioned cost, stating that the auditors arbitrarily assumed that this was an entertainment expense because of the hotel/restaurant.*

***Auditor's Comments***

*We continue to believe that the questioned cost involved should be disallowed as entertainment cost. Regardless of the name of hotel/restaurant, the amount involved was $252 for an unknown number of people attending the function.*

**15. Sorsogon Management**

Costs (e.g., salaries, other direct costs) for management of the Sorsogon Project under a contract with the Asian Development Bank. DAI's management indicated that the Sorsogon Project does not allow such charges and, in addition, the Sorsogon Project resulted in a loss of about $15,000.

FAR 31.202(a) states: "All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly." Further, FAR 31.205-23 states "An excess of costs over income under any other contract ... is unallowable."

We questioned the costs for management of the Sorsogon Project based on the above cited FAR provisions. $ 6,271

***Auditee's Response***

*DAI disagreed with the questioned cost, stating that the statement made by the auditors indicating that DAI management informed them that the project "... does not allow such charges ..." is untrue, and that the internal account number was set up when the Sorsogon project began as an internal means of capturing those costs associated with getting the Sorsogon project on line.*

***Auditor's Comments***

*We continue to believe that the questioned cost should be disallowed. DAI's response indicates that the costs were of the nature of "pre-contract costs," which are specifically identifiable with the Sorsogon Project, whether or not the project resulted in a loss.*

**16. Overseas Travel Costs**

DAI incurred a total of $67,331 for overseas travel costs. DAI personnel indicated that the travel costs were incurred for marketing purposes. DAI incurred an additional $50,000 (estimated) for overseas travel for bid and proposal purposes and an indeterminable amount of direct overseas travel costs.

FAR 31.205-38(b) and (c) provide that market planning costs and costs of direct selling efforts are allowable, if reasonable in amount. We were unable to determine the reasonableness of the entire amount involved, because, as stated elsewhere in this report, the travel vouchers did not disclose the purposes of the trips and other details such as places and individuals visited. Although our limited test of $4,838 of per diem costs disclosed that $1,180 (24 percent) was unallowable because it exceeded the maximum allowable per diem rates, we questioned the entire overseas travel costs, subject to the Contracting Officer's determination of the reasonableness. In order to assist the Contracting Officer, we provided the details of all overseas travel costs in the attached Schedule of Questioned Overseas Travel.

### *Auditee's Response*

*DAI disagreed with the questioned overseas travel costs, stating that the auditors were resolute in their belief that indirect travel expenses should be approved by AID officials prior to being incurred, and there is no provision in the FAR mandating that indirect travel costs be supported by a statement as to the purpose of the travel.*

### *Auditor's Comments*

*We continue to believe that the overseas travel costs should be subjected to the Contracting Officer's determination of reasonableness. Nowhere in the report did we say that indirect travel expense should be approved by AID officials. As stated, most Government contractors require their employees to provide the purpose and other details of travel on their travel expense vouchers. We believe that this is prudent business practice. Without the purpose of the trips and other details of the places and individuals visited, we doubt whether DAI (1) can accurately and correctly charge the travel costs to the appropriate accounts, and (2) identify and record unallowable costs (i.e., entertainment costs and excessive per diem costs) in accordance with FAR 31.201-6, Accounting for unallowable costs. (Note that our limited tests disclosed that, of $4,838 of per diem costs tested, $1,180 (24 percent) exceeded the maximum per diem rates.)*

**SCHEDULE OF QUESTIONED OVERSEAS TRAVEL**

| Position | Dates | City/Country | Amount |
|---|---|---|---|
| Chairman and Chief Executive Officer | 11/08/89 - 11/11/89 | Manila, Philippines; Bangkok, Thailand | $ 1,186 |
| " | 01/10/90 - 01/11/90 | England | 926 |
| " | 01/27/90 - 02/10/90 | Colombo, Sri Lanka; Manila, Philippines; Bangkok, Thailand; Tokyo, Japan | 1,794 |
| " | 04/17/90 - 05/08/90 | Pakistan, Sri Lanka; Thailand, Indonesia; Manila, Philippines | 2,510 |
| " | 05/25/90 - 06/02/90 | Tokyo, Japan | 5,292 |
| " | 10/09/90 - 10/24/90 | Tokyo, Japan; Bangkok, Thailand; Colombo, Sri Lanka | 3,591 |
| " | ---- | Manila, Philippines | 199 |
| " | ---- | Pakistan | 170 |
| President and Chief Operating Cfficer | 03/90 | Somalia; Singapore; Turkey; Italy | 2,141 |
| " | 03/12/90 | London, England | 66 |
| " | 03/27/90 | Kinshasa, Zaire | 493 |
| " | 05/90 | Nairobi, Kenya; Frankfort, Germany | 1,152 |

# SCHEDULE OF QUESTIONED OVERSEAS TRAVEL

**(continued)**

| Position | Dates | City/Country | Amount |
|---|---|---|---|
| Director, Technical Services Division | 02/26/90 - 03/02/90 | Cairo, Egypt | 5,254 |
| | 05/11/90 - 05/20/90 | Abidjan, Cote D'Ivoire | 693 |
| | 09/22/90 - 10/04/90 | Paris, France; Abidjan, Cote D'Ivoire Niamay | 5,258 |
| Director, Agriculture and Natural Resources Division | 03/26/90 - 03/28/90 | Panama City, Panama | 1,015 |
| Director, New Business Development Division | 05/24/90 - 06/02/90 | Tokyo, Japan | 4,283 |
| | 08/27/90 - 09/06/90 | Tokyo, Japan | 618 |
| | 09/14/90 - 09/18/90 | Tokyo, Japan | 908 |
| Director, Economic Policy and Private Enterprise Division | 10/16/90 - 11/03/90 | Karachi, Pakistan; Frankfort, Germany; Islamabad, Pakistan; Warsaw, Poland | 6,321 |
| Staff A | 02/13/90 - 02/23/90 | Cote D'Ivoire | 2,561 |
| " | 06/22/90 - 07/13/90 | Nairobi, Kenya; Antananarivo; Bujumbuda | 645 |

## SCHEDULE OF QUESTIONED OVERSEAS TRAVEL

**(continued)**

| Position | Dates | City/Country | Amount |
|---|---|---|---|
| Staff A | 07/08/90 - 07/11/90 | Nairobi, Kenya | 360 |
| Staff B | 07/20/90 - 07/31/90 | Islamabad, Pakistan | 4,339 |
| Staff C | 12/28/89 - 01/06/90 | Columbo, Sri Lanka to Washington, D.C. | 405 |
| Staff D | 04/29/90 - 05/04/90 | Lome, Togo | 411 |
| Staff E | 11/09/89 - 12/06/89 | Dakar; Ziguinchor; Paris; Gasborne | 7,104 |
| Staff F | 01/03/90 - 01/21/90 | Several Round Trips from Semarang to Jakarta | 1,091 |
| Staff G | 05/90 | Manila, Philippines; Tokyo, Japan | 806 |
| Staff H | 07/28/90 - 07/29/90 | Paris, France | 183 |
| Staff I | 08/90, 09/90, 10/90 | Philippines; Thailand; Jakarta; Hawaii | 1,618 |
| Staff J | 04/90 | Bangladesh; Bangkok; Manila | 1,437 |
| | ---- | Korea; Philippines | 2,501 |
| Total | | | $ 67,331 |

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed and Recommended Overhead & Fringe Allocation Bases

For the Period December 1, 1989 Through Nobember 30, 1990

| Overhead & Fringe | Proposed | Adjustments | Reference | Recommended |
|---|---|---|---|---|
| Home Office | $1,397,602 | $31,705 | Note 1 | $1,429,307 |
| Home Office Associate | 1,112,304 | | | 1,112,304 |
| Overseas | 2,390,264 | 36,647 | Note 2 | 2,426,911 |
| Overseas Associate | 590,940 | | | 590,940 |
| Bid & Proposal | | 393,507 | Note 3 | 393,507 |
| Total | $5,491,110 | $461,859 | | $5,952,969 |
| **Administration** | | | | |
| Home Office | $1,397,602 | $31,705 | Note 1 | $1,429,307 |
| Home Office Associate | 1,112,304 | 0 | | 1,112,304 |
| Total | $2,509,906 | $31,705 | | $2,541,611 |

Notes:

1. Direct labor and fringe benefits that DAI erroneously charged as Other Direct Costs(ODC).

2. Unallowable direct labor and fringe benefit that DAI improperly excluded from the allocation base.

3. Proposal labor ($312,233) and applicable fringe benefits ($81,274) - See Schedule B-5

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Bid and Proposal Costs and Recommended Rate

