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AUDIT OF
RESOURCES MANAGEMENT INTERNATIONAL, INC. - 12/1/85
OVERHEAD REIMBURSEMENT UNDER FOUR
CONTRACTS FUNDED BY USAID/INDONESIA

AUDIT REPORT NO. 2-497-85-04
August 13, 1985

001781

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. William Fuller
Director, USAID/Indonesia

FROM : Leo L. LaMotte *Leo LaMotte*
RIG/A/Manila

DATE: August 13, 1985

RIG/EA-85-216

SUBJECT: Audit Report No. 2-497-85-04
Audit Of Resources Management International, Inc. -
Overhead Reimbursement Under Four Contracts
Funded By USAID/Indonesia

Attached is your copy of our audit report on Resources Management International, Inc. The audit was made at your request to review RMI overhead proposals for calendar years 1979 through 1983 and to determine the appropriate overhead rate reimbursement for four contracts funded by USAID/Indonesia. In addition, we reviewed General and Administrative expenses and direct salaries billed under the USAID-funded contracts.

There were significant differences between overhead rates proposed and billed by the Contractor and those accepted by Audit. We are recommending that overhead rates for 1979 to 1983 be finalized at 59.0, 56.1, 66.2, 69.9 and 60.8 percent, respectively, and that subsequent provisional rates be established at 65.6 percent.

For the five-year period ending December 31, 1983, the Contractor was entitled to total overhead reimbursement of \$1,654,069, but had received \$2,380,237. We are recommending that you recover the excess \$726,168 in overpayments. The specific reasons for the overpayments are explained in the attached report.

Included in the \$726,168 in overpayments, the Contractor improperly billed the USAID overhead charges relating to a subcontract it had with the International Rice Research Institute. After the five-year overhead audit time period, another \$59,259 in overhead, social charges and fixed fees were improperly billed the USAID. We are recommending that you recover the \$59,259 in overpayments.

We provided a copy of the draft report to you and officials of AID Headquarter's Office of Contract Management. No specific comments were made. However, the Office of Contract Management concurred with the draft report's opinions, conclusions and recommendations.

USAID/Indonesia has responsibility for coordinating corrective actions on the reported recommendations. Please advise this office within 30 days of the actions taken or planned to clear the 3 recommendations made in our report.

Attachment:

Report on Resources Management International, Inc.

EXECUTIVE SUMMARY

As of December 31, 1983, Resources Management International, Inc. was performing under four cost-plus-fixed-fee contracts financed by USAID/Indonesia. Three of the contracts were awarded by the USAID and one was a Government of Indonesia host country contract. Over \$26.0 million was set aside by the USAID for these contracts, and through December 31, 1983, the Contractor received \$9.4 million for services rendered. The contracts allow provisional overhead rates for billing purposes and provide for subsequent finalization.

At USAID/Indonesia's request, we reviewed the Contractor's overhead proposals for calendar years 1979 through 1983. In addition, we reviewed General and Administrative expenses and direct salaries billed under the USAID-funded contracts.

For finalizing the 1979 overhead rate, the Contractor proposed a rate of 105.3 percent. Many of the accounting records for that year could not be located. Nevertheless, after considering disallowances for questionable items, and reallocating General and Administrative expenses consistent with the method used by us for subsequent years, we believe the acceptable overhead rate for 1979 was very close to the 59.0 percent provisional rate. Rather than reconstruct records, the Contractor requested that the 59.0 percent be used for settling 1979 overhead costs. We concur with this request.

There were significant differences between overhead rates proposed and billed by the Contractor and those accepted by Audit. For the five-year period ending December 31, 1983, the Contractor was entitled to total overhead reimbursement of \$1,654,069, but had received \$2,380,237. The excess of \$726,168 in questionable overhead cost should be refunded to AID. The reasons for the more significant overcharges are explained below:

- The Code of Federal Regulations sets forth principles governing AID-funded contracts for the allocation of General and Administrative expenses. According to these principles, the Contractor allocated a disproportionately large share to the AID contracts by using a single element allocation base (direct salaries) which is not representative of the Contractor's total business activity. This resulted in an excessive overhead rate for the Contractor's Consulting Division and to the associated AID contracts. We used "cost of sales", a total cost input base approved by the Federal Procurement Regulations. Cost of sales provides an appropriate base because it is representative of the Contractor's total business activity.
- The Contractor inappropriately raised the 1983 AID contract overhead rate by reclassifying two non-AID contracts from

its Consulting Division to its Operations Division. According to Contractor officials, the contracts were reclassified because during 1983 they were primarily supported by the Operations Division. However, the Contractor could not provide any verifiable data to support this rationale. Furthermore, our analysis of the two contracts' scope of work showed they were Consulting Division contracts.

- The Contractor inappropriately raised the AID 1983 contract overhead rate by excluding a portion (called post differential) of direct salaries paid under 9 non-AID contracts from the Consulting Division direct salary overhead base. Under the Contractor's accounting system, it was proper to exclude post differential from the direct salary base only if the differential was identified in the contracts and accounted for as such. In the four USAID-funded contracts and one other contract not AID-funded, post differential was specifically identified and consequently was properly excluded. Circumstances were different, however, for the other 9 non-AID contracts. The Contractor's accounting records did not identify or otherwise set out any part of the salaries paid under those contracts as post differential. The adjustment also was a departure from accounting procedures followed in prior years.

The Contractor subcontracted with the International Rice Research Institute under the USAID-funded Indonesian host country prime contract (Project No. 497-0302). The Institute provided two employees for a project and billed the Contractor a lump sum each month for their salaries and support costs. The Contractor submitted to the USAID for reimbursement the Institute's total subcontract charges as direct salaries and added its own overhead, social charges, and a fixed fee. However, the Contractor should not have been reimbursed for these additions, because it had not provided the services or incurred the costs. Total overcharges attributable to the Institute's subcontract amounted to \$140,989, of which \$97,362 was accounted for in our computation of total overhead questioned. The difference of \$43,627 is comprised of such costs after the five-year overhead audit time period. The Contractor also received \$15,632 too much in fixed fees due to an overstated fee base. The additional \$59,259 overcharges should also be refunded to AID.

Accordingly we are recommending that USAID/Indonesia:

- finalize contract overhead rates for 1979 through 1983 at 59.0, 56.1, 66.2, 69.9, and 60.8 percent;
- recover \$726,168 in overhead overcharges for the five-year period ending December 31, 1983;
- establish a new provisional rate of 65.6 percent for billing overhead under USAID-funded contracts, effective January 1, 1984; and

-- recover the additional \$59,259 in Contractor overpayments that resulted from unjustified add-ons to subcontract salaries and an overstated fixed fee base under the host country contract.

Mission officials made no comment on the draft report. Officials of AID Headquarter's Office of Contract Management declined to comment on the facts of the report because they lack familiarity with the Contractor's indirect cost rates. However, they concurred with the draft report's opinions, conclusions and recommendations. (See Appendices 1 and 2 for the full text of Management Comments.)

Office of the Inspector General

AUDIT OF
 RESOURCES MANAGEMENT INTERNATIONAL, INC. -
 OVERHEAD REIMBURSEMENT UNDER FOUR CONTRACTS
 FUNDED BY USAID/INDONESIA

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GLOSSARY

CFR	Code of Federal Regulations
G & A	General and Administrative Expenses
IRRI	International Rice Research Institute
RMI	Resources Management International, Inc.
USAID	The United States Agency for International Development Mission in Indonesia

AUDIT OF
RESOURCES MANAGEMENT INTERNATIONAL, INC. -
OVERHEAD REIMBURSEMENT UNDER FOUR CONTRACTS
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PART I - INTRODUCTION

A. Background

Resources Management International, Inc. (RMI) provides services, under contract, for a wide range of clients in both private and public sectors. RMI was incorporated in Delaware, but has maintained a presence in Indonesia since 1970 and conducts most of its business in Asia.

