

Financial Audits

**AUDIT OF  
NATHAN ASSOCIATES INC.  
U.S. Government Contracts  
February 1, 1987 to January 31, 1989**

**Report No. 0-000-94-003-N  
November 24, 1993**



**\*CONTRACTOR INFORMATION CONTAINED IN THIS  
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18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY  
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**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

November 24, 1993

MEMORANDUM FOR M/FA/OP, Frederick A. Will

FROM: *B. Howard*  
Reginald Howard, IG/A/FA

SUBJECT: Audit of Nathan Associates Inc.

The Inspector General conducted an audit of U.S. Government-financed contracts with Nathan Associates Inc. (Nathan) for the period February 1, 1987 to January 31, 1989.

Nathan provides economic and management consulting services worldwide. The company, located in Washington D.C., has served a variety of clients such as corporations, trade and professional associations, governments, and international institutions in the United States and abroad. We audited direct and indirect costs related to U.S. Government-financed contracts which totalled about \$16 million during the audit period.

The audit objectives were to determine whether (1) the Statement of Contract Expenditures fairly reported expenditures under U.S. Government contracts for the audit period, (2) the internal control structure was adequate for the contracts' purposes, and (3) Nathan complied with the terms of the contracts and applicable laws and regulations.

We concluded that Nathan's Statement of Contract Expenditures presented fairly, in all material respects, expenditures under U.S. Government-financed contracts. However, the audit disclosed non-compliance issues which resulted in questioned costs of \$342,539, consisting of \$61,225 in potentially ineligible costs and \$281,314 in unsupported costs.

Our audit of Nathan's internal control structure did not disclose any material weaknesses. Similarly, the results of our tests of compliance indicated that, with respect to items tested, Nathan complied in all material respects with applicable laws, regulations, and provisions of contracts.

The audit did, however, disclose seven areas of noncompliance not considered material (see Page 3). Due to the impact of these areas of noncompliance on questioned costs, we are recommending that M/FA/OP verify that Nathan has improved appropriate procedures and controls in these areas to help prevent questionable costs being charged in the future.

In responding to a draft copy of this report, Nathan emphasized that only a relatively low percentage-about 2 percent-of audited costs were questioned. Nathan also attached supplementary information to its response that it believes explains all but \$130,934 of the \$342,539 questioned. Nathan stated further that it had taken action to prevent a recurrence of situations where it was not in compliance with laws, regulations, or contracts, by:

- identifying required approvals and making sure they are obtained,
- obtaining supporting documentation to better establish the validity of subcontractor costs,
- filing vendor invoices and employee and consultant expense reports and timesheets, and
- training its finance and selected operating personnel to improve their knowledge of Federal and A.I.D. acquisition and other regulations.

We considered Nathan's response in preparing this final report. However, we did not attempt to further evaluate the validity of questioned costs. As stated on Page 2, we had previously worked closely with Nathan and the independent auditors to resolve costs questioned by the independent auditors. At that time, we had reviewed most of the documentation provided by Nathan in its response. Given the previous extensive dialogue on this issue, we believe that the Office of Procurement should now act to resolve the remaining questioned costs.

Nathan's comments, without lengthy supporting materials, are attached as Appendix I and are further discussed after Finding No. 1.

Recommendation No. 1: We recommend that A.I.D.'s Office of Procurement (M/FA/OP) in coordination with mission and A.I.D. representative contracting officers resolve the \$342,539 in questioned costs (\$61,225 ineligible and \$281,314 unsupported) identified in the report.

Recommendation No. 2: We recommend that A.I.D.'s Office of Procurement (M/FA/OP) adjust and finalize the indirect cost rates with Nathan Associates Inc. for the period February 1, 1987 through January 31, 1989.

Recommendation No. 3: We recommend that A.I.D.'s Office of Procurement (M/FA/OP) verify that Nathan has strengthened its accounting procedures and internal controls to ensure:

- the retention and maintenance of adequate documentation,
- adequate oversight to prevent inaccurate, ineligible and unallocable charges to Federal contracts, and
- adherence to Federal contract provisions.

These 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.

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# INTRODUCTION

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## Background

Nathan Associates Inc. (Nathan) provides economic and management consulting services worldwide. The company, located in Washington D.C., has served a variety of clients such as corporations, trade and professional associations, governments, and international institutions in the United States and over 80 countries. We audited direct and indirect costs related to U.S. Government-financed contracts which totaled about \$16 million during the audit period.

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## Audit Objectives and Scope

The audit objectives were to determine whether:

- Nathan's Statement of Contract Expenditures fairly presents contract expenditures incurred and reimbursed for the period from February 1, 1987 to January 31, 1989, in accordance with the terms of the contracts.
- Nathan's internal control structure was adequate for the contracts' purposes.
- Nathan complied with the terms of the contracts and applicable laws and regulations.

The audit work was performed in accordance with generally accepted auditing standards and the Comptroller General's Government Auditing Standards (1988 Revision) and, accordingly, included such tests of the accounting records, internal control structure and such other auditing procedures as were considered necessary in the circumstances.

Other auditors performed the audit procedures required to meet the audit objectives. An independent auditing firm performed all tests on Nathan's Statement of Contract Expenditures, internal control structure, compliance with terms of the contracts and

applicable laws and regulations, and Schedules of Indirect Rates. The independent auditing firm also provided us with a draft audit report.

We worked with Nathan to resolve costs questioned by the independent auditing firm. This consisted of reviewing additional documentation provided by Nathan to support the questioned costs. We also reviewed the workpapers of the independent accounting firm. Finally, we prepared the final audit report. The final audit report reflects adjustments made to the independent firm's draft report based on our review of the additional documentation and the independent auditing firm's workpapers.

Audit procedures performed in order to meet the audit objectives included:

#### Internal Control Structure

Studying and evaluating Nathan's internal control structure relative to U.S. Government contracts in order to assess the control risks and to determine the auditing procedures.

#### Direct Costs

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

#### Indirect Costs

Examining supporting documentation for selected indirect costs to determine the allowability of expenditures as part of the indirect cost pools.

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## **Summary of Audit**

### **Statement of Contract Expenditures**

In our opinion, the Statement of Contract Expenditures presents fairly, in all material respects, the expenditures on U.S. Government-financed contracts for the period February 1, 1987 to January 31, 1989 in compliance with applicable laws, regulations, and contractual terms. However, the audit disclosed questioned costs totaling \$342,539, consisting of \$61,225 in potentially ineligible costs and \$281,314 in costs considered unsupported.

### **Internal Control Structure**

Nathan's internal control structure was studied and evaluated relative to the contracts in order to assess the control risks and to determine auditing procedures for the purpose of expressing an opinion on Nathan's Statement of Contract Expenditures and not to provide assurance on the internal control structure taken as a whole. No matters were noted involving the internal control structure and its operations that were considered to be material weaknesses.

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

As part of the audit, tests were performed of Nathan's compliance with certain provisions of the contracts, laws, regulations, and binding policies and procedures. The tests of compliance were performed as part of obtaining reasonable assurance about whether the Statement of Contract Expenditures was free of material misstatement; the objective was not to provide an opinion on compliance with such provisions.

The compliance testing disclosed the following instances of noncompliance, which are detailed in the Schedules of Findings and Questioned Costs:

1. Certain direct costs were unsupported.
2. U.S. carriers were not used for international travel.
3. Prior approval was not obtained for the purchase of computer equipment.
4. Salaries were in excess of the maximum allowed.
5. Allowances and per diem paid exceeded established limitations.
6. Excess insurance costs were claimed.
7. Ineligible direct costs and duplicate costs were claimed.

The results of the tests of compliance indicate that with respect to the items tested, Nathan complied, in all material respects, with the provisions of the contracts, laws, regulations, and binding policies and procedures. With respect to the items not tested, the extent of noncompliance noted indicates that there is a relatively low risk that Nathan may not have complied, in all material respects, with the terms of the contracts or applicable laws and regulations.