For the Period December 1, 1989 to November 30, 1990

| | Total B&P Per DAI | Additional B&P Per Audit | Notes | Recommended Total B&P |
|---|---|---|---|---|
| Direct Labor | $312,233 | | | $312,233 |
| Overhead | | $201,900 | 1 | 201,900 |
| Fringe Benefits | | 81,274 | 2 | 81,274 |
| ODC | 58,206 | 7,038 | 3 | 65,244 |
| Allowances | 6,152 | | | 6,152 |
| Travel | 45,367 | | | 45,367 |
| Total | $421,958 | $290,212 | | $712,170 |

| Recommended B&P Allocation Base: | | Notes |
|---|---|---|
| Proposed Direct Labor and Fringe Benefits | $5,491,110 | |
| Other Direct Labor and Fringe Benefits | 31,705 | 4 |
| Unallowable Direct Labor and Fringe Benefits | 36,647 | 5 |
| Recommended B&P Allocation Base | $5,559,462 | |
| Recommended B&P Rate | 12.81% | |

Notes:

1. See Schedule B.
2. Applied the proposed Home Office fringe benefit rate of 26.03 percent to the B&P labor of $312,233.
3. See Schedule B-2.
4. Direct Labor and Fringe Benefits that DAI erroneously charged as Other Direct Costs.
5. Unallowable Direct Labor and Fringe Benefits that DAI excluded from the Overhead allocation bases.

## RECLASSIFICATION OF B&P COSTS

DAI improperly included bid and proposal (B&P) costs totaling $428,996 in its overhead pool (Schedule B-2) and did not allocate any overhead costs to its B&P costs, as required.

FAR 31.205-18(b)(2) states that "Contracts that are not CAS-covered or that contain terms or conditions requiring modified CAS coverage shall be subject to all requirements of 30.420 except 4 CFR 420.50(e)(2) and 4 CFR 420.50(f)(2), which are not then applicable." DAI is not CAS-covered, and the two cited exceptions, applicable to large corporations with home office and several segments or divisions (such as General Dynamics and Northrop Corporation), do not apply to DAI. Accordingly, DAI must follow the basic requirements of FAR 30.420, which in 30.420.40(a), (b), and (c), state:

> "(a) The basic unit for the identification and accumulation of Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs shall be the individual IR&D or B&P project.
>
> (b) IR&D and B&P project costs shall consist of <u>all allocable costs, except business unit general and administrative expenses</u>.
>
> (c) IR&D and B&P cost pools consist of all IR&D and B&P project costs and <u>other allocable costs, except business unit general and administrative expenses</u>." (Emphasis added.)

FAR 30.420-50(a) and (f)(2) further state:

> "(a) IR&D and B&P project costs shall include (1) costs, which if incurred in like circumstances for a final cost objective, would be treated as direct costs of that final cost objective, and (2) <u>the overhead costs of productive activities and other indirect costs related to the project</u> based on the contractor's cost accounting practice or applicable Cost Accounting Standards for allocation of indirect costs." (Emphasis added.)
>
> "(f)(2) IR&D and B&P costs ... shall be allocated to all final cost objectives of the business unit by means of the same base used by the business unit to allocate its general and administrative costs..."

The idea of allocating overhead costs to IR&D and B&P costs and of allocating the "burdened" IR&D and B&P costs to all final cost objectives is **not** new. This requirement has been in existence for at least the last 10 years for Federal civil agencies and for at least 20 years for defense agencies.

Thus, in accordance with FAR 31.205-18(b)(2) and the applicable sections of FAR 30.420, DAI must allocate overhead costs to its B&P costs, by including B&P costs in the allocation base for overhead costs, **not** in the overhead pool. Because DAI does not maintain a separate general and administrative expense pool, we used direct labor and the applicable fringe benefits as the allocation base to allocate the "burdened" B&P costs to all DAI's final cost objectives.

***Auditee's Response***

*DAI disagreed with the reclassification of B&P costs, stating that previous audits did not question its treatment of B&P costs, CAS states in essence that, if the expected benefits to be gained by following the CAS requirements are exceeded by the corresponding administrative costs of following CAS, then departure from CAS requirements is permitted, and it can provide evidence that the resultant allocation of costs to contracts from following CAS remains unchanged from the current methodology.*

***Auditor's Comments***

*We do not know why previous audits did not question DAI's treatment of B&P costs. We continue to believe, however, that B&P costs must be treated in accordance with the FAR and CAS for the following reasons:*

1. *There should be hardly any administrative costs involved to follow the FAR and CAS, because all necessary calculations and allocations can be performed within several hours, using a computer and an appropriate software. In addition, unlike other CAS, such as that on Allocation of Direct and Indirect Costs, which pronounced that a given procedure may not be followed if there would be no difference in the results to be achieved, the CAS on B&P costs has no such provision, primarily because of the longstanding controversy with industry prior to the establishment of the requirement to allocate overhead costs to B&P costs.*

2. *Our audit results clearly show that there are substantial differences in the overhead rates and the B&P costs to be allocated.*

3. *As noted elsewhere in this report, AID prime contracts and subcontracts represented 97 percent of DAI's total business in Fiscal Year 1990. DAI, however, is attempting to secure non-AID business with a number of foreign countries, including Vietnam, incurring substantial marketing costs and overhead costs. As a matter of fact, AID prime contracts and subcontracts decreased to 92 and 93 percent of the total business in Fiscal Years 1991 and 1992, respectively. Under these circumstances, we believe that it is in the best interest of AID to ensure that <u>all</u> contracts and subcontracts are costed properly.*

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed and Recommended Fringe Benefit Rates

For the Period December 1, 1989 to November 30, 1990

| | | | | | | Recommended Fringe Benefit Expenses | | |
|---|---|---|---|---|---|---|---|---|
| Fringe Benefits | Proposed | Audit Adjustments | Notes | Recommended | Distribution Rate – Note 4 | Home Office | Overseas | Overhead |
| Home Office | $398,197 | $1,315 | 1 | $396,882 | | | | |
| Other | 578,873 | | | 578,873 | | | | |
| Total | $977,070 | $1,315 | | $975,755 | | | | |
| Allocation Bases | | | | | | | | |
| HO Direct Labor | $1,104,824 | $312,233 | 2 | $1,417,057 | 50.93% | $202,146 | | |
| Overhead Labor | 1,677,348 | (312,233) | 2 | 1,365,115 | 49.07% | | | $194,736 |
| | $2,782,172 | 0 | | $2,782,172 | 100.00% | | | |
| HO Direct Labor | $1,104,824 | $312,233 | 2 | $1,417,057 | 28.38% | 164,269 | | |
| Overhead Labor | 1,677,348 | (312,233) | | 1,365,115 | 27.34% | | | 158,247 |
| Overseas | 2,157,204 | 54,235 | 3 | 2,211,439 | 44.29% | | $256,357 | |
| Total | $4,939,376 | $54,235 | | $4,993,611 | 100.00% | $366,415 | $256,357 | $352,983 |
| Proposed Fringe Benefit Rates | | | | | | 26.03% | 11.72% | |
| Recommended Fringe Benefit Rates | | | | | | 25.86% | 11.59% | |
| Questioned Fringe Benefit Rates | | | | | | 0.17% | 0.13% | |

# DEVELOPMENT ALTERNATIVES, INC.

## Schedule of Proposed and Recommended Fringe Benefit Rates

For the Period December 1, 1989 to November 30, 1990

Notes:

1: An individual charged sick leave in excess of what he was entitled to under DAI's policy.

FAR 31.205-6(a)(2) restricts allowable compensation (including fringe benefits) to the contractor's established compensation plan.

Accordingly, we questioned the excess sick leave.

2: B&P salaries were reclassified from the overhead pool to the allocation base of direct labor/fringe benefits in accordance with FAR 31.205-18(b)(2).

3: Consists of (1) unallowable direct labor of $29,078 that DAI excluded from the allocation base (FAR 31.203(c) requires unallowable direct labor to be included in the allocation base) and (2) direct labor costs of $25,157 that DAI erroneously charged as "Other Direct Costs."

4: DAI distributes (1) the Home Office fringe benefits to Home Office and Overhead based on the ratios of Home Office Direct Labor and Overhead Labor to the total, and (2) the Other fringe benefits to the labor costs of Home Office, Overseas, and Overhead based on the ratios of each to the total. The distribution rates reflect the audit adjustments made to the various labor categories.

# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| AID CPFF Contracts | | | | | | | |
| 383-0058-C-00-502300 | 0958 | Diversified AG Research | $157,521 | $16,232 | $952,648 | $119,871 | $1,246,272 |
| 497-0341-C-00-5092 | 0990 | FID | 216,390 | 23,070 | 279,377 | 163,109 | 681,946 |
| 391-0467-C-00-5044-00 | 0400 | Pakistan ISM Procurement | 0 | 0 | 26 | 0 | 26 |
| 538-0140-C-00-6035 | 0405 | HIAMP | 88,092 | 7,143 | 171,774 | 65,865 | 332,874 |
| 497-0311-C-00-5096 | 0409 | Upland AG/Conservation | 274,336 | 30,171 | 526,097 | 208,144 | 1,038,748 |
| DHR-5438-C-00-6054-00 | 0414 | DESFIL Core | 164,538 | 39,660 | 262,473 | 159,302 | 625,973 |
| DHR-5438-C-00-6054-00 | 0462 | DESFIL Buy-Ins | 0 | 0 | 1,410 | 0 | 1,410 |
| " | 1104 | " | 0 | 0 | 3 | 0 | 3 |
| " | 1111 | " | 6,716 | 0 | 40,821 | 5,263 | 52,800 |
| " | 1117 | " | 1,394 | 154 | 6,694 | 1,212 | 9,454 |
| " | 1136 | " | 0 | 0 | 1,030 | 0 | 1,030 |
| " | 1145 | " | 30,300 | 3,182 | 239,741 | 22,767 | 295,990 |
| " | 1144 | " | 0 | 0 | 53 | 0 | 53 |
| " | 1147 | " | 23,693 | 701 | 54,658 | 18,165 | 97,217 |
| " | 1146 | " | 0 | 0 | 30,452 | 0 | 30,452 |
| " | 3501 | " | 31,904 | 4,899 | 22,519 | 27,821 | 87,143 |
| " | 3502 | " | 0 | 0 | 151,040 | 0 | 151,040 |
| " | 3503 | " | 33,406 | 3,178 | 103,064 | 27,352 | 167,000 |
| 683-0240-C-00-700500 | 0424 | NIAMEY Dept Development | 0 | 0 | (752) | 0 | (752) |
| 497-0340-C-00-710400 | 0448 | BAPPENAS | 138,028 | 12,977 | 356,409 | 103,325 | 610,739 |
| 696-0126-C-00-777700 | 0466 | Rwanda | $157,211 | $14,663 | $590,749 | $121,694 | $884,317 |
| 492-0366-C-00-804500 | 0497 | Philippines Rainfed Cycle | 47,715 | 3,748 | 243,526 | 35,882 | 330,871 |
| 383-0086-C-00-8075-00 | 0500 | Sri Lanka-Mard | 386,434 | 33,101 | 843,777 | 292,781 | 1,556,093 |
| " | 0501 | Sri Lanka Mard Loan Fund | 0 | 0 | 64,212 | 0 | 64,212 |

# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| **AID CPFF Contracts (cont.)** | | | | | | | |
| • | 0502 | Sri Lanka MDS | 87,975 | 10,539 | 152,719 | 72,021 | 323,254 |
| • | 3004 | Sri Lanka Budget | 0 | 0 | 314,931 | 0 | 314,931 |
| • | 3006 | Sri Lanka Mard/MDS | 0 | 0 | 28,657 | 0 | 28,657 |
| 511-0543-C-00-9022-0 | 0505 | Bolivia Valles Altos Dev | 170,142 | 19,626 | 676,646 | 133,242 | 999,656 |
| 89-C-022-8400 | 2265 | Paris Conference | 0 | 0 | 89 | 0 | 89 |
| 306-0204-C-00-9829 | 0508 | Afghan ASSP | 546,158 | 49,322 | 680,173 | 428,333 | 1,703,986 |
| 306-0200-C-00-9987-00 | 2262 | Afghan Eval PVO CO Fin. | 5,268 | 395 | 7,113 | 4,426 | 17,202 |
| DHR-5448-C-00-9080-0 | 0510 | GEMINI Core | 212,366 | 39,202 | 685,614 | 195,361 | 1,132,543 |
| 391-0485-C-00-0505 | 3001 | NWFADP Kala Dhaka Proj | 93,310 | 13,343 | 112,853 | 76,375 | 295,881 |
| 583-0140-C-00-6035 | 5002 | HIAMP AVT Contract | 82,336 | 3,402 | 221,820 | 59,337 | 366,895 |
| 306-0210-C-00-0820-0 | 3005 | Afghan Narcotics Proj | 89,658 | 11,061 | 134,317 | 72,608 | 307,644 |
| 623-0129-C-00-0035 | 3007 | Rwanda Natural Res Mangt | 1,049 | 278 | 357 | 1,034 | 2,718 |
| Total AID CPFF Contracts | | | $3,045,940 | $340,047 | $7,957,090 | $2,415,290 | $13,758,367 |
| **AID Fixed Price Contracts** | | | | | | | |
| 660-0119-0-00-0449 | 4602 | Zaire AG Policy Conf | $2,808 | $744 | $3,109 | $2,771 | $9,432 |
| PO 91-191-8400 | 4603 | Guinea Bissau | 6,000 | 0 | 4,626 | 4,680 | 15,306 |
| 497-0336-0-00-0049 | 4601 | Strengthening of Inst Plr | 1,250 | 331 | 920 | 1,233 | 3,734 |
| 492-0249-C-00-0127-0 | 4604 | Philippines AG Sector | 21,508 | 0 | 56,284 | 16,136 | 93,928 |
| PO 687-1001 | 4605 | Feasibility Study/Nyayo | 3,245 | 0 | 112 | 2,531 | 5,888 |
| Total AID Fixed Price Contracts | | | $34,811 | $1,075 | $65,051 | $27,351 | $128,288 |

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# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| AID T&M Contracts | | | | | | | |
| DHR-5448-Q-00-9081-0 | 5205 | GEMINI Buy-Ins | $5,864 | $0 | $11,904 | $4,574 | $22,342 |
| " | 5201 | " | 8,386 | 822 | 8,530 | 7,209 | 24,947 |
| " | 5202 | " | 8,921 | 1,710 | 10,567 | 8,045 | 29,243 |
| " | 5203 | " | 3,693 | 979 | 24,130 | 3,644 | 32,446 |
| " | 5208 | " | 1,082 | 0 | 133,852 | 736 | 135,670 |
| " | 5204 | " | 9,953 | 2,637 | 20,092 | 9,820 | 42,502 |
| " | 5207 | " | 114,056 | 1,750 | 92,060 | 87,049 | 294,915 |
| " | 5206 | " | 16,303 | 2,207 | 22,051 | 14,477 | 55,038 |
| " | 5209 | " | $12,998 | $0 | $25,130 | $9,930 | $48,058 |
| " | 5210 | " | 0 | 0 | 29,718 | 0 | 29,718 |
| " | 5211 | " | 2,599 | 0 | 5,767 | 2,027 | 10,393 |
| " | 5213 | " | 12,690 | 0 | 31,598 | 9,899 | 54,187 |
| " | 5212 | " | 2,700 | 0 | 7,355 | 2,106 | 12,161 |
| " | 5222 | " | 5,376 | 0 | 221 | 4,194 | 9,791 |
| " | 5218 | " | 0 | 0 | 4,699 | 0 | 4,699 |
| " | 5221 | " | 0 | 0 | 16 | 0 | 16 |
| " | 5219 | " | 226 | 60 | 1,693 | 223 | 2,202 |
| " | 5220 | " | 3,453 | 726 | 3,077 | 3,260 | 10,516 |
| " | 5215 | " | 5,291 | 556 | 431 | 3,975 | 10,253 |
| " | 5216 | " | 13,704 | 0 | 14,707 | 10,689 | 39,100 |
| PDC-1096-I-15-8043-00 | 2246 | IQC's | (507) | (134) | (39) | (501) | (1,181) |
| " | 2256 | " | 4,166 | 1,103 | 3,089 | 4,111 | 12,469 |
| " | 2255 | " | 10,657 | 471 | 2,561 | 8,725 | 22,414 |
| " | 2258 | " | 807 | 0 | 66 | 634 | 1,507 |

# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| AID T&M Contracts (cont.) | | | | | | | |
| PDC-1096-I-15-8043-00 | 2263 | IQC's | 11,804 | 0 | 7,134 | 9,266 | 28,204 |
| " | 4201 | " | 0 | 0 | 693 | 0 | 693 |
| " | 4203 | " | 33,374 | 1,988 | 28,833 | 26,717 | 90,912 |
| " | 4204 | " | 11,627 | 1,370 | 18,786 | 10,170 | 41,953 |
| " | 2241 | " | $14,480 | $1,698 | $19,006 | $12,659 | $47,843 |
| " | 4205 | " | 69,851 | 8,900 | 54,434 | 61,607 | 194,792 |
| " | 4206 | " | 12,724 | 661 | 13,335 | 10,492 | 37,212 |
| " | 4207 | " | 28,048 | 0 | 19,254 | 22,018 | 69,320 |
| " | 4208 | " | 21,636 | 3,140 | 26,616 | 19,374 | 70,766 |
| " | 4209 | " | 24,723 | 1,722 | 27,324 | 20,719 | 74,488 |
| " | 4210 | " | 18,419 | 1,887 | 2,208 | 15,895 | 38,409 |
| PDC-5317-I-00-8127-00 | 2244 | Ecuador Tax Assessment | 0 | 0 | 1,060 | 0 | 1,060 |
| " | 2260 | Egypt LD II | 1,000 | 0 | 965 | 680 | 2,645 |
| " | 2261 | Indonesia PVO Co-Finance | 2,425 | 265 | 5,561 | 2,106 | 10,357 |
| " | 2264 | Cameroon Action Plan | 4,151 | 1,100 | 7,665 | 4,096 | 17,012 |
| " | 4001 | Liberia AG Res & Ext | 4,915 | 0 | 5,997 | 3,858 | 14,770 |
| " | 4002 | Yemen Program Info. | 5,250 | 1,391 | 7,233 | 5,180 | 19,054 |
| " | 4003 | Senegal Financial Managt | 5,701 | 0 | 6,979 | 4,475 | 17,155 |
| " | 4004 | Swailand | 7,080 | 0 | 8,719 | 5,558 | 21,357 |
| " | 4005 | ANE SARS Evaluation | 15,241 | 0 | 16,371 | 11,964 | 43,576 |
| " | 4006 | Afghanistan PVO Co Fin | 5,701 | 0 | 5,732 | 4,475 | 15,908 |
| " | 4008 | Environ/Natural Resources | 6,463 | 1,504 | 2,060 | 6,218 | 16,245 |
| " | 4007 | Baluchistan Area Develop | 38,474 | 51 | 35,643 | 30,241 | 104,409 |
| " | 4009 | Indonesia Privatization | 14,669 | 0 | 8,578 | 10,993 | 34,240 |

# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| AID T&M Contracts (cont.) | | | | | | | |
| PDC-5317-I-00-8127-00 | 4010 | Indonesia Trade & Invest | $15,190 | $1,724 | $9,233 | $13,237 | $39,384 |
| " | 4011 | Gambia Management Info | 20,472 | 569 | 30,427 | 16,503 | 67,971 |
| " | 4012 | Burkina Faso Natural Reo | 11,998 | 0 | 19,227 | 9,419 | 40,644 |
| " | 4013 | Kenya Natural Reso | 26,302 | 1,016 | 16,800 | 19,789 | 63,907 |
| PDC-0095-I-03-9097 | 4301 | Mozambique Macroeconomics | 8,599 | 0 | 12,470 | 6,750 | 27,819 |
| " | 4302 | Senegal African Policy | 6,287 | 0 | 7,453 | 4,275 | 18,015 |
| " | 4303 | Philippines Public Works | 7,770 | 999 | 24,679 | 6,860 | 40,308 |
| " | 4304 | ANE Health Financing Proj | 0 | 0 | 2 | 0 | 2 |
| " | 4305 | OMAN Macroeconomic Anal | 37,363 | 785 | 41,721 | 29,928 | 109,797 |
| " | 4308 | Morocco Agribusiness | 21,428 | 4,428 | 32,721 | 19,695 | 78,272 |
| " | 4310 | Madagascar AG Export | 21,216 | 3,629 | 30,884 | 19,417 | 75,146 |
| " | 4309 | Cereals Banks Study | 16,438 | 4,356 | 42,496 | 16,220 | 79,510 |
| " | 4312 | Morocco Shadow Prices | 0 | 0 | 3 | 0 | 3 |
| 624-0510-I-00-7018-00 | 1131 | REDSO/Mali AG Research | 0 | 0 | (333) | 0 | (333) |
| " | 1132 | Ivory Coast AFDB Roads | 0 | 0 | 4,419 | 0 | 4,419 |
| PDC-5315-I-00-8101-00 | 1130 | Social Soundness Analysis | 1,835 | 128 | 570 | 1,538 | 4,071 |
| " | 2249 | Mail PRMC Assessment | 180 | 0 | 21 | 141 | 342 |
| " | 1137 | Bolivia PL 480 | 514 | 0 | 128 | 404 | 1,046 |
| " | 1140 | Bol. Envir. Assessment | 2,310 | 0 | 915 | 1,814 | 5,039 |
| " | 1143 | Guatemala Coop | 0 | 0 | 21 | 0 | 21 |
| " | 1148 | Zaire Project Development | $0 | $0 | $11 | $0 | $11 |
| " | 2259 | Social Dimensions Entrep | 1,180 | 313 | 1,771 | 1,164 | 4,428 |
| " | 4103 | Nepal RAPTI Proj | 24,312 | 0 | 11,127 | 17,708 | 53,147 |
| " | 4102 | Dominican Rep Forestry | 16,395 | 1,323 | 7,324 | 13,158 | 38,200 |

# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| AID T&M contracts (cont.) | | | | | | | |
| PDC-5315-I-00-8101-00 | 4104 | Zaire RAV II Design | 7,360 | 1,951 | 12,638 | 7,262 | 29,211 |
| " | 4105 | Pakistan Sustainable AG | 17,394 | 4,609 | 17,789 | 17,163 | 56,955 |
| " | 4106 | Bolivia Chapare Reg Devp | 71,847 | 0 | 61,832 | 54,552 | 188,231 |
| " | 4107 | Ecuador Lan Titling | 13,676 | 25 | 14,931 | 10,710 | 39,342 |
| Total AID T&M Contracts | | | $950,240 | $64,419 | $1,184,741 | $781,294 | $2,980,694 |
| CPFF Subcontracts | | | | | | | |
| DAN-5426-C-00-409800 | 0927 | EEPA | $3,692 | $448 | $161 | $3,030 | $7,331 |
| 497-0347-C-00-7139-00 | 0477 | SSIMP | 101,435 | 11,131 | 59,616 | 76,924 | 249,106 |
| ANE-0289-C-00-704400 | 0471 | ISPAN | 105,690 | 11,832 | 23,575 | 85,079 | 226,176 |
| 522-0241-C-00-8452-00 | 0504 | Honduras Smal Business | $36,185 | $3,455 | $34,090 | $28,433 | $102,163 |
| AFR-0467-C-00-8504-00 | 0503 | African NRMS | 69,160 | 16,561 | 11,495 | 66,878 | 164,094 |
| PDC-0095-Z-00-9053-0 | 0507 | Consulting Asst Eco Reform | 15,512 | 4,111 | 5,482 | 15,306 | 40,411 |
| 520-0000-0-00-9178-00 | 2257 | Guatemala Action Eval. | 990 | 0 | 177 | 777 | 1,944 |
| 391-0467-C-00-9830-0 | 0509 | Pakistan ISM II | 132,926 | 16,021 | 81,724 | 102,915 | 333,586 |
| 520-0276-A-00-5062-00 | 1152 | Guatemala Export Eval | 8,268 | 0 | 5,266 | 6,486 | 20,020 |
| 623-0000-C-00-0008 | 5001 | Madagascar Busnss Trng Act | 42,036 | 7,231 | 76,933 | 38,428 | 164,628 |
| USAID GPN:698-0434 | 4705 | Feasibility Study/Nyayo | 101,060 | 2,488 | 81,774 | 71,600 | 256,922 |
| 383-0090-C-00-0031-00 | 5003 | Sri Lanka Mahaweli - I | 64,994 | 6,610 | 62,368 | 49,200 | 183,172 |
| PDC-0095-Z-00-9053 | 5301 | Africa Economic Analysis | 7,985 | 2,116 | 8,316 | 7,879 | 26,296 |
| DHR-2002-C-00-0034 | 5508 | Exam of Fin & Borrowing | 1,100 | 292 | 84 | 1,085 | 2,561 |
| PDC-0095-C-00-9053 | 5302 | Econ Performance | 8,061 | 2,136 | 843 | 7,954 | 18,994 |