As of December 31, 1983, the Contractor was performing under four cost-plus-fixed-fee contracts financed by USAID/Indonesia. All of the other contracts in RMI's portfolio, except one, were fixed price, rather than cost reimbursable. Three of the USAID-funded contracts were awarded directly by the Mission; the other was a host country contract between the Government of Indonesia's Ministry of Agriculture and RMI. More than \$26.0 million had been set aside by the USAID for funding these contracts through December 1986. RMI had received \$9.4 million from the USAID for services rendered under the four contracts through December 31, 1983. The contracts were:

Schedule Of USAID/Indonesia-Funded Contracts
With Resource Management International, Inc.

<u>USAID Contract No.</u>	<u>USAID Project No. and Title</u>	<u>Period of Performance</u>	<u>Estimated Cost and Fixed Fee</u>
497-79-100.37	497-0276 Provincial Development Program II	6-26-79 12-31-86	\$ 6,315,908
497-0276-C- 00-1010	497-0276 Provincial Development Program II	12-23-80 12-31-86 12-31-86	5,617,846
497-0281-C- 00-1089	497-0281 Citanduy Riv. Basin Development II	12-07-81 09-30-86	5,810,887
Host Country Contract - (No Number)	497-0302 Applied Agricultural Research Project	03-11-82 02-11-86	8,317,157
Total Estimated Cost & Fixed Fee			<u>\$26,061,798</u>

Provisional overhead rates applicable to direct salaries were established for billing purposes under the four contracts. The

provisional rates were 59.0 percent of direct salaries for 1979, and 89.2 percent for the years 1980 through 1983. The contracts provide for subsequent rate finalization.

B. Audit Objectives And Scope

At the request of USAID/Indonesia, we reviewed RMI overhead proposals for calendar years 1979 through 1983. Our review also extended to some contract charges made after that five-year period. The audit was conducted in Jakarta, at the Contractor's headquarters and in the USAID Controller's office, during the period March through September 1984. The audit findings were discussed with various officials of the Contractor. The primary spokesman was the RMI Controller.

In performing the audit, we tested: (1) indirect expenses amounting to \$2.1 million, or about 66 percent of the total allocated (\$3.1 million) to the Consulting Division's overhead pool; (2) General and Administrative expenses amounting to \$5.9 million, or 53 percent of the total allocated (\$11.1 million) to the Consulting and Operation divisions' overhead pools; and (3) direct salaries in the amount of \$2.7 million, or 100 percent of the amount billed under the USAID-funded contracts.

Our scope did not include an evaluation of RMI's performance under the contracts nor the internal controls of the Contractor's operations.

The audit was made in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

AUDIT OF
RESOURCES MANAGEMENT INTERNATIONAL, INC. -
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PART II - RESULTS OF AUDIT

A. Findings And Recommendations

1. Provisional Overhead Rate For 1979 Should Be Accepted

For finalizing the 1979 overhead rate, RMI proposed a rate of 105.3 percent. However, accounting records could not be located. After considering disallowances for questionable items for subsequent years, we believe the acceptable overhead rate for 1979 was very close to the 59.0 percent provisional rate. The Contractor requested that the 59.0 percent be used as the final rate for settling 1979 overhead costs.

Recommendation No. 1

We recommend that USAID/Indonesia finalize the Contractor's overhead rate for 1979 at 59.0 percent.

Discussion

For finalizing the 1979 overhead rate, RMI proposed a rate of 105.3 percent. Because many of the accounting records for that year could not be located, the proposal was prepared from unaudited financial statements. Nevertheless, after considering disallowances for questionable items, and reallocating General and Administrative expenses consistent with the method used by us for subsequent years, we believe the acceptable overhead rate for 1979 was very close to the 59.0 percent provisional rate used by USAID to reimburse the Contractor for overhead cost.

RMI would have to reconstruct records and prepare a new proposal to fully support any rate higher than 59.0 percent. Rather than expend additional resources to do this, the Contractor requested that the 59.0 percent be used as the final rate for settling 1979 overhead costs. We also concur with this request because the amount of overhead cost involved (\$51,554 computed at the 59.0 percent rate) represented only 2.2 percent of total overhead charges for the 5 years covered by the audit.

Management Comments

Mission officials had no comment. (See Appendix 1.)

2. Overhead Rates Should Be Reduced And Overcharges Should Be Recovered For 1980 Through 1983

The audit showed that overhead rates proposed by the Contractor should be reduced. The rates are summarized below:

Schedule Of Overhead Rates For
Calendar Years 1979 To 1983

<u>Calendar Year</u>	<u>Proposed by Contractor</u>	<u>Accepted by Audit</u>
1979	105.3%	59.0%
1980	96.8%	56.1%
1981	120.3%	66.2%
1982	108.5%	69.9%
1983	90.6%	60.8%

Consequently, for the five-year period ending December 31, 1983, the Contractor was entitled to receive overhead reimbursement of \$1,654,069, but had received \$2,380,237. The excess of \$726,168 in questionable cost should be refunded to USAID/Indonesia. The overcharges occurred because the Contractor had not followed the Federal Procurement Regulations and other proper accounting practices.

Also the 89.2 percent provisional billing rate for the years subsequent to 1983 was much too liberal. A new provisional rate of 65.6 percent, which is the weighted average of the audited accepted rates for 1981 to 1983, should be used, effective as of January 1, 1984.

Recommendation No. 2

We recommend that USAID/Indonesia:

- a. Finalize USAID-funded contract overhead rates for 1980, 1981, 1982, and 1983 at 56.1, 66.2, 69.9, and 60.8 percent as presented in Exhibits C, E, G, and I, respectively;
- b. Recover from RMI \$726,168 in overhead overcharges for the five-year period ending December 31, 1983, as presented in Exhibit A; and
- c. Establish a new provisional rate of 65.6 percent for billing overhead under USAID-funded contracts, effective January 1, 1984.

Discussion

Throughout the audit of overhead, the various issues that surfaced were discussed with RMI officials. In most instances,

RMI officials concurred orally with the cost items we questioned. In those instances, the rationale for the questioned costs are summarized and discussed in the Exhibits and notes of this report. The Contractor, however, reserved comment on our rationale for other questioned cost items, as discussed below.

Allocation Of General And Administrative Expenses

The Code of Federal Regulations (CFR), which sets forth principles governing the four USAID-funded contracts, provides guidelines for the allocation of General and Administrative (G & A) expenses. According to these guidelines, the Contractor inappropriately allocated a disproportionately large share of G & A expenses to the Consulting Division overhead expense pool. This resulted in an excessive proposed overhead rate for the Consulting Division and associated AID contracts. We believe that the "cost of sales", a total cost input base approved by the CFR, provides a more equitable basis for allocating the organization's G & A expenses to the benefitting divisions.

RMI's accounting system provided for the accumulation of costs for its two major divisions. They are:

1. Operations Division - This division administers various contracts with private clients, including several large oil companies. Subcontracts, material and equipment rental constituted the most significant items of direct cost generated by the Operations Division. Direct salaries were relatively insignificant in proportion to total costs of this division.
2. Consulting Division - This division administers consultation activities under contracts with private companies and international institutions such as AID, the World Bank and the Asian Development Bank. The most significant item of direct cost for this division was direct salaries.

The Operations and Consulting divisions each had a manager and other support personnel to oversee and administer the contracts assigned to it. Each division also had its own indirect (overhead) expense pool. The salaries and other indirect expenses identified as supporting the particular division's activities were accumulated in an overhead pool. Examples of indirect expenses appearing in both the Consulting and Operations Divisions' overhead pools were salaries, housing, office rent, telephone, utilities, insurance and depreciation.