### **Indirect Costs**

The audit disclosed that certain indirect costs were not supported by adequate documentation or were ineligible entertainment costs. These questioned costs are shown in the Schedules of Indirect Rates. The Schedules of Indirect Rates are based on Nathan's cost submissions for the two years under audit. The indirect rates claimed by Nathan have been adjusted to reflect the questioned indirect costs, but they have not been adjusted to reflect the questioned direct costs. A final computation of Nathan's indirect rates should be made by M/FA/OP after the resolution of all questioned costs by the contracting officer.

Nathan Associates Inc.  
U.S. GOVERNMENT CONTRACTS

STATEMENT OF CONTRACT EXPENDITURES

Audit Report

We have audited the accompanying Statement of Contract Expenditures of Nathan Associates Inc.'s (Nathan) U.S. Government-financed contracts for the period February 1, 1987 to January 31, 1989. The Statement of Contract Expenditures is the responsibility of Nathan's management. Our responsibility is to express an opinion on the Statement of Contract Expenditures based on our audit. As stated in the Audit Objectives and Scope section of this report, the Statement of Contract Expenditures was audited by other auditors whose draft report and workpapers were furnished to us. Our opinion is based on the work performed by the other auditors.

The audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Contract Expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement of Contract Expenditures. We believe that the work performed by the other auditors provides a reasonable basis for our opinion.

As described in the accompanying Schedules of Findings and Questioned Costs, the Statement of Contract Expenditures includes expenditures of \$342,539 considered questioned costs. A.I.D. will make a final determination as to whether the questioned costs are allowable under the terms of the contracts.

In our opinion, based on work performed by other auditors, the Statement of Contract Expenditures referred to above presents fairly, in all material respects, the expenditures on U.S. Government-financed contracts for the period February 1, 1987 to January 31, 1989 in compliance with applicable laws, regulations, and contractual terms.

Nathan Associates Inc.  
 STATEMENT OF CONTRACT EXPENDITURES  
 FOR THE PERIOD FROM FEBRUARY 1, 1987 TO JANUARY 31, 1989

A. I. D. CONTRACT #	DESCRIPTION	TOTAL INCURRED COST	INELIGIBLE COST	UNSUPPORTED COST
263-0045	Irrigation Management Service Project	\$ 576,806	\$0	\$0
DAN-4084-C-003087-00	Agriculture Policy Analysis Project	439,955	0	0
511-0571-C-00-4234-00	Bolivia Policy Reform	737	0	0
388-0037	Advisory Services to the Bangladesh Bank, Bangladesh Rural Financial Report	927,595	0	952
538-0096-C-00-5040-00	Eastern Caribbean Planning	3,249,347	28,118	33,260
DAN-1090-C-00-5124-00	Small and Micro Enterprise Support Institution Development (S&T/RD/EED)	1,611,910	0	176,631
DAN-1090-C-00-5124-00	Small and Micro Enterprise Support Institution Development (USAID)	750,085	2,064	12,652
596-0114	CABEI Project	1,286,935	40	7,693
521-0186-C-00-7071-00	Export and Investment Promotion Project	906,072	20,691	0
611-0207-C-00-7001-00	Implementation of the Zambia Agricultural Training, Planning and Institution Development II Project	2,651,059	273	28,736
AFR-0213-C-00-8001-00	Liberia: Economic Stabilization Support Project	823,870	0	0
693-0229-C-00-8010-00	TOGO Cereals Export Liberization	313,722	0	0
675-0218-C-00-8030-00	Guinea Economic Policy Reform Support Project	82,208	0	0
522-0241-C-00-8452-00	Honduras Small Business II	310,140	322	0
PDC-2206-Z-00-8191-00	Financial Sector Development	4,145	0	0
263-0132	Egypt, Rural Irrigation Improvement	<u>779</u>	<u>0</u>	<u>0</u>
	Subtotal	\$13,935,365	\$51,508	\$259,924

Nathan Associates Inc.  
 STATEMENT OF CONTRACT EXPENDITURES  
 FOR THE PERIOD FROM FEBRUARY 1, 1987 TO JANUARY 31, 1989

A. I. D. CONTRACT #	DESCRIPTION	TOTAL INCURRED COST	INELIGIBLE COST	UNSUPPORTED COST
PDC-0000-I-01-6135-00	Macro IQC - Africa Policy Reform	\$ 53,146	\$ 0	0
PDC-0000-I-02-6135-00	Dominican Republic	15,023	0	0
PDC-0000-I-03-6135-00	Mozambique	14,527	0	0
PDC-0000-I-04-6135-00	Malawi	152,286	0	0
PDC-0000-I-05-6135-00	Botswana	20,832	0	0
PDC-0000-I-06-6135-00	Outreach Eval	19,829	0	0
PDC-0000-I-07-6135-00	Senegal/Zaire APRP	148,965	0	0
PDC-0000-I-08-6135-00	Mali	20,471	0	0
PDC-0000-I-09-6135-00	Jordan	15,972	0	9,059
PDC-0000-I-10-6135-00	Jamaica & Costa Rica	83,100	0	2,591
PDC-0000-I-12-6135-00	Honduras & Dominican Republic	93,650	0	0
PDC-0000-I-15-6135-00	Guinea Comprehensive Credit Analysis	17,207	0	0
PDC-0000-I-16-6135-00	Morocco	(2)	0	0
PDC-0000-I-17-6135-00	Morocco	0	0	0
PDC-0000-I-18-6135-00	Belize	(3,037)	0	0
PDC-0000-I-19-6135-00	Pakistan food	67,711	0	0
PDC-0000-I-20-6135-00	Ghana SPSS Preparation	28,501	0	0
PDC-0000-I-21-6135-00	Zaire Maize Marketing Analysis	24,915	0	0
PDC-0000-I-22-6135-00	Tunisia	37,734	0	0
PDC-0000-I-23-6135-00	Mali	43,752	0	357
PDC-0000-I-26-6135-00	Africa Regional	19,861	0	4,275
PDC-0000-I-27-6135-00	Zaire Maize Marketing Follow-up	17,123	0	0
PDC-0000-I-28-6135-00	Central America Trade	34,137	0	396
PDC-0000-I-29-6135-00	Zambia FPRP Evaluation	98,575	8,279	0
PDC-0000-I-30-6135-00	Worldwide Biodiversity	13,332	0	0
PDC-0000-I-31-6135-00	Zaire Applied Agriculture	32,026	0	0
PDC-0000-I-32-6135-00	Agricultural Sector Strategy Advisory	10,268	0	0
	Subtotal	<u>\$1,079,904</u>	<u>\$8,279</u>	<u>\$16,678</u>

Nathan Associates Inc.