# DEVELOPMENT ALTERNATIVES, INC.

## Statement of Contract Expenditures

For the Period December 1, 1989 to November 30, 1990

| Contract No. | Proj. No. | Description | Direct Labor | Fringe Benefits | Other DC | Overhead | Total Costs |
|---|---|---|---|---|---|---|---|
| CPFF Subcontracts (cont.) | | | | | | | |
| DHR-2002-I-00-0140-00 | 5005 | Small Business Lending | 1,346 | 357 | 103 | 1,329 | 3,135 |
| DHR-5451-C-00-0109 | 5004 | Implementing Policy | 399 | 106 | 36 | 394 | 935 |
| LAI 91-210-8400/ #1 | 4401 | Guinea-Bissau PID and PP | 4,131 | 0 | 523 | 3,242 | 7,896 |
| Total CPFF Subcontracts | | | $704,970 | $84,895 | $452,566 | $566,939 | $1,809,370 |
| Grand Total - AID Contracts/Subcontracts | | | $4,735,961 | $490,436 | $9,659,448 | $3,790,874 | $18,676,719 |

## DEVELOPMENT ALTERNATIVES, INC.

## NOTES TO STATEMENT OF CONTRACT EXPENDITURES
**For The Period December 1, 1989 to November 30, 1990**

### Note 1 - Nature of Operations and Summary of Significant Accounting Policies

a) Development Alternatives, Inc. (DAI), provides technical assistance, consulting, project design and implementation services in the field of rural and agricultural development, financial management and economics.

b) Expenditures are related to the disbursing of funds provided by A.I.D. to accomplish the objectives of the projects discussed above. Expenditures are recognized as incurred, in accordance with generally accepted accounting principles.

c) The contract for each project includes a price (for fixed price contracts), a budget of allowable costs and the fee structure (for cost type contracts), and obligations of each party. These contracts form the basis for payment or cost reimbursement to DAI.

d) Expenditures are allowed for recovery of DAI's overhead and fringe benefits at contractual (provisional) rates. These rates are subsequently adjusted to actual rates for each year stated as a percentage of direct labor incurred (for fringe benefit rates) and of direct labor and fringe benefits (for overhead rates) by DAI for A.I.D. and similar type projects.

### Note 2 - Basis of Presentation

The Statement of Contract Expenditures is not intended to be a presentation of DAI's financial position, results of its operations or changes in its stockholder's equity in accordance with generally accepted accounting principles. Rather, the statement presents the expenditures reported during the audit period and was prepared in accordance with the financial reporting requirements of the contracts.

# APPENDIX B

# AUDITEE'S RESPONSE

Development Alternatives, Inc.
7250 Woodmont Avenue
Suite 200
Bethesda, MD 20814

July 28, 1993

Mr. Albert N. Fukuda, CPA
Partner
Myint & Buntua
5203 Leesburg Pike, Suite 300
Falls Church, VA 22041

Subject: Management Responses to Report on Audit of AID Contracts

Reference: Myint & Buntua's Draft Report on Audit of AID Contracts for the Period December 1, 1989 to November 30, 1990

Dear Mr. Fukuda:

Please find enclosed our responses to the audit of AID contracts performed covering the period December 1, 1989 to November 30, 1990.

If you have any questions or require additional information concerning this matter, please contact Alan Smith or myself at (301) 718-827(3) or (4).

Sincerely yours,

Robert H. Gross
Controller / Treasurer

enclosures

Telephone: (301) 718-8699 Telex: 424822 DAI UI FAX: (301) 718-7968

**DEVELOPMENT ALTERNATIVES, INC.**
**MANAGEMENT RESPONSES**
**TO**
**REPORT ON AUDIT OF AID CONTRACTS**
**Performed by Myint & Buntua**
**For the Period December 1, 1989 to November 30, 1990**

**OPENING STATEMENT:** It is Development Alternatives, Inc.'s (DAI) mission to perform high quality research, consulting and technical assistant services. Over the years, DAI has developed and enjoyed a reputation as a respected development institution. In order to successfully achieve our mission, we understand the importance of quality administrative and accounting management systems. DAI has undergone audits from our independent auditors which have always resulted in unqualified opinions. Furthermore, previous audits performed by the DCAA have not resulted in any material costs being disallowed from any of our contracts. We welcome the opportunity to respond to the points put forward by the auditors from Myint & Buntua (M&B).

**MATERIAL INSTANCES OF NONCOMPLIANCE (noted on p. 4 & 5):** Based on the information that will be provided below and our routine administrative and accounting procedures, we object to M&B's assertion that, "DAI did not comply with a number of FAR provisions dealing with cost allowability." It is DAI's practice to adhere to all applicable FAR requirements and GAAP (generally accepted accounting principles). Insofar as specific items are concerned, DAI endeavors to ensure that every cost incurred by DAI is reasonable, allocable, supported by proper documentation and in accordance with principles and practices appropriate to the particular circumstances.

We also object to M&B's assertion that, "DAI neither required subcontractors to submit cost or pricing data, nor performed cost or price analysis of subcontractors' cost or pricing data, as required by FAR." First, it is DAI's practice to pay for subcontractor services at rates (meaning direct and indirect costs) based on market prices and negotiations between DAI and the subcontractor in accordance with the Agency for International Development (AID) guidelines. AID guidelines specify maximum rates to be paid for certain types of technical services. DAI does not exceed these guidelines. Any agreements with subcontractors are signed and maintained in project files and are open for inspection. DAI requires all subcontractor costs to be properly supported before payment occurs. Further, all subcontractors are approved by AID prior to the start of subcontractor efforts. Finally, FAR 52.215.24 only requires cost and pricing data for subcontracts that are expected to exceed $100,000 or $500,000 for some agencies. The majority of DAI subcontracts are much less than these threshold amounts. Generally, contracts of a material nature involve organizations which have supplied us with their approved NICRA rates.

**INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS (Noted on p. 5):**

1. <u>Inadequate Documentation (ps. 20 & 21)</u> The auditors from M&B claim on page five that, "DAI did not maintain adequate documentation to support a significant amount of costs incurred." The extent of which, results in a reportable condition. DAI's understanding of a reportable condition involves matters representing significant deficiencies in the design or operation of the internal control structure which could adversely affect an organization's ability to record, process, summarize and report financial data consistent with the assertions of its management in their financial statements. We respectfully refute M&B's claim. In the vast majority of cases, documentation was provided that supported the expense incurred. In those cases where documentation was misplaced and later found, M&B persisted in their requests for more information. Each and every one of our expense disbursements is incurred for purposes which are directly related to the conduct of our business, unless otherwise indicated. In our discussions with the M&B representatives, it was clear to us that the documentation they required was, in most cases, above and beyond requirements detailed under GAAP or the

FAR. We cite M&B's requirements for supporting documentation for travel costs as an example (M&B was adamant about requiring a "stated purpose" for all travel expenses charged to overhead).

It is totally inappropriate for M&B to state that "lack of management attention and management's unfamiliarity with FAR documentation requirements are the major contributing factors to the problem." The example the M&B auditors cite as to lack of documentation concerning travel is not supported by FAR (see page 21 item 16 for details). Suffice it to say that DAI knows what it's doing. DAI has been in business since 1970 under the same ownership. We have grown a great deal as indicated by M&B (p.21) but the company has been through audits of varying sorts without difficulty. We have always received clean opinions from our independent auditors. We are confident in our ability to perform our duties in accordance with GAAP and FAR requirements. Each individual questioned cost will be responded to in detail below to correspond to M&B's schedule A & B.

<u>2. Timekeeping System (ps. 21 to 23)</u> The auditors from M&B claim on page five that, "DAI's timekeeping system was deficient in several significant respects." A significant portion of DAI's labor is attributable to projects at overseas locations. The nature and location of the projects that DAI is involved in present difficult administrative and accounting tracking problems primarily with regard to timesheets. DAI uses many modes of information transfer including telephone, telex, facsimiles and international shipping & delivery to get timesheet information from the field to the home office for recordation. **It is important to note that time was recorded via one of the above mentioned modes by a DAI project monitor, and that the time was incorporated into invoices which were subsequently approved by the various AID project officers.** This is not to say that we disagree with the need for original timesheets, we understand the requirement for original documentation. However, we feel that consideration should be given to understanding the nature of our business as well as the idiosyncracies involved with each overseas project. Some particular idiosyncracies that bear mentioning are third world country conditions, language barriers, education levels, field conditions and project location.