The Contractor incurred other indirect costs not specifically allocable to either of the divisions, but supportive of both. Those costs were incurred for the general administration of the organization as a whole and were charged to a G & A expense pool. The G & A expense pool included most of the same type of

costs found in the Operations and Consulting Divisions' overhead pools (salaries, housing, rent, telephone, etc.). The salaries, benefits and other related costs of owner/officers and high-level administrators who directed the organization constituted a large portion of the G & A expense pool. The costs included in the G & A expense pool were subsequently allocated to the Operations and Consulting Divisions' overhead expense pools. These costs were substantial. For the four years, 1980 through 1983, G & A costs allocated to the two divisions averaged \$2.8 million per year.

The Contractor used a single element base in allocating G & A costs to the two divisions' overhead pools in the initial overhead proposals for 1980, 1981 and 1982. The base was the percentage of estimated time charged by 5 to 8 executives to the activities for the two divisions. It was the Contractor's premise that all G & A expenses were directly correlated to how these 5 to 8 individuals charged their time.

The time estimate system used as a base was a single element cost base which represented less than two percent of the organization's total cost of doing business in the years 1980 through 1982. According to the CFR which governs the four USAID-funded contracts, "A single element base may not produce equitable results where other measures of activity are also significant in relation to total activity. A single element base is inappropriate where it is an insignificant part of the total cost of some of the final cost objectives." (Underlined for emphasis.)

After discussions with RMI officials, the Contractor prepared and submitted revised proposals for 1980, 1981 and 1982 and an original for 1983. A different base for allocating G & A expenses was used in all of the later proposals. The new base, total direct salaries, was an improvement from a verification standpoint. But it still did not represent the total activity of the Contractor's business and was an insignificant part (13 percent) of the total cost of the Contractor's Operations Division. Furthermore, because direct salaries was a large part (37 percent) of the Consulting Division cost, a disproportionately large share of G & A expenses was allocated to that division. By using total direct salaries as the base, the Contractor charged an average of 32 percent of total G & A expenses claimed to the Consulting Division for the four years 1980 through 1983. However, use of cost of sales, a total cost input base approved by the CFR, would result in less than 14 percent of the Contractor's G & A expenses being charged to the Consulting Division for the four years.

Using the cost of sales rather than direct salaries as a base is more appropriate because this base does not favor any division, and all G & A costs are spread equitably over the entire Contractor operation. The cost of sales method is also more representative of the Contractor's total business activity. For instance, the cost of sales base ensures the Contractor's

Operations Division, that administers subcontracts, leases equipment, and purchases material, absorbs its equitable share of G & A expenses. Using a cost of sales base for allocating G & A expenses is also supported by generally accepted accounting principles. For example, the publication titled, "Government Contract Accounting"^{1/} states:

"The G & A expense pool of a business unit for a cost accounting period shall be allocated to final cost objectives of that cost accounting period by means of a cost base representing the total activity of the business unit...."

A proper G & A allocation base must be representative of the year's business activity so as to cause the pool of G & A expense to be equitably apportioned over the year's business activities. Litton Systems, Inc. [ASBCA 10395,66-1 BCA P5599]. The G & A allocation base is not selected because it generates the expense but because it provides an equitable method of allocating the G & A pool proportionately to the contracts, jobs, departments, products, services, and types of customers that make up the firm's business activities. Whether and the extent to which the cost elements in the G & A allocation base generate G & A costs has no direct bearing on whether the G & A allocation base will serve its purpose of equitably apportioning the G & A expense to the contractor's business activities for the year." (Underscored for emphasis)

In summary, cost of sales best represents "the total activity of the business unit". Therefore, we used a cost of sales base for allocating G & A cost to assure that all components of the Contractor's business receive their equitable share of these costs. See Exhibits D, F, H, and J for the adjustments we made to the Contractor's G & A cost allocations.

The Contractor reserved comment on our method of allocating G & A expenses.

Direct Salary Base Used To Compute 1983 Overhead Rate

The factors used in the Contractor's overhead rate computation are total indirect expenses incurred on behalf of Consulting Division contracts (expense pool) and total cost of direct salaries under all of the contracts in the division's portfolio (base). The rate is obtained by dividing the expense pool by the base. It is evident that any adjustment that would raise

^{1/} Government Contract Accounting, Copyright 1979, Library of Congress Card Number 78-74879.

or lower either the expense pool or the base would affect the rate. For example, an increase in the expense pool would result in an increase in the overhead rate. The same result would be obtained from lowering the base.

The Contractor increased the USAID's contract overhead rate by lowering the direct salary overhead base for the Consulting Division for 1983 by doing the following:

- Reclassifying two non-AID funded contracts from the Consulting Division to the Operations Division and removing the direct salary elements of those two contracts, amounting to \$493,239, from the Consulting Division base; and
- Earmarking portions of direct salaries paid under 9 non-AID Consulting Division contracts as post differential and excluding those portions, amounting to \$128,408, from the Consulting Division overhead direct salary base.

These exclusions which totalled \$621,647, had the effect of increasing the USAID-contract overhead rate by 22.4 percentage points.

Reclassification of Contracts

According to RMI officials, the two contracts were reclassified because, during 1983, most of the support for the two contracts came from Operations Division personnel rather than from Consulting Division personnel. The Contractor could not provide us with any verifiable data to support this rationale.

The two contracts were for consulting services, not operations. The Philippine Highway contract (No. 94) was signed in 1981 and the Huiday contract (No. 532), in 1982. For the years prior to 1983, both had been classified and accounted for as Consulting Division contracts. For instance, in its cost of sales analysis, RMI classified both as consulting services contracts. Both of the contracts also are similar to the AID contracts in that their scope of work requires the Contractor to recruit and support technical advisors. For the highway contract, which is funded by the World Bank, the Contractor recruited and supported engineers to design and supervise construction of equipment maintenance workshops. Under the Huiday contract, the Contractor recruited and supported training specialists to develop and supervise a manpower development program. In this project, RMI personnel were responsible for curriculum design and the development of instructional material. In both cases, the services provided were typical of Consulting Division contracts. In neither case was RMI required to hire employees to implement the project or provide for their logistical support, services usually associated with Operations Division contracts. See Exhibit I for the adjustment we made for 1983 to the Contractor's direct salary base.

The Contractor reserved comment on this adjustment.

Post Differential

Under the Contractor's accounting system, it was proper to exclude post differential from the direct salary base if the differential was identified and accounted for as such. The logic is that post differential was not eligible for overhead application, so should not be in the base for determining the overhead rate.

In the four USAID-funded contracts and one other contract not AID-funded, post differential was specifically identified and accounted for and consequently was properly excluded from the direct salary base. Circumstances were different, however, with regard to the other 9 contracts administered under the Consulting Division. None of those contracts mentioned "post differential". The Contractor's accounting records did not identify or otherwise set out any part of the salaries paid under those contracts as post differential. The adjustment also was a departure from previously established accounting procedures that were followed for all prior years.

As of January 1, 1985, the Contractor planned to negotiate new contracts with all of its expatriate employees. Post differential would be specifically identified, accounted for, and excluded from the direct salary base. Under those circumstances, we would not question the exclusions from the direct salary base because the amounts could be verified and the exclusion itself would be in accordance with RMI-established accounting procedures. However, we questioned the exclusions from the direct salary overhead base in 1983 because the amounts were not verifiable and were inconsistent with established accounting procedures followed by the Contractor in previous years. Therefore, we adjusted the direct salary base to include portions thereof that we considered improperly excluded from the base. (See Exhibit I, Note 1/.)

The Contractor reserved comment on this adjustment.

Lawsuit Costs Charged To General And Administrative Expense Pool

The legal and audit expense accounts for all four years included costs incurred by the Contractor in the pursuit of a lawsuit against Pacific Architects and Engineers, Inc., a former joint-venture partner. The costs, by year, were as follows:

Schedule of Legal And Auditing Costs

<u>Year</u>	<u>Amount</u>
1980	\$127,329
1981	156,912
1982	26,442
1983	69,777
Total	<u>\$380,460</u>

We questioned these charges because the Contractor could not show that the expense was "necessary for the conduct of the Contractor's business or the performance of the (USAID) contract(s)". [Reference: 41 CFR 1-15.210-3(a).] After discussion, the Contractor agreed that the charges should not be included in the G & A expense pool and concurred with our adjustments to remove these costs. (See Exhibits F and H.)