STATEMENT OF CONTRACT EXPENDITURES  
FOR THE PERIOD FROM FEBRUARY 1, 1987 TO JANUARY 31, 1989

<u>A. I. D.</u> <u>CONTRACT #</u>	<u>DESCRIPTION</u>	<u>TOTAL</u> <u>INCURRED</u> <u>COST</u>	<u>INELIGIBLE</u> <u>COST</u>	<u>UNSUPPORTED</u> <u>COST</u>
PDC-0000-I-33-6135-00	Worldwide	\$ 828	\$ 0	\$ 0
PDC-0000-I-34-6135-00	U.S.A.	16,792	0	0
PDC-0000-I-35-6135-00	burundi	88,581	0	0
PDC-0000-I-38-6135-00	Kenya MIS Evaluation	15,741	0	0
PDC-0000-I-39-6135-00	U.S.A.	10,239	0	0
PDC-0000-I-40-6135-00	Barbados	9,410	0	0
PDC-0000-I-80-6135-00	Honduras Export Promotion Evaluation	86,693	0	0
PDC-0000-I-81-6135-00	Honduras Agricultural Policy Advisory	24,754	0	689
PDC-0000-I-82-6135-00	Honduras Agricultural Policy Advisory	27,035	0	0
PDC-0000-I-83-6135-00	Honduras	182,667	60	1,246
PDC-0000-I-01-6170-00	Ecuador	39,771	147	202
PDC-0000-I-02-6170-00	U.S.A. & South America	32,038	55	438
PDC-1096-I-01-8043-00	Bolivia	12,024	82	423
PDC-1096-I-09-8043-00	Various	143,329	351	248
PDC-5315-I-01-8100-00	El Salvador	12,987	743	0
AID-0000-6135	Honduras/Ramirez	147,773	0	1,466
PDC-0250-0-00-6157-00	Cost Effectiveness Analysis, Manual	4,467	0	0
519-0177-C-00-7339-00	Fusades	34,483	0	0
PDC-0100-0-00-7038-00	Editing Assignment for USAID/PDC/WID	5,715	0	0
USAID Grant 698-0434	Mid-Term evaluation of African Development Bank	50,031	0	0
PDC-0100-0-00-8060-00	WID Agriculture Manual	19,781	0	0
519-0177-0-00-8411-00	Fedecredito, El Salvador	7,961	0	0
519-0167-C-00-8173-00	El Salvador Food Imports	70,984	0	0
Subtotal		\$1,044,084	\$1,438	\$4,712
Grand Total		\$16,059,353	\$61,225	\$281,314

Nathan Associates Inc.  
U.S. GOVERNMENT CONTRACTS

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

Audit Report

We have audited the Statement of Contract Expenditures of Nathan Associates Inc.'s (Nathan) U.S. Government-financed contracts for the period February 1, 1987 to January 31, 1989. As stated in the Audit Objectives and Scope section of this report, the Statement of Contract Expenditures was audited by other auditors whose draft report and workpapers were furnished to us. Our opinion on the Statement of Contract Expenditures was based on the work performed by the other auditors.

The audit was conducted in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that the audit be planned and performed to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement.

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

Tests of transactions and records disclosed instances of non-compliance with the above provisions. All instances of non-compliance that were found and the contracts to which they relate, are identified in the accompanying Schedules of Findings and Questioned Costs.

The results of the tests of compliance indicate that with respect to the items tested Nathan complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to the items not tested, the extent of noncompliance noted indicates that there is a relatively low risk that Nathan may not have complied, in all material respects with those provisions.

Nathan Associates Inc.  
U.S. GOVERNMENT CONTRACTS

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

SCHEDULE OF QUESTIONED COSTS

The following costs, which are described in the Schedule of Findings, were questioned because they were not adequately supported or were not in compliance with provisions of the contracts, or applicable laws and regulations:

<u>Budget</u> <u>Category</u>	<u>Finding</u> <u>Reference</u>	<u>Ineligible</u> <u>Costs</u>	<u>Unsupported</u> <u>Costs</u>	<u>Total</u>
Unsupported Costs	# 1		\$281,314	\$281,314
Non-U.S. Flag Carrier	# 2	\$ 3,836		3,836
Commodity Procurement	# 3	433		433
Excess Salaries	# 4	9,198		9,198
Excess Allowances	# 5	46,354		46,354
Excess DBA Insurance	# 6	1,181		1,181
Ineligible Direct Costs	# 7	223		223
 Total		 \$ 61,225	 \$281,314	 \$342,539
		=====	=====	=====

According to the Federal Acquisition Regulations (FAR), costs charged to a contract must meet the following general criteria:

- a) Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b) Be allocable to the project. A cost is allocable in accordance with the relative benefits received.

c) Conform to any limitations or exclusions set forth in the contracts, and applicable laws and regulations.

d) Be adequately documented.

Ineligible costs are all those costs unallowable and/or unallocable in accordance with the terms of the contracts, or applicable laws and regulations. Unsupported costs are costs not properly supported by the recipient.

SCHEDULE OF FINDINGS

Finding No. 1: Costs Were Not Properly Supported

**Condition:** Nathan was unable to provide supporting documentation for the following costs:

<u>NAI</u> <u>PROJECT #</u>	<u>A.I.D.</u> <u>CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
	PDC-0000-I-00-6135		
0766-009	Work Order # 09	Salaries & other direct costs	\$ 9,059
0766-010	Work Order # 10	Salaries & other direct costs	2,591
0766-023	Work Order # 23	DBA insurance costs	357
0766-026	Work Order # 26	Salaries & wages	4,275
0766-028	Work Order # 28	DBA insurance costs	396
0766-081	Work Order # 81	Other direct costs	497
0766-081	Work Order # 81	Salaries & wages	192
0766-083	Work Order # 83	Other direct costs	76
0766-083	Work Order # 83	Salaries & wages	1,170
0619	538-0096-C-00-5040	Subcontractor costs	33,100
0619	538-0096-C-00-5040	Travel & other direct costs	160
0637	DAN-1090-C-00-5124	Subcontractor costs	176,631
0676	DAN-1090-C-00-5124	Subcontractor costs	12,000
0637	DAN-1090-C-00-5124	Travel & other direct costs	652
0842	611-0207-C-00-7001	Commodity procurement	7,000
0842	611-0207-C-00-7001	Commodity procurement	21,736
0532	388-0037	Shipping costs	952
0769	596-0114	Subcontractor costs	7,693
	PDC-0000-I-00-6170		
0773-001	Work Order # 1	Other direct costs	202
0773-002	Work Order # 2	Other direct costs	438
	PDC-1096-I-00-8043		
0907-001	Work Order # 1	Other direct costs	423
0907-009	Work Order # 9	Other direct costs	248
0864	AID-0000-6135	Other direct costs	102
0864	AID-0000-6135	Salaries & wages	<u>1,364</u>
	Total		\$281,314 =====

Finding No. 1: Costs Were Not Properly Supported (Continued)

**Criteria:** FAR 31.201-6(e) requires that, "The detail and depth of records required as backup support for proposals, billings, or claims shall be that which is adequate..."

**Effect:** Nathan billed A.I.D. for unsupported costs totaling \$281,314.

**Recommendation:**

We recommend that Nathan establish and implement internal control procedures to ensure that supporting documentation for all costs incurred under A.I.D. contracts are retained and maintained in an orderly manner.

**Management Response and Our Evaluation:**

Nathan provided supporting documentation under four Appendices: A, B, C, and D (see Appendix I to this report) that it said supported \$221,763 of the \$281,314 cited above as unsupported. Nathan's position is as follows, broken out by the four Appendices cited in the response:

Appendix A: Nathan provided various documentation that it stated justified spending more than amounts authorized by standardized regulations for housing, utilities, and guard services for contract personnel in the Caribbean. According to Nathan, the additional justification means that the \$46,282 in question is now adequately supported.

Appendix B: Nathan provided documentation that it believed supported \$157,629 in subcontract costs charged by Harvard University. The documentation consisted of a copy of a listing identified as provided by Harvard University. Detailed expenses as identified on the listing were further supported by detailed timesheets, invoices, etc.

Appendix C: Nathan stated that it never received reimbursement for \$7,693 reflected as unsupported in Finding No. 1. According to Nathan, the amount in question concerned an invoice destroyed in a plane crash. As Nathan stated it had never been paid the \$7,693, it

believes that it should not now have to provide support for the unreimbursed expenses.

Appendix D: Nathan stated that it had found a cancelled check together with supporting documentation for a disbursement totalling \$10,159 that was shown as unsupported in Finding No. 1.

We reviewed the documentation provided by Nathan in preparing this final report. We had previously reviewed much of the same information and had extensive dialogue with Nathan's staff concerning most of the supplementary information provided. Therefore, we did not further evaluate the documentation that Nathan attached to its response to explain the validity of questioned costs.