Finally, the employees assigned to these project work very closely with AID project officers. Indeed, in most instances, the project officer is aware of each and every employee participating on the project.

As for the deficiencies noted from the prior DCAA audit and listed by the M&B auditors in their report, we respectfully submit that they should not be included as they are no longer valid. **No current year procedures were tested by the M&B auditors.** Therefore, it is totally inappropriate for the M&B auditors to include the statement which says, in effect, prior findings were confirmed in the current audit. In response to the points made:

- Timesheets are adequately controlled by management. There is no control gained from using prenumbered timesheets as the DCAA suggested during their review.

- DAI does require employees to record their time on a daily basis. Spot checks performed by DAI management have concluded that this is occurring.

- Employees sign their timesheet upon completion and submission. Copies of written timesheet policies are provided to all new employees along with other information in a new employee package.

Because of the serious implication associated with characterizing our timekeeping system as unreliable, we feel that statements made by M&B should be considered in light of the limited or nonexistent audit testing by the M&B auditors and the unique nature and special circumstances surrounding DAI's business and timekeeping process as described above.

<u>3. Cost Transfers (ps. 24 & 25):</u> The auditors from M&B claim on page five that, "DAI made cost transfers among different types of contracts without adequate explanations." During our discussions

with the M&B representatives, they indicated that they didn't understand why so many transfers were made between a specific contract "Gemini Core" and its related Buy-ins. We produced the contract and presented them with information included in the body of the contract indicating that the core contract budget (CPFF) could be used to facilitate and support the buy-in projects (T&M's). Overall, the shift has virtually no effect to the government.

In other cases, unrelated to the above situation, errors were detected through our management review process and subsequently corrected through a journal entry which removed charges to the incorrect contract and charged them to the correct one (This fact alone suggests that management has mechanisms in place to help monitor all project charges.). Support for these corrections (called transfers by M&B) was attached to the journal entry and consisted of evidence of the charge's effect on the incorrect contract. The additional documentation required by the M&B auditors such as why the mistake was made, who made the mistake, and when the mistake was made is irrelevant and goes beyond the scope of GAAP and FAR requirements. If necessary, more information for making journal entry corrections will be emphasized in the future.

**RESPONSES TO SCHEDULE A-1, QUESTIONED DIRECT LABOR COSTS**

We regret that some of the timesheets tested by the M&B auditors were not supported by original timesheets signed by the originator. As discussed above, due to the unique nature of our business and timekeeping process (described above in "2. Timekeeping System"), there are special circumstances surrounding the labor recording process. The description provided by the M&B auditors is in need of further amplification. DAI processes labor / payroll charges once a month. Company policy requires all labor charges to be supported by original, signed and approved timesheets. Because of the distance and location of some overseas field projects, we allow the employees to estimate the last few days of the month. The estimate is normally correct but can be adjusted in the following month if necessary. The hours worked are then communicated to the home office by means described above in "2. Timekeeping System" with the original timesheet sent via international mail.

Timesheets are prepared by DAI project monitors who use the hours sent via telex, telephone etc. The difficulty in the system occurred at the point where the original timesheets are mailed to the home office. We have made every effort to ensure that this problem does not occur in the future. We are very confident that the work was performed by DAI employees whose time was communicated to the home office and properly included in our bills which were then paid by our customers. We respectfully request consideration in light of the distinctive characteristics of our business and timekeeping process, our longstanding commitment to serving AID and our dedication to resolving the problem. We have been able to locate a number of the timesheets in question and are pursuing from our field offices the remaining items.

**RESPONSES TO SCHEDULE A-2, QUESTIONED OTHER DIRECT COSTS**

1. Questioned post differential corresponding to labor questioned in Schedule A-1 above. **$5,819** The post differential was correctly calculated based on government post differential guidelines. Since we are confident that the labor was properly charged, we are confident that the corresponding post differential was also properly charged.

2. Questioned costs for project support and education costs due to lack of documentation. **$8,335 and $695** We have located appropriate supporting documentation for these expenses and have it available for your review.

3. & 4. Questioned travel costs initially charged to one project then changed to another without any explanation. **$933 and $2,272** As discussed above in "3. Cost Transfers", transfers were made

between a specific contract "Gemini Core" (CPFF) and its closely related Buy-ins (T&M's). This is the case here. We produced the contract and presented it to the M&B auditors with information included in the body of the contract indicating that the core could be used to facilitate and support the buy-in projects.

5. Questioned workshop costs. **$3,368** Classifying the expense as a "retreat" is incorrect. The expenses incurred were for a workshop done by DAI employees for outside attendees. Workshops are just one of the many activities required under the contract. Close scrutiny of the receipts shows that there were at least 20 attendees one day and at least 17 the next. We are unsure where the problem is. The expenses are supported by receipts from the hotel where the workshop was held. The first three items on the itemized bill (banquet room, food, beverages) sum to supporting documentation which included the charges under "room rental". This is often done when a range of services are included under a lump sum bill. These reasonable costs were appropriately incurred to perform a service required under the contract. All relevant supporting documentation was provided.

**RESPONSES TO SCHEDULE B-2, QUESTIONED COSTS**

1. Office Management Salaries (p. 40) **$30,208** Accrued severance pay to V.P. for Finance and Administration upon termination from DAI effective January 9, 1991. Questioned because DAI's Personnel Policy did not address severance pay.

**DAI RESPONSE:** As a result of the employee's termination and subsequent negotiated severance arrangement, DAI now has a severance policy. The M&B auditors are correct in stating that there was not one in effect at the time of the employee's termination. In the 15 years prior to this incident, DAI did not have any situations requiring a termination / severance policy. This was the first time that this type of situation occurred. However, severance terms were negotiated and documented between



9,6

DAI and the former employee in a responsible manner. All documentation was provided to the M&B auditors. A company severance policy was the ultimate outcome.

Further, FAR 31.205-6(1) states, "Severance pay...is a payment in addition to regular salaries...for employees being involuntarily terminated." (2)(i) States, "Severance pay is allowable if made, (D) under circumstances of the particular employment."

We feel that the severance payment meets the criteria established under the FAR cited above. Severance pay for senior executives is a reasonable and common practice within the industry and geographic area and falls under, "circumstances of the particular employment."

2. Consultants - U.S. Duty (ps. 41-44) **a. $2,000** Amount paid to board member for analyzing proposed acquisition of DAI by another company.

**DAI RESPONSE:** The auditor cites FAR 31.205.27(a) as calling for the above cost to be unallowable. FAR 31.205.27 deals with organization costs, it states; expenditures in connection with (1) planning or executing the organization or reorganization of the corporate structure of a business...(2) resisting or planning to resist the reorganization of the corporate structure of a business or a change in ownership...and, (3) raising capital are unallowable. The expense incurred was not with the intention to plan, execute, resist or raise capital in connection with any type of reorganization. In the interest of resolving this issue, we acknowledge M&B's point and are willing to concede.

**b. $2,500** Payment made to an intermittent employee for writing a memorandum titled "Report on Trip to Vietnam, May 6 to 13, 1990." Trip was paid by another party.

**DAI RESPONSE:** First, the payment was made to a consultant not an intermittent employee. Second, a different party paying for the trip is irrelevant. We cite FAR 31.205-33 Professional and consultant service costs; (a) professional and consultant services...are those services rendered by persons of a particular profession or who possess a special skill and who are not officers or employees...(b) costs...are allowable subject to paragraphs (c) through (f) when reasonable in relation to services rendered...Paragraph (c) discusses reasons for unallowability, the expense incurred does not fall under any of the mentioned areas. Paragraph (d) discusses factors to determine allowability, the expense incurred meets all of the applicable factors. Paragraph (f) states that fees for services rendered shall be allowable only when supported by evidence of the nature and scope of the service furnished. Evidence includes work requirements, compensation...invoices or billings...and work product...Although there was no formal agreement, a request for services was made and the product delivered. Just because one form of documentation wasn't available doesn't mean other forms are insufficient. Further, prior to March 1990, FAR had no specific documentation requirements for consultant payments. Finally, The amount paid was reasonable in relation to the product provided. Based on the above, we feel that the expense incurred was in accordance with the provisions of FAR 31.205-33.

**c. $1,500** Payment of retainer fees to "Mr. B" for representing DAI in Asia in April and May 1990. The payment was to an employee and there was no evidence of work performed.