A negotiated settlement resulted from the law suit. As part of the settlement, RMI was required to pay Pacific Architects and Engineers, Inc. \$107,052 for previously unreimbursed overhead. The Contractor charged this amount to the organization's 1983 G & A expense pool, but was unable to identify the charge by element of cost, year of incurrence, or otherwise support its propriety as an allowable cost under the USAID contracts and Federal Procurement Regulations. For these reasons, we removed this charge from the Contractor's 1983 G & A expense pool. (See Exhibit J, Note 6/.)

The Contractor reserved comment on this adjustment.

Funded Employee Trust

The Contractor, through Far East Manpower Services, Ltd. (an associated company), set up an employee trust in the amount of \$150,000, primarily for the benefit of RMI's Controller. Although the trust agreement was not executed until June 4, 1984, and payment to the trust had not been made as of September 25, 1984, the Contractor accrued the liability as of December 31, 1983, and charged the entire \$150,000 to RMI's G & A expense pool for 1983.

Benefits under the agreement were not payable until February 1, 1986, so the trust falls into a classification entitled "deferred compensation". According to the Federal Acquisition Regulation (FAR 31.205-6(k)(2)), which became effective April 1, 1984, (before the trust was executed), "the costs of deferred awards shall be measured, allocated, and accounted for in compliance with the provisions of Cost Accounting Standard 415, Accounting for the Cost of Deferred Compensation." According to Cost Accounting Standard 415, Article 415.40(a),

"The cost of deferred compensation shall be assigned to the cost accounting period in which the contractor incurs an obligation to compensate the employee."

We did not make a determination concerning the allowability of this charge for future years. We are sure, however, that no part of it is allowable for 1983, because there was no obligation on the part of the Contractor to compensate the employee before June 1984, when the trust was executed.

We adjusted 1983 G & A expense pool accordingly. (See Exhibit J, Note 5/.)

The Contractor reserved comment on this adjustment.

Management Comments

Mission officials had no comment on the draft report. Officials of AID Headquarter's Contract Management Office declined to comment on the facts presented because of their limited experience with RMI's indirect cost rates. However, they fully concurred with the opinions, conclusions and recommendations contained in the draft report. (See Appendices 1 and 2 for full text of Management Comments.)

3. Subcontract Add-ons And Excess Fees On Host Country Contract Should Be Recovered

RMI received \$59,259 for 1) add-ons to a subcontract with the International Rice Research Institute (IRRI) and 2) excess fees on the prime host country contract. The Contractor agreed that USAID should not pay this amount.

Recommendation No. 3

We recommend that USAID/Indonesia recover \$59,259 in Contractor overpayments that resulted from unjustified add-ons to IRRI subcontract salaries and an overstated fixed fee base under the host country contract.

Discussion

RMI had a subcontract with the International Rice Research Institute under the USAID-funded host country contract (Project No. 497-0302). IRRI provided two employees and their logistic support for a project which was financed by the host country contract. IRRI billed a lump sum to RMI each month for the salaries and support costs of these two employees. RMI submitted IRRI's total subcontract charges as direct salaries to the USAID for reimbursement. In their billings to the USAID for these "salaries", RMI added and was reimbursed \$43,627 for RMI overhead, social charge, and fixed fee. However, RMI should not have received reimbursement for these add-ons, because it had not provided the services or incurred their costs.

In addition, RMI received \$15,632 in excess fees on the prime host country contract because the fee base was overstated.

The Contractor agreed that the charges were inappropriate and agreed to refund to AID the amounts incorrectly billed.

See Exhibit K for a detailed analysis of these overcharges.

Management Comments

Neither USAID/Indonesia nor AID Headquarter's Contract Management Office had any comment on this finding or recommendation. (See Appendices 1 and 2.)

AUDIT OF
RESOURCES MANAGEMENT INTERNATIONAL, INC. -
OVERHEAD REIMBURSEMENT UNDER FOUR CONTRACTS
FUNDED BY USAID/INDONESIA

PART III - EXHIBITS AND APPENDICES

RESOURCES MANAGEMENT INTERNATIONAL, INC.
COMPUTATION OF OVERHEAD QUESTIONED BY AUDIT
USAID/INDONESIA FUNDED CONTRACTS -- CALENDAR YEARS 1979 THROUGH 1983

	<u>Accepted by Audit</u>			
	<u>Direct Salaries 1/</u>	<u>Overhead (Salaries x Rate)</u>	<u>Overhead Reimbursed by USAID/I</u>	<u>Overhead Questioned by Audit</u>
1979 - Overhead Rate per Audit - 59.0% 2/				
Contract No. 497-79-100.37	\$ 87,378	\$ 51,554	\$ 51,554	-0-
Total 1979	<u>\$ 87,378</u>	<u>\$ 51,554</u>	<u>\$ 51,554</u>	<u>-0-</u>
1980 - Overhead Rate per Audit - 56.1% 3/				
Contract No. 497-79-100.37	\$ 259,924	\$ 145,817	\$ 155,410	\$ 9,593
Total 1980	<u>\$ 259,924</u>	<u>\$ 145,817</u>	<u>\$ 155,410</u>	<u>\$ 9,593</u>
1981 - Overhead Rate per Audit - 66.2% 4/				
Contract No. 497-79-100.37	\$ 300,095	\$ 198,663	\$ 174,679	\$ (23,984)
No. 497-0276-C-00-1010	154,837	102,502	138,046	35,544
Total 1981	<u>\$ 454,932</u>	<u>\$ 301,165</u>	<u>\$ 312,725</u>	<u>\$ 11,560</u>
1982 - Overhead Rate per Audit - 69.9% 5/				
Contract No. 497-79-100.37	\$ 279,443	\$ 195,330	\$ 415,112	\$ 219,782
No. 497-0276-C-00-1010	202,831	141,779	180,926	39,147
No. 497-0281-C-00-1089	155,323	108,571	138,143	29,572
Host Country-Proj. 0302	98,353	68,749	117,747	48,998
Total 1982	<u>\$ 735,950</u>	<u>\$ 514,429</u>	<u>\$ 851,928</u>	<u>\$ 337,499</u>
1983 - Overhead Rate per Audit - 60.8% 6/				
Contract No. 497-79-100.37	\$ 182,934	\$ 111,224	\$ 163,179	\$ 51,955
No. 497-0276-C-00-1010	258,570	157,211	231,348	74,137
No. 497-0281-C-00-1089	266,554	162,065	237,766	75,701
Host Country-Proj. 0302	346,389	210,604	376,327	165,723
Total 1983	<u>\$1,054,447</u>	<u>\$ 641,104</u>	<u>\$1,008,620</u>	<u>\$ 367,516</u>
Grand Total	<u>\$2,592,631</u>	<u>\$1,654,069</u>	<u>\$2,380,237</u>	<u>\$ 726,168</u>
Total - By Contract				
No. 497-79-100.37	\$1,109,774	\$ 702,588	\$ 959,934	\$ 257,346
No. 497-0276-C-00-1010	616,238	401,492	550,320	148,828
No. 497-0281-C-00-1089	421,877	270,636	375,909	105,273
Host Country-Proj. 0302	<u>444,742</u>	<u>279,353</u>	<u>494,074</u>	<u>214,721</u>
Grand Total	<u>\$2,592,631</u>	<u>\$1,654,069</u>	<u>\$2,380,237</u>	<u>\$ 726,168</u>

Notes:

- 1/ From Exhibit B.
- 2/ From Page 3.
- 3/ From Exhibit C.
- 4/ From Exhibit E.
- 5/ From Exhibit G.
- 6/ From Exhibit I.