Finding No. 2: Non-compliance with U.S. Flag Carrier Provisions

**Condition:** Nathan did not submit justification to A.I.D. for using a non-U.S. air carrier for travel in one instance and using a non-U.S. air carrier to ship goods in two instances. These items are:

<u>NAI</u> <u>PROJECT #</u>	<u>A.I.D.</u> <u>CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
0676	DAN-1090-C-00-5124	Travel using a non-U.S. air carrier	\$2,007
0842	611-0207-C-00-7001	Shipped goods on non-U.S. air carrier	273
0820	521-0186-C-00-7071	Shipped goods on non-U.S. air carrier	<u>1,556</u>
		Total	<u>\$3,836</u>

**Criteria:** A.I.D. Handbook 22, Chapter 9, 134.2-3 paragraph A, 135.5, and 167, require use of U.S. carriers unless non-use is properly justified.

**Effect:** Nathan did not comply with A.I.D. requirements regarding travel and shipping and billed A.I.D. for ineligible costs of \$3,836.

**Recommendation:** We recommend that Nathan establish procedures to document compliance with U.S. carrier provisions.

Finding No 3: No A.I.D. Approval for Commodity Procurement

**Condition:** Nathan was unable to provide the approval from A.I.D. to support the procurement of commodities for the following project:

<u>NAI</u> <u>PROJECT #</u>	<u>A.I.D.</u> <u>CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
06192	538-0096-C-00-5040	No A.I.D. approval for procurement of computer system	<u>\$433</u>
		Total	<u>\$433</u>

**Criteria:** The contract required approval by the A.I.D. contracting officer for all computer equipment and software procurement.

**Effect:** Nathan billed A.I.D. for ineligible commodity costs of \$433.

**Recommendation:** We recommend that Nathan implement internal control policies and procedures to ensure compliance with the terms of the contracts.

Finding No. 4: Salaries & Wages in Excess of Limitations Billed to A.I.D.

**Condition:** Nathan billed A.I.D. for the following salaries and wages which exceeded contract limitations:

<u>NAI</u> <u>PROJECT #</u>	<u>A.I.D.</u> <u>CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
0766-029	PDC-0000-I-00-613 Work Order # 29	Salaries & wages incurred after expiration of contract	\$8,279
907-001	PDC-1096-I-00-8043 Work Order # 1	Invoiced daily salary exceeded rate specified in A.I.D. agreement	82
907-009	Work Order # 9	Invoiced daily salary exceeded rate specified in A.I.D. agreement	279
939-0012	PDC-5315-I-00-8100 Work Order # 1	Invoiced salaries using a multiplier higher than the multiplier specified in the A.I.D. contract	<u>558</u>
		Total	<u>\$9,198</u>

**Criteria:** AIDAR 752.7007 (b) requires the contractor to obtain approval from the contracting officer for salaries which exceed the daily rate for the FS-1 level.

**Effect:** Nathan billed A.I.D. for ineligible salaries and wages of \$9,198.

**Recommendation:** We recommend that Nathan establish and implement internal control procedures to ensure compliance with A.I.D. contract requirements.

Finding No. 5: Allowances and Per Diem Paid in Excess of Limitations

**Condition:** Nathan billed A.I.D. for allowances and per diem that exceeded Standardized Regulations as follows:

<u>NAI PROJECT #</u>	<u>A.I.D. CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
0820	521-0186-C-00-7071	Allowances paid exceeded limits per the Standardized Regulations	\$18,819
0619	538-0096-C-00-5040	Same as above	27,463
0907-009	PDC-1096-I-00-8043 (Work Order # 9)	Per diem paid exceeded limits per the Standardized Regulations	<u>72</u>
		Total	<u>\$46,354</u>

**Criteria:** AIDAR 752.7002 and 752.7028 required Nathan to comply with the limitations specified in the Standardized Regulations (Government, civilians, foreign areas).

**Effect:** Nathan billed A.I.D. for ineligible allowance and per diem costs of \$46,354.

**Recommendation:** We recommend that Nathan establish and implement internal control procedures to ensure that all costs incurred and invoiced to A.I.D. are in compliance with the terms of the contracts and applicable regulations.

Finding No. 6: Excess DBA Insurance Costs Billed to A.I.D.

**Condition:** Nathan billed A.I.D. for the following ineligible DBA insurance costs:

<u>NAI PROJECT #</u>	<u>A.I.D. CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
0820	521-0186-C-00-7071	Invoiced rate was higher than the rate approved by Nathan's insurance company	\$ 316
0949	522-0241-C-00-8452	Same as above	322
0676	DAN-1090-C-00-5124	Same as above	57
0619	538-0096-C-00-5040	Same as above	222
0939-001	PDC-5315-I-00-8100 (Work Order # 1)	Same as above	117
0773-001	PDC-0000-I-00-6170 (Work Order # 1)	Same as above	<u>147</u>
		Total	<u>\$1,181</u>

**Criteria:** FAR 31.201-2 states that reasonableness is one criteria for determining the allowability of a cost, and defines a reasonable cost as one which in its nature and amount, does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

**Effect:** Nathan billed A.I.D. for ineligible DBA insurance costs of \$1,181.

**Recommendation:** We recommend that Nathan establish and implement internal control procedures to ensure compliance with A.I.D. contracts and applicable regulations.

Finding No. 7: Ineligible Other Direct Costs Billed to A.I.D.

**Condition:** Nathan billed A.I.D. for the following ineligible costs:

<u>NAI</u> <u>PROJECT #</u>	<u>A.I.D.</u> <u>CONTRACT #</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
0773-002	PDC-0000-I-00-6170 (Work Order #2)	Nathan invoiced A.I.D. for expenses of another work order	\$ 55
0939-001	PDC-5315-I-00-8100 (Work Order #1)	Same as above	48
"	"	Duplicate invoiced cost	20
0766-083	PDC-0000-I-00-6135 (Work Order #83)	Entertainment expense	60
0769	596-0114	Entertainment expense	<u>40</u>
		Total	<u>\$223</u>

**Criteria:** FAR 31.201-4 states that to be allowable a cost must be incurred specifically for a contract.

Duplicate costs do not meet the reasonableness definition at FAR 31.201-2.

FAR 31.205-14 prohibits entertainment costs.

**Effect:** Nathan billed A.I.D. for ineligible other direct costs of \$223.

**Recommendation:** We recommend that Nathan establish and implement internal control procedures to ensure compliance that all costs incurred and invoiced to A.I.D. are properly allocated to the contract benefitted.

Nathan Associates Inc.  
U.S. GOVERNMENT CONTRACTS

INTERNAL CONTROLS

Audit Report

We have audited the Statement of Contract Expenditures of Nathan Associates Inc.'s (Nathan ) U.S. Government-financed contracts for the period February 1, 1987 to January 31, 1989. As stated in the Audit Objectives and Scope section of this report, the Statement of Contract Expenditures was audited by other auditors whose draft report and workpapers were furnished to us. Our opinion on the Statement of Contract Expenditures was based on the work performed by the other auditors.

The audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that the audit be planned and performed to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement.

In planning and performing the audit of Nathan, its internal control structure was considered to determine auditing procedures for the purpose of expressing an opinion on the Statement of Contract Expenditures and not to provide assurance on the internal control structure.

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

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

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

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

Nathan Associates Inc.  
U.S. GOVERNMENT CONTRACTS

SCHEDULES OF INDIRECT RATES

Audit Report

We have audited the accompanying Schedules of Indirect Rates of Nathan Associates Inc. (Nathan) for the period February 1, 1987 to January 31, 1989, in connection with Nathan's various U.S. Government-financed contracts. These Schedules are the responsibility of Nathan's management. Our responsibility is to express an opinion on the Schedules based on our audit. As stated in the Audit Objectives and Scope section of this report, the Schedules of Indirect Rates were audited by other auditors whose draft report and workpapers were furnished to us. Our opinion is based on the work performed by the other auditors.

The audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that the audit be planned and performed to obtain reasonable assurance about whether the Schedules of Indirect Rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Indirect 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 Schedules of Indirect Rates. We believe that the work performed by the other auditors provides a reasonable basis for our opinion.

As described in the accompanying schedules, the indirect rate calculation for the years ended January 31, 1988 and January 31, 1989 included costs which were not supported by adequate documentation or were ineligible entertainment costs. These costs should have been excluded from the indirect rate computations.

In our opinion, based on the work performed by other auditors, the Schedules of Indirect Rates referred to above, present fairly, in all material respects, Nathan's indirect rates for the period February 1, 1987 to January 31, 1989, in accordance with the terms of the contracts referred to above.

Nathan Associates Inc.  
 Schedule of Indirect Rates  
 Fiscal Year 1988

<u>Description</u>	<u>Domestic</u>	<u>Questioned Domestic</u>	<u>International</u>	<u>Questioned International</u>	<u>G &amp; A</u>	<u>Questioned G &amp; A</u>
<b>Indirect Bases</b>						
Direct Labor and Fringe Benefits	\$1,135,383		\$2,392,372		\$3,383,657	
Direct Contract Expenses	0		0		4,390,129	
Unallowable Expenses	0		0		6,328	
Indirect Expenses					<u>760,212</u>	
Total Bases	<u>\$1,135,383</u>	<u>0</u>	<u>\$2,392,372</u>	<u>0</u>	<u>\$8,540,326</u>	<u>0</u>
<b>Indirect Salaries</b>						
Professional Salaries, Gen	\$ 4,654		\$ 84,499		\$ 104,969	
Professional Salaries, NBA	0		0		330,949	
Professional Salaries, B & P	0		0		77,163	
Secretarial Salaries, Gen	52,269		57,822		18,972	
Secretarial Salaries, NBA	0		0		11,910	
Secretarial Salaries, B & P	0		0		10,683	
Administrative Salaries, Gen	18,253		25,568		91,357	109
Administrative Salaries, NBA	0		0		12,114	
Administrative Salaries, B & P	0		0		12,015	
Finance Salaries, Gen	115		1,062		109,538	585
Finance Salaries, B & P	0		0		6,932	
Incentives	9,000		9,750		12,011	
Temporary Personnel	<u>2,816</u>		<u>11,722</u>		<u>76,422</u>	
Total Indirect Salaries	87,107	0	190,423	0	875,035	694
<b>Fringe Benefits</b>						
Holiday	0		0		89,741	
Vacation	0		0		145,639	
Sick Leave	0		0		63,207	
Employee Insurance	0		0		243,165	
Workman's Compensation	0		0		13,696	
Payroll Taxes	0		0		248,913	
Tuition	0		0		2,427	
Fringe Distribution	230,358		375,934		(586,638)	

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1988

<u>Description</u>	<u>Domestic</u>	<u>Questioned Domestic</u>	<u>International</u>	<u>Questioned International</u>	<u>G &amp; A</u>	<u>Questioned G &amp; A</u>
Reclass Direct Fringe	\$(206,987)	—	\$(327,045)	—	\$ 0	—
Total Indirect Fringe Benefits	23,371	0	48,889	0	220,150	0
<b>Supplies</b>						
Office Supplies	719	—	291	—	58,332	—
Postage and Freight	3,560	—	5,938	—	25,905	—
Books & Subscriptions	14,190	—	4,212	—	16,569	—
Membership & Dues	3,163	—	1,471	—	3,008	—
Office Furniture & Equipment	0	—	0	—	372	—
Total Supplies	21,632	0	11,912	0	104,186	0
<b>Outside Services</b>						
Telephone Basic Charges	0	—	0	—	48,706	—
Telephone long Distance - Gen	4,471	—	3,671	—	7,855	—
Telephone Long Distance - NBA	0	—	0	—	15,937	—
Telephone Long Distance - B & P	0	—	0	—	7,160	—
Consultants - NBA	0	—	0	—	197,086	—
Consultants - B & P	0	—	0	—	9,522	—
Consultants - Gen	4,066	—	8,916	—	15,415	—
Legal & Professional Fees	150	—	135	—	122,858	—
Duplication & Printing - Gen	17,143	—	6,498	—	24,707	—
Duplication & Printing - B & P	0	—	0	—	36,939	—
Employee Morale	0	—	0	—	12,185	—
Total Outside Services	25,830	0	19,220	0	498,370	0
<b>Travel/Meetings</b>						
Travel- Gen	8,162	—	11,258	—	7,083	—
Travel - NBA	0	—	0	—	65,194	—
Travel - B & P	0	—	0	—	16,141	—
Meetings - Gen	1,934	—	(3,736)	—	6,029	1,500
Meetings - NBA	0	—	0	—	27,451	—
Meetings - B & P	0	—	0	—	934	—

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1988

<u>Description</u>	<u>Domestic</u>	<u>Questioned Domestic</u>	<u>International</u>	<u>Questioned International</u>	<u>G &amp; A</u>	<u>Questioned G &amp; A</u>
Local Transportation	\$ 284		\$ 1,021		\$ 2,570	
Relocation	0		7,253		6,827	
Recruiting	<u>2,184</u>		<u>965</u>		<u>1,992</u>	
Total Travel/Meetings	12,564	0	16,761	0	134,221	1,500
 <b>Equipment</b>						
Leased Office Equipment	0		0		28,253	
Computer Services	39		1,269		25,217	
Maintenance & Repair	0		0		32,800	
Automobiles	0		0		31,071	
Depreciation	0		0		70,296	
Taxes & Insurance	0		0		10,881	
Mini-Computer Revenue	0		0		(189,294)	
HP-87 Revenue	0		0		(52,861)	
Client Discounts	0		0		46,879	
Xerox Revenue	0		0		(154,781)	
Equipment Distribution	<u>7,454</u>		<u>8,247</u>		<u>(15,701)</u>	
Total Equipment	7,493	0	9,516	0	(167,240)	0
 <b>Building</b>						
Leased Building	0		0		410,171	
Maintenance	0		0		5,168	
Rearrangement	0		0		0	
Amortization	0		0		10,514	
Taxes & Insurance	0		0		0	
Occupancy Distribution	<u>168,467</u>		<u>112,894</u>		<u>(281,361)</u>	
Total Building	168,467	0	112,894	0	144,492	0

Nathan Associates Inc.

Schedule of Indirect Rates  
Fiscal Year 1988

<u>Description</u>	<u>Domestic</u>	<u>Questioned Domestic</u>	<u>International</u>	<u>Questioned International</u>	<u>G &amp; A</u>	<u>Questioned G &amp; A</u>
<b>Taxes, Insurance, Other</b>						
Sales & Use Tax	\$ 0		\$ 0		\$ 2,609	
Insurance - General	0		4,586		14,072	
State Income/Franchise Tax	0		0		12,200	
Miscellaneous	(690)		238		(2,148)	
Total Taxes, Insurance, Other	<u>(690)</u>	<u>0</u>	<u>4,824</u>	<u>0</u>	<u>26,733</u>	<u>0</u>
Total Operating Expenses	<u>\$345,774</u>	<u>0</u>	<u>\$414,439</u>	<u>0</u>	<u>\$1,835,947</u>	<u>2,194</u>
<b>Allocation of Overhead to:</b>						
<b>B &amp; P Labor &amp; Fringe</b>						
Domestic	0		0		7,116	
International	0		0		20,893	
	<u>\$345,774</u>	<u>0</u>	<u>\$414,439</u>	<u>0</u>	<u>\$1,863,956</u>	<u>2,194</u>
Indirect Rates Claimed by Nathan & Associates	30.45%		17.32%		21.83%	
Indirect Rates Per Audit After Adjusting for the Questioned Indirect Costs	30.45%		17.32%		21.80%	