**DAI RESPONSE:** There was no payment to a "Mr. B". The abbreviation in this manner implies that there is some shady or questionable nature involved. There was not. Payment was made to Babb & Associates. DAI retained Babb & Associates (a partnership in Manila) as a representative in the Philippines. Babb & Associates has employees other than Mr. Babb. We feel that the agreement drawn up between the two parties meets all applicable FAR 31.205-33 (d) through (f) provisions. The retainer agreement was provided to the M&B auditors for their review. Payment was made based on a previous written agreement. In addition as discussed above, prior to March 1990, FAR had no specific documentation requirements for consultant payments. We feel that provisions of the FAR were met and payment properly made.

**d. $1,297** Payment made to "Mr. B" in May 1990 for the first installment payment (50%) of "performance fees" equal to 1% of a contract (Sorsogon project) awarded by the Asian Development Bank. Questioned because the expense should have been charged directly to the project. The cost was also questioned due to Mr. Babb's employment status.

**DAI RESPONSE:** The cost incurred was a "marketing" type cost. It is DAI's policy, which is in accordance with FAR (marketing costs should be allocated across all contracts), to allocate such costs across all contracts. Again, as discussed above, payment was made to Babb & Associates, not "Mr. B". Services were rendered by employees of Babb & Associates in accordance with the marketing agreement indicated above. In addition, the FAR which required proper documentation of retainer fees in order for them to be allowable did not exist until March 1990. Therefore, these costs should be viewed in light of the more lenient requirement.

**e. $1,103** A journal entry for consultant costs. No evidence to show work performed. Entry resulted in a duplicate charge.

**DAI RESPONSE:** An entry was indeed made in period 1 to accrue expenses of $1,102.50, the entry was reversed in period 2 for an effect of $0. Another entry was made in period 2 to record professional service expenses of $1,102.50 which was subsequently paid to the service provider based on evidence and documentation (available for review) of work performed. No duplication of charges were made.

3. Consultants - O.S. Duty (ps. 44-45) **$11,400** A combination of $8,400 and $3,000 paid to "Mr. B" for retainer fees lacking documentation.

**DAI RESPONSE:** Documentation was located and provided to the M&B auditors. Again, payment was made to Babb & Associates in accordance with our agreement cited above. Additionally, again as stated above, specific documentation for retainer fees previously wasn't required under FAR until March 1990. All FAR requirements were met.

4. Other Professional Services (ps. 45-49) **a. $4,557** Payment to Cooper Clinic for "Mr. B" to attend a two week aerobics program for cardiovascular treatment. The expense should have been taxable income to the employee or the costs should have been borne by DAI.

**DAI RESPONSE:** First of all, just because something is categorized as taxable income to an employee doesn't mean it is not an allowable expense (e.g. salaries). Secondly, the M&B auditors are misinterpreting a memo included as supporting documentation. A memo was written to the AID project officer to indicate to him that the costs would not be borne by the project, instead, they would by borne by DAI (as a reasonable overhead cost). During the period of time under question, Mr. Babb was our Chief of Party on project 508. As COP, Mr. Babb was very important both to us and to AID. Unfortunately, after working on the project for some time, Mr. Babb developed a heart condition which required him to be removed from the project until he could be examined and re-approved. To facilitate this process, we required Mr. Babb to enroll in a two week program at the Cooper Clinic, a special cardiovascular / aerobic improvement program. We obviously were required to pay for this service since we requested Mr. Babb to participate. Since he was COP, Mr. Babb was critical to the program's success. We incurred a reasonable expense with the hope of ensuring that the program would not suffer a substantial setback. Because of these reasons, we feel that the expense was correct in all respects.

**b. $2,250** Retainer fees paid to "Mr. B" for 3 months ($750/month, Jan to Mar) while he was an employee.

**DAI RESPONSE:** Again, as previously mentioned above, the retainer fees were paid to Babb & Associates (a partnership), not Mr. Babb. Payment was made for services rendered in accordance with our retainer agreement, also discussed above. Finally, to reiterate what was mentioned above, FAR did not have a specific documentation requirement applicable to retainer fees for all contracts entered into prior to March 1990.

**c. $5,250** Retainer fees paid to "Mr. B" for May through November while he was a consultant.

**DAI RESPONSE:** Again, as previously mentioned above, the retainer fees were paid to Babb & Associates (a partnership), not Mr. Babb. Payment was made for services rendered in accordance with our retainer agreement, also discussed above. Finally, to repeat the above, FAR did not have a specific documentation requirement applicable to retainer fees for all contracts entered into prior to March 1990.

**d. $11,000** Payment to BIDE (a joint venturer with DAI via the Developing Economies Group (DEG)) for development of major economic projects in Pakistan and Bangladesh in anticipation of a joint venture project. No evidence of work performed.

**DAI RESPONSE:** A top level BIDE employee was engaged to perform marketing activities in Pakistan and Bangladesh in order to gain a perspective on the opportunities in the respective areas. Upon the individual's return, discussions were held with top management of DAI. DAI was collaborating with BIDE and wanted to continue the mutually beneficial relationship. The expense incurred was normal and reasonable for carrying on marketing activities. Supporting documentation was provided to the M&B auditors indicating purpose of expense, hours worked, costs involved and amount billed to DAI from BIDE. Prior to March 1990, FAR had no specific documentation requirement for consultant fees. All that was required was that sufficient evidential matter existed. The expense incurred included sufficient documentation to meet the requirement.

**e. $9,140** Payment made to Executive Transitions International, Inc. for "Corporate Outplacement Services" for the former VP of Finance & Administration upon his termination. DAI did not have a policy regarding payment of outplacement services for its employees (this is the first time DAI ever paid for such a service).

**DAI RESPONSE:** The M&B auditors are again correct in stating that there was not such a policy in effect at the time of the employee's termination. Severance terms between DAI and the former employee were negotiated and documented in a responsible manner. Payment for outplacement services was part of the severance package. This was the first time that this type of situation occurred. We feel that it was dealt with and handled responsibly, reasonably and in a manner comparable to other firms in similar situations. Neither the amount or type of service provided was unreasonable for this type of individual (executive) in this type of situation. Finally, a severance policy was established from this occurrence. All documentation was provided to the M&B auditors for their review.

**f. $4,000** Retainer fee paid to an intermittent employee from England for services performed and to be performed while he was finishing his doctorate.

**DAI RESPONSE:** The expense was misclassified between two different overhead accounts. It is more appropriately classified as tuition assistance (we have obtained supporting documentation). We wanted to ensure that this employee would return to DAI upon completing his doctorate. It was felt that expenses incurred in recruiting and training a new employee would far outweigh the cost of paying for part of his tuition. We cite FAR 31.205-44 (d) which states in part,...costs of tuition, fees, training materials and textbooks in connection with full time education...at a postgraduate but not undergraduate college level, are allowable when the course or degree pursued is related to the field in which the employee is working or may reasonably be expected to work...The amount paid to the individual was indeed to facilitate the completion of his doctoral degree. Upon completion, the individual resumed his work here at DAI in the area for which he earned his degree. The employee is furnishing us with additional documentation.

g. **$3,539** Payment to Development Associates (a joint venturer with DAI on occasion) for management services provided by Development Associates for eight Time & Material (T&M) AID contracts.

**DAI RESPONSE:** In a joint venture effort, one firm is usually responsible for assuming the administrative (overhead) responsibilities. The additional effort required to administer the contract / project is paid for within the joint venture by the other participants. The fee paid to Development Associates by DAI was negotiated, agreed upon and paid in good faith for their work in dealing with the administrative (overhead) responsibilities related to the contract / project. Had the agreement not been in place, DAI would have incurred these costs, possibly at a higher rate, within its own overhead structure. The costs were obviously of the indirect type and were properly included in our overhead pool. The M&B auditors were provided with a copy of the administration agreement for their review.

**h. $7,505** Accrual of expense for payment to Chemonics for representation service whose support was not located.

**DAI RESPONSE:** Copy of documentation has been found and is available for M&B's review.

i. **$8,000** Payment to DAI New Business Account for which DAI could not locate the supporting documentation.

**DAI RESPONSE:** Copy of documentation has been found and is available for M&B's review.

j. **$8,023** Payment made to "Mr. B" for technical assistance on project 4806 under a contract with the Asian Development Bank.

**DAI RESPONSE:** The payment was not made for technical services, instead it was made for marketing services. The amount paid reflected a precontract negotiated agreement between DAI and the payee whereby the payee would receive 3% of the total contract value if the contract in question was won. As discussed above in 2.d., as marketing expenses, these costs should be allocated over all contracts. This treatment is consistent with FAR and corporate accounting policy and practice.