RESOURCES MANAGEMENT INTERNATIONAL, INC.
SCHEDULE OF DIRECT SALARIES BILLED AND REIMBURSED
FOUR USAID/INDONESIA - FUNDED CONTRACTS -- CALENDAR YEARS 1979 THROUGH 1983

	DIRECT SALARIES				
	Amount Billed	USAID Adjustments	Amount Reimbursed 1/	Questioned by Audit 2/	Accepted by Audit 3/
1979					
Contract No. 497-79-100.37	\$ 87,378	-0-	\$ 87,378	-0-	\$ 87,378
Total 1979	<u>\$ 87,378</u>	<u>-0-</u>	<u>\$ 87,378</u>	<u>-0-</u>	<u>\$ 87,378</u>
1980					
Contract No. 497-79-100.37	\$ 265,050	\$(5,126)	\$ 259,924	-0-	\$ 259,924
Total 1980	<u>\$ 265,050</u>	<u>\$(5,126)</u>	<u>\$ 259,924</u>	<u>-0-</u>	<u>\$ 259,924</u>
1981					
Contract No. 497-79-100.37	\$ 305,769	\$(5,674)	\$ 300,095	-0-	\$ 300,095
No. 497-0276-C-00-1010	154,837	-0-	154,837	-0-	154,837
Total 1981	<u>\$ 460,606</u>	<u>\$(5,674)</u>	<u>\$ 454,932</u>	<u>-0-</u>	<u>\$ 454,932</u>
1982					
Contract No. 497-79-100.37	\$ 279,843	\$(400)	\$ 279,443	-0-	\$ 279,443
No. 497-0276-C-00-1010	202,831	-0-	202,831	-0-	\$ 202,831
No. 497-0281-C-00-1089	158,358	(3,035)	155,323	-0-	\$ 155,323
Host Country-Proj. 0302	132,003	-0-	132,003	\$(33,650)	98,353
Total 1982	<u>\$ 773,035</u>	<u>\$(3,435)</u>	<u>\$ 769,600</u>	<u>\$(33,650)</u>	<u>\$ 735,950</u>
1983					
Contract No. 497-79-100.37	\$ 182,879	\$ 55	\$ 182,934	-0-	\$ 182,934
No. 497-0276-C-00-1010	262,589	(4,019)	258,570	-0-	258,570
No. 497-0281-C-00-1089	266,554	-0-	266,554	-0-	266,554
Host Country-Proj. 0302	424,698	(2,809)	421,889	\$(75,500)	346,389
Total 1983	<u>\$1,136,720</u>	<u>\$ 5,773</u>	<u>\$1,129,947</u>	<u>\$(75,500)</u>	<u>\$1,054,447</u>
Grand Total	<u>\$2,722,789</u>	<u>\$(21,008)</u>	<u>\$2,701,781</u>	<u>\$(109,150)</u>	<u>\$2,592,631</u>
Total - By Contract					
No. 497-79-100.37	\$1,120,919	\$(11,145)	\$1,109,774	-0-	\$1,109,774
No. 497-0276-C-00-1010	620,257	(4,019)	616,238	-0-	616,238
No. 497-0281-C-00-1089	424,912	(3,035)	421,877	-0-	421,877
Host Country-Proj. 0302	556,701	(2,809)	553,892	\$(109,150)	\$ 444,742
Grand Total	<u>\$2,722,789</u>	<u>\$(21,008)</u>	<u>\$2,701,781</u>	<u>\$(109,150)</u>	<u>\$2,592,631</u>

Notes:

1/ Source - USAID Controller's records.

2/ The Contractor included salaries and overhead of two IIRI subcontract employees with salaries of their own employees in the direct salary base. We have adjusted for these charges for reasons explained in Exhibit K of this report. Total IIRI subcontract charges included in the base were \$33,650 for 1982, and \$75,500 for 1983.

3/ Salaries accepted by Audit are the amounts eligible for overhead application.

RESOURCES MANAGEMENT INTERNATIONAL, INC.
SUMMARY OF OVERHEAD BILLED AND REIMBURSED

EXHIBIT B 1

FOUR USAID/INDONESIA - FUNDED CONTRACTS -- CALENDAR YEARS 1979 THROUGH 1983

	OVERHEAD		
	Amount Billed	USAID Adjustments	Amount Reimbursed 1/
<u>1979</u>			
Contract No. 297-79-100.37	\$ 51,554	-0-	\$ 51,554
Total 1979	<u>\$ 51,554</u>	<u>-0-</u>	<u>\$ 51,554</u>
<u>1980</u>			
Contract No. 497-79-100.37	\$ 156,379	\$(969)	\$ 155,410
Total 1980	<u>\$ 156,379</u>	<u>\$(969)</u>	<u>\$ 155,410</u>
<u>1981</u>			
Contract No. 497-79-100.37	\$ 176,464	\$(1,785)	\$ 174,679
No. 497-0276-C-00-1010	138,046	-0-	138,046
Total 1981	<u>\$ 314,510</u>	<u>\$(1,785)</u>	<u>\$ 312,725</u>
<u>1982</u>			
Contract No. 497-79-100.37	\$ 419,343	\$(4,231)	\$ 415,112
No. 497-0276-C-00-1010	182,925	(1,999)	180,926
No. 497-0281-C-00-1089	150,532	(12,389)	138,143
Host Country-Proj. 0302	117,747	-0-	117,747
Total 1982	<u>\$ 870,547</u>	<u>\$(18,619)</u>	<u>\$ 851,928</u>
<u>1983</u>			
Contract No. 497-79-100.37	\$ 175,637	\$(12,458)	\$ 163,179
No. 497-0276-C-00-1010	234,230	(2,882)	231,348
No. 497-0281-C-00-1089	242,545	(4,779)	237,766
Host Country-Proj. 0302	373,480	(2,847)	376,327
Total 1983	<u>\$1,025,892</u>	<u>\$(17,272)</u>	<u>\$1,008,620</u>
Grand Total	<u><u>\$2,418,882</u></u>	<u><u>\$(38,645)</u></u>	<u><u>\$2,380,237</u></u>
<u>Total - By Contract</u>			
No. 497-79-100.37 <u>2/</u>	\$ 979,377	\$(19,443)	\$ 959,934
No. 497-0276-C-00-1010 <u>3/</u>	555,201	(4,881)	550,320
No. 497-0281-C-00-1089 <u>4/</u>	393,077	(17,168)	375,909
Host Country-Proj.0302 <u>4/</u>	491,227	2,847	494,074
Grand Total	<u><u>\$2,418,882</u></u>	<u><u>\$(38,645)</u></u>	<u><u>\$2,380,237</u></u>

Notes. 1/ Source - USAID Controller's records.

2/ The provisional billing rate for 1979 was 59.0%. An increase to 89.2% was authorized for calendar year 1980 and beyond by Contract Amendment No. 4 signed June 25, 1982.

3/ A provisional billing rate of 73.0% was incorporated in the contract which was executed January 26, 1981. An adjustment to 89.2%, retroactive to contract inception, was authorized by Amendment No. 2, signed October 26, 1982.

4/ The provisional billing rate was established at 89.2% from contract inception until modified.