Nathan Associates Inc.  
 Schedule of Indirect Rates  
 Fiscal Year 1988

<u>Description</u>	<u>Domestic</u>	<u>Questioned</u> <u>Domestic</u>	<u>International</u>	<u>Questioned</u> <u>International</u>
<b>Fringe Distribution</b>				
Direct Labor				
Class A	\$719,599		\$542,385	
Class B	0		993,782	
Class C	16,828		364,524	
Class D	0		0	
Short-Term Specialist	<u>168,637</u>	<u>          </u>	<u>43,870</u>	<u>          </u>
Total Direct Labor	<u>905,064</u>	<u>0</u>	<u>1,944,561</u>	<u>0</u>
Fringe Benefits - Direct Labor				
Class A	205,746		155,077	
Class B	0		145,077	
Class C	<u>1,241</u>	<u>          </u>	<u>26,891</u>	<u>          </u>
Total Direct Labor	<u>206,987</u>	<u>0</u>	<u>327,045</u>	<u>0</u>
Indirect Rates	22.87%		16.82%	

Note 1: In the review of the Schedules of Indirect Rates, we noted the following unallowable expenditures in addition to the questioned costs noted in the Schedule of Questioned Costs (page 10).

- A. Time sheets were not available to support 14.5 hours of employees time (hourly rate \$7.25). Total unallowable cost \$109.
- B. Time sheets were not available to support 14.5 hours of employees time (hourly rate \$7.25). Total unallowable cost \$585.
- C. Expenses were incurred for a reception and dinner that was held at John Beyer's home. Total unallowable costs \$1,500.

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1989

<u>Description</u>	<u>Domestic</u>	<u>Questioned</u> <u>Domestic</u>	<u>International</u>	<u>Questioned</u> <u>International</u>	<u>G &amp; A</u>	<u>Questioned</u> <u>G &amp; A</u>
<b>Indirect Bases</b>						
Direct Labor and Fringe Benefits	\$1,172,238		\$3,045,051		\$3,897,047	
Direct Contract Expenses	0		0		5,406,128	
Indirect Expenses	<u>0</u>		<u>0</u>		<u>1,477,996</u>	
Total Bases	<u>\$1,172,238</u>	<u>0</u>	<u>\$3,045,051</u>	<u>0</u>	<u>\$10,781,171</u>	<u>0</u>
<b>Indirect Salaries</b>						
Professional Salaries, Gen	\$ 90,412		\$ 132,332		\$ 163,053	
Professional Salaries, NBA	0		0		411,150	
Professional Salaries, B & P	0		0		188,967	
Secretarial Salaries, Gen	56,773		90,346		57,629	
Secretarial Salaries, NBA	0		0		17,017	
Secretarial Salaries, B & P	0		0		14,413	
Administrative Salaries, Gen	18,917		28,227		135,641	
Administrative Salaries, NBA	0		0		16,452	
Administrative Salaries, B & P	0		0		29,454	
Finance Salaries, Gen	56		0		150,310	
Finance Salaries, B & P	0		0		9,368	
Incentives	83,199		138,407		72,252	
Temporary Personnel	<u>3,406</u>		<u>16,522</u>		<u>79,021</u>	
Total Indirect Salaries	<u>252,763</u>	<u>0</u>	<u>405,834</u>	<u>0</u>	<u>1,344,727</u>	<u>0</u>
<b>Fringe Benefits</b>						
Holiday	0		0		141,513	
Vacation	0		0		237,056	
Sick Leave	0		0		83,377	
Employee Insurance	0		0		340,569	
Workman's Compensation	0		0		13,661	
Payroll Taxes	0		0		325,036	
Tuition	0		0		8,519	
Fringe Distribution	301,904		498,008		(799,912)	

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1989

<u>Description</u>	<u>Domestic</u>	<u>Questioned Domestic</u>	<u>International</u>	<u>Questioned International</u>	<u>G &amp; A</u>	<u>Questioned G &amp; A</u>
Reclass Direct Fringe	<u>\$(251,955)</u>	<u>0</u>	<u>\$(428,975)</u>	<u>0</u>	<u>\$ 0</u>	<u>0</u>
Total Indirect Fringe Benefits	49,949	0	69,033	0	349,819	0
<b>Supplies</b>						
Office Supplies	596		1,797		116,225	
Postage and Freight	1,311		12,982		48,113	
Books & Subscriptions	10,966		4,851		24,389	
Membership & Dues	1,271		1,547		6,606	
Office Furniture & Equipment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,386</u>	<u>0</u>
Total Supplies	14,144	0	21,177	0	222,719	0
<b>Outside Services</b>						
Telephone Basic Charges	2,762		0		86,425	
Telephone Long Distance - Gen	0		2,836		9,143	
Telephone Long Distance - NBA	0		0		20,864	
Telephone Long Distance - B & P	0		0		12,258	
Consultants - NBA	0		0		140,583	
Consultants - B & P	0		0		31,222	
Consultants - Gen	3,744		7,523		27,981	
Legal & Professional Fees	5,290		14,660		217,668	
Duplication & Printing - Gen	13,258		14,993		33,647	
Duplication & Printing - B & P	0		0		85,499	10,159
Employee Morale	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,587</u>	<u>0</u>
Total Outside Services	25,054	0	40,012	0	692,877	10,159
<b>Travel/Meetings</b>						
Travel- Gen	20,586		63,918	2,190	12,323	
Travel - NBA	0		0		70,852	
Travel - B & P	177		0		40,628	2,977
Meetings - Gen	2,145		2,346		15,771	2,441
Meetings - NBA	0		(96)		40,389	

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1989

<u>Description</u>	<u>Domestic</u>	<u>Questioned Domestic</u>	<u>International</u>	<u>Questioned International</u>	<u>G &amp; A</u>	<u>Questioned G &amp; A</u>
Meetings - B & P	\$ 0		\$ 0		\$ 6,534	
Local Transportation	211		1,884		7,698	
Relocation	0		3,850		632	
Recruiting	<u>53</u>		<u>1,516</u>		<u>5,637</u>	
Total Travel/Meetings	23,172	<u>0</u>	73,418	<u>2,190</u>	200,464	<u>5,418</u>
<b>Equipment</b>						
Leased Office Equipment	0		0		34,158	
Computer Services	14,047		34,481		267,325	
Maintenance & Repair	0		0		39,051	
Automobiles	0		0		32,704	
Depreciation	0		0		97,017	
Taxes & Insurance	0		0		0	
Mini-Computer Revenue	0		0		(18,241)	
HP-87 Revenue	0		0		(250,677)	
Client Discounts	0		0		17	
Xerox Revenue	0		0		(186,286)	
Equipment Distribution	<u>0</u>		<u>0</u>		<u>0</u>	
Total Equipment	14,047	<u>0</u>	34,481	<u>0</u>	15,068	<u>0</u>
<b>Building</b>						
Leased Building	0		0		509,422	
Maintenance	0		0		25,957	
Rearrangement	0		0		0	
Amortization	0		0		24,357	
Taxes & Insurance	0		0		14,246	
Occupancy Distribution	<u>195,383</u>		<u>259,268</u>		<u>(454,651)</u>	
Total Building	195,383	<u>0</u>	259,268	<u>0</u>	119,331	<u>0</u>