5. Bank Charges (p. 49) **$616** Supporting documentation was not included with the journal entry to record the charge.

**DAI RESPONSE:** Copy of documentation has been found and is available for M&B's review.

6. Administrative Travel (ps. 49-52) **a. $1,068** A charge for airfare was charged to overhead. The timesheets which correspond to the time of travel show direct time charges.

**DAI RESPONSE:** We understand the auditor's point and are willing to concede on this issue.

**b. $2,446** Airfare for "Mr. B's" trip to Manila from Peshawar every two (2) months which DAI guaranteed at DAI's cost while Babb was assigned to project 508 as COP. Based on an attached memo, the costs will be at DAI expense.

**DAI RESPONSE:** The M&B auditors have misinterpreted an attached piece of internal documentation. The intention of the memo was to indicate to Mr. Babb that he would not be responsible for incurring the costs of traveling to and from the Philippines. The expense was reasonable and properly supported.

**c. $3,172** A journal to record airfare for "Mr. B". Time was charged directly to the project while the airfare was charged as an indirect expense.

**DAI RESPONSE:** An examination of the tickets reveals that the airfare in question was for travel occurring June 1989. Mr. Babb was requested to travel from the Philippines to Washington D.C. to assist in preparing a proposal. The tickets were properly charged to overhead since they were an overhead expense. We are unsure of the time period that the auditors used in comparing timesheets since the travel occurred in 1989 and the audit covered 1990.

**d. $2,202** Airfare for an employee's trip to U.S. during 1/1/90 to 1/10/90 (staff conference 1/3/90 to 1/5/90) when 100% of his time was charged to project 448.

**DAI RESPONSE:** The cost was recorded in January 1990 for December 1989 field expenses. The airline ticket was purchased in Indonesia for flight to U.S. to attend the annual conference. Review of the January 1990 timesheet indicates that the individual did indeed record 100% of his time to project 448.

However, it was under two different location codes; 80 for overseas and 90 for U.S. This shows that the employee did not receive the related benefits of being overseas for the time that he was in the U.S. Additionally it is customary for long term project employees (usually COP's) to seek and gain approval from the AID Project Officer to attend annual conferences. Because discussions directly affect the projects and other non project issues, a compromise is reached to charge time direct and travel indirect. Whenever this situation presents itself, this is the type of consistent treatment that we use.

<u>7. Mkt/Proposal Travel (p. 52)</u> **a. $3,536** Payment to ANA HALLO Tours for airfare to and from Tokyo. No supporting documents for this cost.

**<u>DAI RESPONSE:</u>** A copy of the ticket was retrieved from Ana Hallo (a travel agency) due to our copy being misplaced. The travel was incurred for marketing purposes which is in accordance with its coding. There is no specific FAR requirement for documentation related to the purpose of indirect travel. M&B was given a copy of the documentation supporting the expense.

**b. $1,091** Airfare and related travel expenses were charged to overhead expenses in duplicate, once from a field report / journal entry and once through a travel voucher / check disbursement.

**<u>DAI RESPONSE:</u>** DAI agrees with this finding. An error was made when the field accountant included the expense on the field report while the employee submitted a travel voucher to the home office for processing. We have made every attempt to ensure that this type of situation does not recur.

**c. $2,323** Travel costs initially charged to overhead in April 1990. It resulted in a duplicate charge.

**DAI RESPONSE:** No duplicate charge resulted from recording this expense. It is unclear how the M&B auditors arrived at this conclusion.

8. Mkt/Proposal Per Diem (p. 53) **$258** Claimed expense exceeded maximum allowable per diem specified in the Federal Travel Regulations.

**DAI RESPONSE:** We understand the auditor's point and are willing to concede on this issue.

9. Administrative Per Diem (ps. 53-54) **a. $381** Claimed expense exceeded maximum allowable per diem specified in the Federal Travel Regulations.

**DAI RESPONSE:** We understand the auditor's point and are willing to concede on this issue.

**b. $198** Hotel invoice did not itemize charges, could not determine allowability.

**DAI RESPONSE:** Due to the immaterial nature and amount of the finding, we will not pursue this further and will concede on this issue.

10. Administrative Meals (p. 54) **a. $361** Hotel invoice did not itemize charges, could not determine allowability.

**DAI RESPONSE:** Due to the immaterial nature and amount of the finding, we will not pursue this further.

**b. $125** Reimbursement for meals for three employees at a local restaurant. Expense considered to be entertainment.

**DAI RESPONSE:** All of the supporting documentation indicates that the expenses was properly included under administrative meals. It appears that the M&B auditors arbitrarily assumed that this was an entertainment expense because of the name of the restaurant (Duke Ziebert's).

11. Document Printing (ps. 54-55) **$14,681** Cost for design and printing 5,000 5-color DAI corporate brochures. The auditor cites FAR 31.205-1 (f)(5) designating the cost as unallowable.

**DAI RESPONSE:** We understand the auditor's point and are willing to concede on this issue.

12. Office Rent (p. 55) **$1,592** During December 1989 through July 1990, DAI paid $2,676 for office rent (several vouchers) charging the entire amount to overhead. The employee who was assigned to the office spent 60% of his time directly charged to projects.

**DAI RESPONSE:** All payments for office rental in Chapel Hill were properly supported, reasonable and allocable to overhead. Rent is a traditional overhead expense, it was treated in that manner. If the rent costs in question were charged directly to the contract, the contract would be double charged as it would also be charged for rent through the applied overhead rate. This would clearly be in violation of FAR 31.202. The treatment of the expense was consistent with FAR, company policy and other accounting standards.



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13. Employee Moving Expenses (ps. 55-56) **$3,000** Payment made to a DAI staff member for moving expenses. No supporting documentation.

**DAI RESPONSE:** DAI has obtained documentation which is available for review. The amount paid to the employee was reasonable and properly included in his wages for 1990.

14. Overtime & Business Meals (p. 56) **$252** Reimbursement to the New Business Director for entertaining a member from Nippon Konei, a non AID grantor.

**DAI RESPONSE:** All of the supporting documentation indicates that the expenses was properly included under business meals. It appears that the M&B auditors arbitrarily assumed that this was an entertainment expense because of the hotel / restaurant.

15. Sorsogon Management (ps. 56-57) **$6,271** Costs identified as directly associated with management of the Asian Development Bank Sorsogon project number 3002 are charged to overhead. DAI's management indicated that the Sorsogon project does not allow such charges and, in addition, the project resulted in a loss of about $15,000.

**DAI RESPONSE:** The statement made by the M&B auditors indicating that DAI management informed them that the project "...does not allow such charges..." is untrue. The internal account number was set up when the Sorsogon project began as an internal means of capturing those costs associated with getting the Sorsogon project on line. The costs incurred would normally have been attributable to overhead and, therefore remained in the overhead accounts. Once the project was on line, the capturing of these costs with the separate account numbers was discontinued. The

Sorsogon project was a rare project type for us at the time and we wanted to understand the costs involved with getting it up and running. The recording of the costs separately was strictly a management tool.

16. Overseas travel costs (ps. 57-60) **$67,331** The M&B auditors are questioning the entire amount of our indirect travel expenses based on lack of documentation and reasonableness.

**DAI RESPONSE:** The auditors were resolute in their belief that our indirect travel expenses should be approved by AID officials prior to being incurred. They also claimed that purposes and products (e.g. reports) from the incurred expenses should be included as supporting documentation. We disagree with both statements. First, approval of all indirect travel expenses by an AID official would unreasonably hamper our ability to carry on our day to day business. This does not even take into account the effects that this additional administrative burden would have on AID. In short, it would be a logistical nightmare. Second, all of our indirect travel expenses are properly supported by GAAP and FAR required documentation. There is no provision in the FAR mandating that indirect travel costs be supported by a statement as to the purpose of the travel.

**RESPONSE TO SCHEDULE B-4 (p. 63), RECLASSIFICATION OF B & P COSTS**

We have reexamined our prior overhead submissions, analyzed again the CAS and FAR requirements covering B & P allocation and held discussions with the M&B auditors and our independent accountants. We know and understand the CAS and FAR requirements. We also know that our allocation system is "not traditional". It does bear mentioning however that we have used the same overhead rate structure and handling of B & P costs since our inception. The prior auditors, DCAA employees, were satisfied with our application process and its results. Our structure and application result in the same ultimate allocation



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to contracts but in a less roundabout manner. Further, CAS states in essence that if the expected benefits to be gained by following the CAS requirements are exceeded by the corresponding administrative costs of following CAS, then departure from CAS requirements are permitted. We can provide evidence that the resultant allocation of costs to contracts from following CAS remains unchanged from the current methodology.



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