EXHIBIT C

RESOURCES MANAGEMENT INTERNATIONAL, INC.
CONSULTING DIVISION - OVERHEAD RATE COMPUTATION
CALENDAR YEAR 1980

	Proposed by Contractor	Per Audit	
		Questioned	Accepted
<u>Base - Direct Salaries</u>	<u>\$874,808</u>	<u>\$ 60 715 1/</u>	<u>\$935,523</u>
<u>Indirect Expenses</u>			
Salaries, Expatriate	\$126,309		\$126,309
Salaries, Indonesian	65,519		65,519
Indonesian Taxes, Expat.	19,289		19,289
Indonesian Taxes, Indonesian	3,969		3,969
Insurance, Payroll Related	6,159		6,159
Rent	16,800		16,800
Electricity	9,612		9,612
Telephone	12,701		12,701
Transportation	4,417		4,417
Travel	3,537		3,537
Professional Fees	31,007		31,007
Housing and Quarters	36,226		36,226
Washington, D.C. Office	83,200	\$ 32,592 2/	50,608
Subtotal	<u>\$418,745</u>	<u>\$ 32,592</u>	<u>\$386,153</u>
Allocation of G & A Expenses ^{3/}	428,199	289,725	138,474
Total Indirect Expenses	<u>\$846,944</u>	<u>\$322,317</u>	<u>\$524,627</u>
<u>Overhead Rate</u>			
Indirect Expenses divided by Direct Salaries	<u>96.8%</u>		<u>56.1%</u>

NOTES TO EXHIBIT C

1/ We have adjusted the direct salary base proposed for the Consulting Division for 1980, which was understated by \$60,715, due to arithmetical and typographical errors. Details of the adjustments are shown in the schedule below. Contractor concurred.

<u>Contract No.</u>	Direct Salaries		
	<u>Proposed</u>	<u>Understated (Overstated)</u>	<u>Per Audit</u>
46	\$ 89,047	\$25,203	\$114,250
67	29,149	(14,866)	14,283
71	32,385	620	33,005
73	-0-	27,705	27,705
77	259,720	-0-	259,720
86	251,767	8,157	259,924
90	7,500	7,708	15,208
92	148,701	6,188	154,889
93	27,352	-0-	27,052
98	29,487	-0-	29,487
Total	<u>\$874,808</u>	<u>\$60,715</u>	<u>\$935,523</u>

2/ We questioned charges proposed for the Contractor's Washington, D. C. office that included unsupported and unallowable costs, as follows:

Washington, D.C. Office costs proposed	\$ 83,200
Washington, D.C. Office costs not supported	\$25,537

Items included in proposal that are not allowable:

Interest (Ref. 41-CFR 1-15.205-17)	\$1,261
Entertainment (Ref. 41-CFR 1-15.205-11)	<u>5,794</u>

Total questioned	<u>\$ 32,592</u>
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Washington, D.C. Office costs accepted	<u>\$ 50,608</u>
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3/ See Exhibit D for G & A Expenses proposed, questioned and accepted.

RESOURCES MANAGEMENT INTERNATIONAL, INC.
GENERAL AND ADMINISTRATIVE EXPENSES (G & A)
ALLOCATED TO CONSULTING DIVISION - CALENDAR YEAR 1980

G & A Expense Item	Proposed by Contractor			Questioned by Audit		Accepted for Allocation to Consulting Division
	Amount Booked	Not Claimed	Amount Claimed	Allocation to Consulting Div. (18.43% 1/	Allocation to Consulting Div. (12.47% 2/	
Salaries, Expatriate	\$ 724,404	\$120,000	\$ 604,404	\$111,392	\$ 75,369	\$ 36,023
Salaries, Indonesian	186,944		186,944	34,454	23,312	12,142
Indonesian Taxes, Expat.	135,415		135,415	24,957	16,886	8,071
Indonesian Taxes, Indo.	12,757		12,757	2,351	1,591	760
Insurance, Payroll Related	(11,341)		(11,341)	(2,090)	(1,414)	(676)
Rent	91,910		91,910	16,939	11,461	5,478
Entertainment & Promotion	174,442	174,442	-0-	-0-	-0-	-0-
Dues, Subscrip. & Publica.	15,920		15,920	2,934	1,985	949
Auto Expense	50,377		50,377	9,284	6,282	3,002
Housing & Quarters Expense	117,335		117,335	21,625	14,632	6,993
Employee Benefits/Allowances	81,935		81,935	15,101	10,217	4,884
Severance, Vacation, Bonuses	4,965		4,965	915	619	296
Singapore Office	123,988		123,988	22,851	15,461	7,390
Payroll Taxes	10,159		10,159	1,872	1,267	605
Immigration Costs	14,158		14,158	2,609	1,765	844
Recruitment Costs	18,780		18,780	3,461	2,342	1,119
Mobilization/Demobilization	3,397		3,397	626	424	202
Transportation Costs	171,273		171,273	31,566	21,358	10,208
Travel, Meals, Lodg., Per Diem	94,761		94,761	17,466	11,817	5,647
Depreciation, Furn. & Autos	60,871		60,871	11,219	7,591	3,628
Office Supplies, Print., Repro.	139,191		139,191	25,653	17,357	8,296
Legal and Audit	218,576	127,329	91,247	16,817	11,378	5,439
Postage and Freight	5,839		5,839	1,076	728	348
Taxes and Licenses	26,293		26,293	4,846	3,279	1,567
Professional Services	69,590		69,590	12,825	8,678	4,147
Util., Office Repair, Maint.	31,549		31,549	5,814	3,934	1,880
Foreign Exchange	(27,286)		(27,286)	(5,029)	(3,403)	(1,626)
Bank Commissions & Charges	79,284		79,284	14,612	9,887	4,725
Telephone	84,961		84,961	15,658	10,594	5,064
Telex	90,292		90,292	16,641	11,259	5,382
Messenger Service	53,775		53,775	9,911	6,706	3,205
Insurance Not P/R Related	36,974		36,974	6,814	4,611	2,203
Operation Fees	178,043	170,000	8,043	1,482	1,003	479
Proposal Cost	8,364		8,364	1,541	1,043	498
Overhead Charge/(Credit)	(179,606)		(179,606)	(33,101)	(22,397)	(10,704)
Provision for Doubtful Acc'ts	948	948	-0-	-0-	-0-	-0-
Interest	366,965	366,965	-0-	-0-	-0-	-0-
Miscellaneous	16,861		16,861	3,109	2,103	1,006
Total G & A Expenses	\$3,283,063	\$959,684	\$2,323,379	\$428,199	\$289,725	\$138,474

EXHIBIT D

NOTES TO EXHIBIT D

1/ In its revised proposal, RMI allocated G & A expenses to the Consulting and Operations Division overhead pools for calendar year 1980 in the following amounts:

	Ratio	Amount
Consulting Division	18.43%	\$ 428,199
Operations Division	81.57%	1,895,180
Total	100.00%	\$2,323,379

The base for allocation was direct salaries. Allocation percentages were derived by dividing total direct salaries of the particular division by total direct salaries of both divisions.

2/ We believe that Cost of Sales is a more equitable basis for allocating G & A expenses to the overhead pools of the Divisions benefited, as explained on page 5, and reallocated the Contractor's 1980 G & A expenses on that basis, as follows:

	Cost of Sales	Ratio
Consulting Division	\$ 2,156,422	5.96%
Operations Division	34,019,545	94.04%
Total	\$36,175,967	100.00%

A summary of total G & A expenses proposed by RMI, amount allocated to the Consulting Division by the Contractor, and allocations accepted by Audit, is as follows:

Total G & A expenses claimed		\$2,323,379
	Percent of Total	Amount
Allocation by Contractor	18.43%	\$ 428,199
Accepted by Audit	5.96%	138,474
Questioned by Audit	12.47%	\$ 289,725