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1989

<u>Description</u>	<u>Domestic</u>	Questioned <u>Domestic</u>	<u>International</u>	Questioned <u>International</u>	<u>G &amp; A</u>	Questioned <u>G &amp; A</u>
<b>Taxes, Insurance, Other</b>						
Sales & Use Tax	\$ 0		\$ 0		\$ 16,130	
Insurance - General	0		0		52,319	
State Income/Franchise Tax	0		0		1,604	
Miscellaneous	<u>0</u>		<u>65</u>		<u>7,513</u>	
Total Taxes, Insurance, Other	0	<u>0</u>	<u>65</u>	<u>0</u>	<u>77,566</u>	<u>0</u>
 Total Operating Expenses	 <u>574,512</u>	 <u>0</u>	 <u>903,288</u>	 <u>2,190</u>	 <u>3,022,571</u>	 <u>15,577</u>
 Allocation of Overhead to:						
B & P Labor & Fringe						
Domestic	0		0		5,453	
International	<u>0</u>		<u>0</u>		<u>91,807</u>	
	<u>\$574,512</u>	<u>0</u>	<u>\$903,288</u>	<u>2,190</u>	<u>\$3,119,831</u>	<u>15,577</u>
 Indirect Rates Claimed by Nathan & Associates						
	49.01%		29.66%		28.94%	
 Indirect Rates Per Audit After Adjusting for the Questioned Indirect Costs						
	49.01%		29.59%		28.79%	

Nathan Associates Inc.  
Schedule of Indirect Rates  
Fiscal Year 1989

<u>Description</u>	<u>Domestic</u>	<u>Questioned</u>	<u>International</u>	<u>Questioned</u>	<u>International</u>
<b>Fringe Distribution</b>					
Direct Labor					
Class A	\$824,704		\$ 738,159		
Class B	0		1,205,400		
Class C	8,655		352,967		
Class D	0		6,840		
Short-Term Specialist	<u>75,798</u>		<u>3,594</u>		
Total Direct Labor	<u>909,157</u>	<u>0</u>	<u>2,306,960</u>		<u>0</u>
<b>Fringe Benefits - Direct Labor</b>					
Class A	251,360		224,982		
Class B	0		179,729		
Class C	<u>595</u>		<u>24,264</u>		
Total Direct Labor	<u>251,955</u>	<u>0</u>	<u>428,975</u>		<u>0</u>
 Indirect Rates	 27.71%		 18.59%		

Note 1: In the review of the Schedules of Indirect Rates, we noted the following unallowable expenditures in addition to the questioned costs noted in the Schedule of Questioned Costs (page 10).

- A. Nathan was unable to provide canceled checks and supporting documentation for \$2,190.00 of office supply costs.
- B. Nathan was unable to provide canceled checks and supporting documentation for \$10,159.00 of graphics costs.
- C. Nathan was unable to provide canceled checks and supporting documentation for \$2,977.00 of travel costs.
- D. Expenses were incurred for a reception and dinner that was held at John Beyer's home. Total unallowable costs \$2,441.00

**NATHAN ASSOCIATES INC.**  
ECONOMIC AND MANAGEMENT CONSULTANTS

October 29, 1993

Mr. Reginald Howard  
Director, Financial Audits  
Office of the Inspector General  
320 Twenty-First Street, N.W.  
Washington, D.C. 20523

NOV 1 1 13 PM '93

Dear Mr. Howard:

Submitted herewith are Nathan Associates Inc. comments on the Draft Report on Audit of Government Contracts for the period February 1, 1987 to January 31, 1989. I am also enclosing the Representation Letter per your request.

The Audit Report questioned costs contained in the Statement of Contract Expenditures totalling \$342,539 in potentially ineligible costs and unsupported costs. This data is summarized below:

	<u>Total Costs</u> <u>Incurred and Audited</u>	<u>Costs Considered</u> <u>Ineligible</u>	<u>Costs Considered</u> <u>Unsupported</u>
66 contracts audited	\$16,059,353	\$61,225	\$281,314
Percent of incurred questioned		.4%	1.7%

As the above indicates 2.1 percent of the incurred costs were found to be ineligible or unsupported during the course of the audit and subsequent follow-up. Since the Draft Audit Report was published we have located information in our files that decreases ineligible costs by \$46,282. See Appendix A attached. Also, we have identified supporting information in the amount of \$157,629 relating to subcontractor costs and \$7,694 in costs that are in error. See Appendix B and C, respectively. Assuming your office agrees with the additional information attached, the revised figures are as follows:

	<u>Total Costs</u> <u>Incurred and Audited</u>	<u>Costs Considered</u> <u>Ineligible</u>	<u>Costs Considered</u> <u>Unsupported</u>
66 contracts audited	\$16,059,353	\$14,943	\$115,991
Percent of incurred questioned		.1%	.7%

The revised costs considered to be ineligible or unsupported amount to less than 1 percent of total costs incurred and audited. In this regard Nathan Associates' has taken action to prevent a recurrence in future audits. Actions underway are:

1. A central file has been established for each contract which collects all required approval information called for in the contract thereby insuring that necessary approvals and other information is readily available.

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**NATHAN ASSOCIATES INC.**  
ECONOMIC AND MANAGEMENT CONSULTANTS

Page 2. Letter to Mr. Reginald Howard dated October 29, 1993

2. Supporting documentation is now required for all subcontractors including Universities before our voucher is presented to the Government for payment. We had been operating under the assumption, based on prior DCAA audits, that subcontractors, especially Universities were audited independently. See my initial comments of March 5, 1993 re the CPA's Draft Audit Report, Attachment 1.
3. Vendor invoices, employee and consultant expense reports and timesheets are being filed in a more logical fashion thereby insuring ready retrieval even after several years have lapsed, i.e. 1987 and 1988 activity being retrieved in 1992.
4. Finance and selected operating personnel are attending classes to better familiarize them with FAR and AID regulations governing allowable costs and other relevant contracting procedures.

We believe with the added emphasis on proper record retention, subcontractor documentation requirements and continued education of employees, many of the items cited in the current audit report will not be repeated.

The Compliance with the Terms of the Contracts and Applicable Laws and Regulations section of the Draft Audit Report further categorizes the unsupported and ineligible costs noted above in the Statement of Contract Expenditures into seven different findings. A summary of those findings together with our comments and corrective actions follows:

Finding No. 1:	Unsupported Costs			
	<u>Unsupported Costs</u>	<u>Support Attached</u>	<u>Outstanding</u>	<u>% of total</u>
Subcontractor costs	\$229,424	\$(165,323)	\$ 64,101	55.3%
Joint Venture costs	\$ 17,095		\$ 17,095	14.7
Procurements	\$ 28,736		\$ 28,736	24.8
Other	\$ 6,059		\$ 6,059	5.2
Total	\$281,314	\$(165,323)	\$115,991	100.0%

Subcontractor and joint venture costs that are shown as unsupported are a function of Nathan's practice of dealing with these types of arrangements and were guided by past DCAA audits. Corrective action 2., above, will preclude this from happening in the future. Continued efforts are underway to clear the remaining outstanding items. Procurements are a function of locating the necessary approvals in our files. Corrective action 1., above, will alleviate this situation in the future. Other will be corrected by way of corrective action 3., above.

Finding No. 2:	U.S. carriers were not used for international travel		
	<u>Non-compliance</u>	<u>Support Attached</u>	<u>Outstanding</u>
U.S. flag carriers	\$ 3,836		\$ 3,836

The statement of contract expenditures includes more than 1.5 million dollars in travel, transportation and shipping costs during the audit period, the bulk of which is international in nature. Appropriate certifications were not located for the amount indicated above. Corrective action 1., above, will preclude recurrences of this nature.

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**NATHAN ASSOCIATES INC.**  
ECONOMIC AND MANAGEMENT CONSULTANTS

Page 3. Letter to Mr. Reginald Howard dated October 29, 1993

<b>Finding No. 3:</b>	<b>No A.I.D. approval for commodity procurement</b>		
	<u>Non-compliance</u>	<u>Support Attached</u>	<u>Outstanding</u>
Procurements	\$ 433		\$ 433

Corrective action 1., above, will prevent recurrences of this type.