RESOURCES MANAGEMENT INTERNATIONAL, INC.
CONSULTING DIVISION - OVERHEAD RATE COMPUTATION
CALENDAR YEAR 1981

EXHIBIT E

<u>Base - Direct Salaries</u>	Proposed by	Per Audit	
	<u>Contractor</u>	<u>Questioned</u>	<u>Accepted</u>
	<u>\$1,470,582</u>	<u>-0-</u>	<u>\$1,470,582</u>
 <u>Indirect Expenses</u>			
Salaries, Expatriate	\$ 143,435		\$ 143,435
Salaries, Indonesian	99,654	\$ 47,735 $\frac{1}{2}$	51,919
Salaries, Indonesian O/T	60,182	28,828 $\frac{1}{2}$	31,354
Indonesian Taxes, Expat.	20,763		20,763
Indonesian Taxes, Indo.	13,667	4,803 $\frac{6}{10}$	8,864
Rent	22,600		22,600
Computer Fee/Payroll Processing	41,512	41,512 $\frac{2}{10}$	-0-
Dues, Subscriptions, Publications	52		52
Auto Expense	31,007		31,007
Housing, Quarters Expense	60,088		60,088
Medical Allowances	15,739	7,539 $\frac{1}{2}$	8,200
Transportation Allowance	10,856	5,200 $\frac{1}{2}$	5,656
Meal Allowance	2,472		2,472
Schooling	3,500		3,500
Severance Pay, Vacation, Bonuses	20,478	9,809 $\frac{1}{2}$	10,669
Manila Office	50,505	2,257 $\frac{3}{10}$	48,248
Washington, D.C. Office	95,644	4,304 $\frac{4}{10}$	91,340
Insurance P/R Related, Expat.	2,258		2,258
Insurance P/R Related, Indo.	2,574		2,574
Group Insurance	2,384		2,384
Immigration Costs	1,808		1,808
Recruitment Costs	3,919		3,919
Mobilization/Demobilization	2,409		2,409
Transportation	22,549		22,549
Travel	4,906		4,906
Depreciation, Furniture & Fixtures	7,670		7,670
Depreciation, Autos	13,350		13,350
Office Supplies, Print., Repro.	24,550		24,550
Professional Services	10,108		10,108
Utilities, Office Repair, Maint.	31,981	16,298 $\frac{5}{10}$	15,683
Telephone	38,838		38,838
Casual Labor	398		398
Proposal Cost	4,489		4,489
Overhead Charge/(Credit)	146		146
Insurance Not P/R Related	3,022		3,022
Miscellaneous	915		915
Subtotal Indirect Expenses	\$ <u>870,428</u>	<u>\$ 168,285</u>	<u>\$ 702,143</u>
Allocation of G & A Expenses $\frac{7}{10}$	\$ <u>899,245</u>	<u>628,019</u>	<u>271,226</u>
Total Indirect Expenses	<u>\$1,769,673</u>	<u>\$ 796,304</u>	<u>\$ 973,369</u>
 <u>Overhead Rate</u>			
Indirect Expenses divided by Direct Salaries	<u>120.3%</u>		<u>66.2%</u>

NOTES TO EXHIBIT E

1/ We questioned Indonesian Salaries, Overtime, Benefits, and Allowances for employees whose salaries and related expenses were not properly allocable to AID-funded contracts (See 41 CFR 1-15.201-4 for definition of allocability). The amounts questioned, as detailed below, pertain to secretaries, drivers and other support personnel identified with and properly chargeable to either specific contracts not AID-funded, or G & A.

<u>Expense Item</u>	<u>Proposed</u>	<u>Questioned</u>	<u>Transferred to G & A</u>	<u>Accepted</u>
Salaries, Indo.	\$ 99,654	\$ 25,075	\$ 22,660	\$ 51,919
Salaries, Indo.O/T	60,182	15,144	13,684	31,354
Medical Allow.	15,739	3,960	3,579	8,200
Transport. Allow.	10,856	2,731	2,469	5,656
Severance, Vac.	20,478	5,153	4,656	10,669
Total	<u>\$206,909</u>	<u>\$ 52,063</u>	<u>\$ 47,048</u>	<u>\$107,798</u>

Contractor concurred with Audit determination.

2/ We questioned Computer Fee/Payroll Processing charges of \$41,512, which represent an unauthorized profit added to RMI-owned companies' costs of performing the payroll processing function. It had been previously agreed between USAID/Indonesia and RMI that these charges would not be reimbursed under the USAID-funded contracts. Contractor concurred with our adjustment to eliminate them.

3/ Charges to the Manila office contained entertainment costs in the amount of \$2,257 that are unallowable in accordance with 41 CFR 1-15.205-11. Contractor concurred.

4/ Charges to the Washington, D. C. office contained entertainment costs in the amount of \$4,304 that are unallowable in accordance with 41 CFR 1-15.205-11. Contractor concurred.

5/ The Utilities, Office Repair and Maintenance account contained costs in the amount of \$16,298 that were improperly allocated to the Consulting Division. These costs should have been charged to:

Operations Division	\$ 7,145
G & A Expenses	<u>9,153</u>
Total	<u>\$16,298</u>

Contractor concurred.

6/ Indonesian Taxes, Indonesian, proposed \$13,667

Amounts questioned were properly allocable to:

G & A Expenses \$ 3,252

Specific contracts not AID-funded 1,068

Operations Division 483

Total questioned 4,803

Amount accepted \$ 8,864

Contractor concurred.

7/ See Exhibit F for G & A Expenses proposed, questioned and accepted.

RESOURCES MANAGEMENT INTERNATIONAL, INC.
GENERAL AND ADMINISTRATIVE EXPENSES (G & A)
ALLOCATED TO CONSULTING DIVISION - CALENDAR YEAR 1981

G & A Expense Item	Proposed by Contractor			Questioned by Audit			Accepted for Allocation to Consulting Division	
	Amount Booked	Not Claimed	Amount Claimed	Allocation to Consulting Div. (25.1%) 1/	Allocation to Consulting Div. (16.6%) 2/	Other Reason, As Noted		Total Amount Questioned
Salaries, Expatriate	\$ 603,084		\$ 603,084	\$151,555	\$100,413	\$ 424 7/	\$100,837	\$ 50,718
Salaries, Indonesian	166,731		166,731	41,500	27,761	(1,922) 7/	25,839	16,061
Salaries, O/T, Indo.	61,632		61,632	15,488	10,262	(1,161) 5/	9,101	6,387
Indonesian Taxes, Expat.	162,265		162,265	40,777	27,017		27,017	13,760
Indonesian Taxes, Indo.	38,509		38,509	9,677	6,412	(276) 5/	6,136	3,541
Rent	97,298		97,298	24,451	16,200		16,200	8,251
Entertainment & Promotion	122,512	\$ 122,512	-0-	-0-	-0-	-0-	-0-	-0-
Dues, Subscrip. & Publica.	18,472		18,472	4,642	3,076	110 7/	3,186	1,456
Auto Expense	111,982		111,982	28,141	18,645		18,645	9,496
Housing & Quarters Expense	166,453		166,453	41,830	27,714		27,714	14,116
Medical & School Allowances	17,998		17,998	4,523	2,997	(303) 4/	2,694	1,829
Employee Ben., Trans. Allow.	130,329		130,329	32,752	21,700	(209) 5/	21,491	11,261
Meal Allowance	14,317		14,317	3,598	2,384		2,384	1,214
Severance, Vac., Bonuses	170,066		170,066	42,738	28,316	(395) 4/	27,921	14,817
Singapore Office	154,048		154,048	38,713	25,649		25,649	13,064
Bangkok Office	114,489		114,489	28,771	19,062		19,062	9,709
Payroll Taxes	27,837		27,837	6,995	4,635		4,635	2,360
Ins. P/R Related, Expat.	(8,027)		(8,027)	(2,017)	(1,336)		(1,336)	(681)
Ins. P/R Related, Indo.	7,833		7,833	1,968	1,304		1,304	664
Group Insurance	19,161		19,161	4,815	3,190		3,190	1,625
Immigration Costs	9,565		9,565	2,404	1,593		1,593	811
Recruitment Costs	46,071		46,071	11,578	7,671		7,671	3,907
Mobilization/Demobilization	89,480		89,480	22,486	14,898	7,516 8/	22,414	72
Transportation Costs	125,003		125,003	31,413	20,813	3,033 8/	23,846	7,567
Travel Expenses	54,676		54,676	13,740	9,104		9,104	4,676
Depreciation, Furn. & Autom	80,169		80,169	20,147	13,348		13,348	6,799
Office Sup., Print., Repro.	149,375		149,375	37,538	24,871		24,871	12,667
Legal and Audit	369,815		369,815	92,935	61,574	13,306 9/	74,880	18,055
Postage and Freight	30,860		30,860	7,755	5,138		5,138	2,617
Taxes and Licenses	33,332		33,332	8,376	5,550		5,550	2,826
Professional Services	9,742		9,742	2,445	1,622		1,622	826
Util., Repair, Maint.	46,440		46,440	11,670	7,732	(776) 10/	6,956	4,714
Foreign Exchange	(180,884)		(180,884)	(45,456)	(30,118)		(30,118)	(15,338)
Bank Commissions & Charges	96,339		96,339	24,210	16,040		16,040	8,170
Telephone	83,876		83,876	21,078	13,965	1,160 11/	15,125	5,933
Telex	88,246		88,246	22,176	14,693		14,693	7,453
Interest	1,108,374	1,108,374	-0-	-0-	-0-		-0-	-0-
Casual Labor	6,984		6,984	1,755	1,163		1,163	592
Insurance Not P/R Related	20,399		20,399	5,126	3,396		3,396	1,730
Bonuses	254,280	240,000	14,280	3,589	2,378		2,378	1,211
Operation Fees	113,412		113,412	28,501	18,883	8,976 12/	27,859	642
Proposal Cost	84,904		84,904	21,336	14,137		14,137	7,199
Overhead Charge/(Credit)	(36,961)		(36,961)	(9,288)	(6,154)		(6,154)	(3,174)
Prov. for Doubtful Acc'ts	21,833		21,833	5,486	3,635	1,851 6/	5,486	-0-
Computer Fee/Payroll Proces.	8,215		8,215	2,064	1,368	696 3/	2,064	-0-
Pension/Profit Sharing Plans	98,281		98,281	24,698	16,364		16,364	8,334
Miscellaneous	40,445		40,445	10,163	6,734	190 7/	6,924	3,239
Total G & A Expenses	\$5,049,260	\$1,470,886	\$3,578,374	\$899,245	\$595,799	\$32,220	\$528,019	\$271,226