<b>Finding No. 4:</b>	<b>Salaries and wages in excess of limitations billed to A.I.D.</b>		
	<u>Non-compliance</u>	<u>Support Attached</u>	<u>Outstanding</u>
Salaries in excess of limitations	\$ 9,198		\$ 9,198

Of this amount, \$8,279 was invoiced following the estimated completion date of the contract because of delays in receiving comments to our draft final report and delays in completing the final report. We neglected to obtain Contracting Officer approval for a no cost extension. The remainder of the items are invoicing errors. Corrective actions 1. and 4., above, will alleviate conditions of this type in the future.

<b>Finding No. 5:</b>	<b>Allowances and per diem paid in excess of limitations</b>		
	<u>Non-compliance</u>	<u>Support Attached</u>	<u>Outstanding</u>
Allowances and per diem paid in excess of limitations	\$ 46,354	\$( 46,282)	\$ 72

Appendix A, attached, provides documentation to the effect that Nathan complied with the contract provisions in one instance and complied with Mission specific guidelines in another instance, the latter being in conflict with Standardized Regulations which is often the case with housing, education and other allowances. Corrective action 1., above, will prevent items of this nature being questioned in the future.

<b>Finding No. 6:</b>	<b>Excess DBA insurance costs billed to A.I.D.</b>		
	<u>Non-compliance</u>	<u>Support Attached</u>	<u>Outstanding</u>
Excess DBA billed	\$ 1,181		\$ 1,181

Corrective action 4., above, will prevent recurrences of this nature.

<b>Finding No. 7:</b>	<b>Ineligible other direct costs billed to A.I.D.</b>		
	<u>Non-compliance</u>	<u>Support Attached</u>	<u>Outstanding</u>
Ineligible ODC's	\$ 223		\$ 223

Corrective action 4., above, will alleviate future occurrences of this type.

We believe that the corrective actions we are or have put in place will complement Nathan Associates' already strong system of internal controls and accounting policies and procedures which was acknowledged in the Draft Audit Report..."With respect to the items not tested, the extent of noncompliance noted indicates that there is a relatively low risk that Nathan may not

**NATHAN ASSOCIATES** INC.  
ECONOMIC AND MANAGEMENT CONSULTANTS

Page 4. Letter to Mr. Reginald Howard dated October 29, 1993

have complied, in all material respects, with the terms of the contracts or applicable laws and regulations."

With respect to the Draft Audit Report dealing with indirect rates, we have located the necessary supporting documentation for \$10,159.00 of graphics costs that were questioned in the fiscal 1989 schedule of indirect rates. This information is attached as Appendix D.

In summary, we ask that the additional supporting information included in the Appendices attached be considered and acted upon and that Nathan Associates be notified as to their final disposition before the final report is submitted.

Thank you for providing Nathan Associates the opportunity to respond to the Draft Audit Report. We trust you will find the comments included herein to be fully responsive to the contents of the audit.

Sincerely,



James P. Penkusky  
Treasurer and Chief Financial Officer

Enclosures

cc: Mr. Jack Otke w/supporting details to Appendices

**APPENDIX A**

**Nathan Associates Inc.  
Supporting Information**

**Audit Finding No. 5: Allowances and Per Diem Paid in Excess of Limitations**

- 1. Contract No. 521-0186-C-00-7071** **Questioned Amount: \$ 18,819**  
The audit finding questioned housing, utilities and guard service costs associated with the above referenced contract whose place of performance was Haiti. The basis for questioning these costs was that they exceeded the amount in the Standardized Regulations. Attached are three separate Mission statements regarding amounts and types of allowances authorized. As is often the case, Mission allowances differ from the Standardized Regulations because the Mission is more attuned with local conditions. We request that this item be removed from Finding No. 5.
  
- 2. Contract No. 538-0096-C-00-5040-00** **Questioned Amount: \$ 27,463**  
The audit finding questioned housing and utility costs associated with the above referenced contract whose place of performance was Antigua, Dominica, Grenada and other Eastern Caribbean islands. The basis for questioning these costs was that they exceeded the amount in the Standardized Regulations. Attached hereto is the basic contract and amendment 5 together with the supporting information making up the budget. Attention is directed to the housing allowances forming a part of the overall contract budget which the Contracting Officer signed thereby allowing the costs. Note that in both instances the budgeted and approved amounts exceed the Standardized Regulations because of prevailing conditions in the region. Appropriate amounts have been circled for ready reference. We request that this item be removed from Finding No. 5.

**APPENDIX B**

**Nathan Associates Inc.  
Supporting Information  
Audit Finding No. 1: Costs Were Not Properly Supported**

<b>1. Contract No. DAN-1090-C-00-5124</b>	<b>Questioned Amount: \$176,631</b>
The amount questioned related to a Nathan Associates' subcontractor, Harvard University and consisted of two components; namely:	
1) Harvard voucher No.	\$ 68,947.71
11	\$ 41,539.33
12	\$ 18,608.45
13	<u>\$ 14,624.62</u>
14	<u>\$143,720.11</u>
Total Harvard costs submitted including indirect costs	<u>\$143,720.11</u>
2) CPA firm added 22.9% (Harvard's indirect rate) which is clearly a duplication of costs already included in Harvard's invoices	
	<u>\$ 32,911.88</u>
Total amount questioned and shown above	<u>\$176,631.00</u>

Harvard was unable to provide a compliance report in accordance with OMB Circular A-110 for the audit periods; however, they did provide substantial supporting documentation covering the above vouchers 11, 12, 13 and 14. This information was previously supplied to the Inspector General's office but it was not in an organized fashion and consequently, the amount questioned remained in the Draft Audit Report. Nathan has organized the basic data and, of the \$143,720.11 of costs submitted by Harvard, \$124,717.97 is supportable and is attached hereto. Wages are identified by individual by means of an Employee Salary Certification and Administrative Effort Survey form which generally specifies how their time is to be charged and a salary increase form reflecting rate of pay. This information is traceable to a distribution listing of detailed charges to the above referenced contract. Similarly, direct contract expenses are identified with receipts and/or expense reports and they, too, are traceable to the distribution listing.

Accordingly, we request that the following amounts be removed from Audit Finding No. 1:

Harvard supporting documentation covering vouchers 11, 12, 13 and 14 as per the attached summary spreadsheet:	\$124,717
CPA firm's duplication of indirect costs included in Audit Finding No. 1	<u>\$ 32,912</u>
Total	<u>\$157,629</u>

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**APPENDIX C**

**Nathan Associates Inc.  
Supporting Information  
Audit Finding No. 1: Costs Were Not Properly Supported**

**1. Contract No. 596-0114**

**Questioned Amount: \$ 7,693**

The item in question relates to a subcontractor invoice that was included in Nathan's invoice to its client in Honduras. However, the plane carrying this invoice crashed and the invoice was never delivered to the client. Consequently, the invoice was not paid in the form originally submitted. A subsequent invoice was initiated together with the subcontractor's documented cost, but the questioned subcontractor costs above are not identifiable in the revised invoice. Since Nathan was not paid for the invoice in which the questioned subcontractor costs were included, the questioned item is moot. Please remove this item from Audit Finding No. 1.

**APPENDIX D**

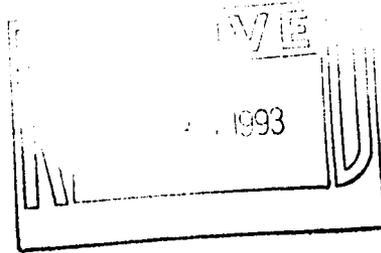
**Nathan Associates Inc.  
Supporting Information  
Schedule of Indirect Rates-FY 1989 Unsupported Costs**

- |  |                           |                 |
|--|---------------------------|-----------------|
| <b>1. FY 1989 G&amp;A Expense Pool</b> | <b>Amount Questioned:</b> | <b>\$10,159</b> |
|--|---------------------------|-----------------|
- The Audit Report states that Nathan Associates was unable to provide canceled checks and supporting documentation. This was true at the time of the audit; however, the questioned item has been located and is attached hereto. We request that this item be removed from the indirect cost section of the report.

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