EXHIBIT F

NOTES TO EXHIBIT F

1/ In its revised proposal, RMI allocated G & A expenses to the Consulting and Operations Division overhead pools for calendar year 1981 in the following amounts:

	Ratio	Amount
Consulting Division	25.13%	\$ 899,245
Operations Division	74.87%	2,679,129
Total	100.00%	\$3,578,374

The base for allocation was direct salaries. Allocation percentages were derived by dividing total direct salaries of the particular division by total direct salaries of both divisions.

2/ We believe that Cost of Sales is a more equitable basis for allocating G & A expenses to the overhead pools of the Divisions benefited, as explained on page 5, and reallocated the Contractor's 1981 G & A expenses on that basis, as follows:

	Cost of Sales	Ratio
Consulting Division	\$ 3,956,018	8.48%
Operations Division	42,684,635	91.52%
Total	\$46,640,653	100.00%

The summary of total G & A expenses proposed by RMI, amounts allocated to the Consulting Division by the Contractor, and those allocations accepted by Audit is as follows:

Total G & A expenses claimed		\$3,578,374
	Percent of Total	Amount
Allocation by Contractor	25.13%	\$ 899,245
Accepted by Audit	8.48%	303,446
Questioned by Audit	16.65%	\$ 595,799

3/ We questioned Computer Fee/Payroll Processing charges as being unauthorized profit on this function, as explained in Exhibit E, Note 2/. The amount charged to G & A for 1981 was \$8,215. The effect of the audit adjustment was as follows:

Amount questioned		\$ 8,215
Allocated to Consulting Division	25.13%	\$ 2,064
Amount questioned - Note <u>2/</u>	16.65%	1,368
Additional questioned - Note <u>3/</u>	8.48%	\$ 696

4/ These adjustments resulted from the transfer of costs from the Consulting Division overhead to G & A, as explained in Note 1/ to Exhibit E. The effect was to allow additional costs, as follows:

Expense Item	Amount Transferred to G & A	Applicable to Consulting Division (8.48%)
Salaries, Indo.	(\$22,660)	(\$ 1,922)
Salaries, Indo. O/T	(13,684)	(1,161)
Medical Allow.	(3,579)	(303)
Transport. Allow.	(2,469)	(209)
Severance, Vac.	(4,656)	(395)
Total	<u>(\$47,048)</u>	<u>(\$ 3,990)</u>

5/ Indonesian Taxes, Indonesian, in the amount of \$3,252 was transferred from Consulting Division overhead to G & A. (See Exhibit E, Note 6/.) The effect was as follows:

Amount transferred to G & A		<u>\$(3,252)</u>
Allocated to Consulting Division	25.13%	\$(817)
Amount questioned under Note <u>2/</u>	16.65%	(541)
Additional questioned - Note <u>5/</u>	<u>8.48%</u>	<u>\$(276)</u>

6/ The G & A expense pool included a charge of \$21,833 for bad debts (Provision for Doubtful Accounts) which was unallowable in accordance with 41 CFR 1-15.205-2. The effect of the audit adjustment was as follows:

Bad debt charges questioned		<u>\$ 21,833</u>
Allocated to Consulting Division	25.13%	\$ 5,487
Amount questioned - Note <u>2/</u>	16.65%	3,636
Additional questioned - Note <u>6/</u>	<u>8.48%</u>	<u>\$ 1,851</u>

7/ Supporting detail was missing for three of the line items in the Contractor's G & A proposal, as follows:

Item	Amount		
	Proposed	Supported	Unsupported
U.S. Salaries	\$603,084	\$598,084	\$ 5,000
Dues, Subscriptions	18,472	17,174	1,298
Miscellaneous	40,445	38,214	2,231

We questioned the unsupported amounts, which resulted in adjustments as follows:

		<u>Salaries</u>	<u>Dues</u>	<u>Miscellaneous</u>
Unsupported		<u>\$5,000</u>	<u>\$1,298</u>	<u>\$ 2,231</u>
Allocated to Consulting	25.13%	\$1,256	\$ 326	\$ 561
Amount questioned - Note 2/	16.65%	832	216	371
Additional questioned-Note 7/	<u>8.48%</u>	<u>\$ 424</u>	<u>\$ 110</u>	<u>\$ 190</u>

8/ The Contractor's G & A proposal for 1981 included charges for mobilization/demobilization expenses (\$88,626) and transportation expenses (\$35,770) which were estimated and accrued at year end. RMI set up liability accounts at the time of accrual, but the amounts estimated in both cases were excessive. The Contractor adjusted these liability account balances as of December 31, 1982, and again, as of December 31, 1983. The result of these book entries was to arbitrarily shift costs among the three years. We have reversed these entries to recognize actual costs for the year in which paid. Contractor concurred. The audit adjustments had the following effect on G & A allocated to the Consulting Division for 1981:

		<u>Mobilization/ Demobilization</u>	<u>Transportation</u>
Amount questioned		<u>\$ 88,626</u>	<u>\$ 35,770</u>
Allocated to Consulting	25.13%	\$ 22,272	\$ 8,989
Amount questioned - Note 2/	16.65%	14,756	5,956
Additional questioned-Note 8/	<u>8.48%</u>	<u>\$ 7,516</u>	<u>\$ 3,033</u>

9/ Legal and Audit expenses contained \$156,912 of legal fees paid by the Contractor in the pursuit of a lawsuit against a joint-venture partner. We questioned this amount because the Contractor could not show that this expense was "necessary for the conduct of the contractor's business or the performance of the (AID) contract(s)". (Ref: 41 CFR 1-15.201-3(a)). Contractor concurred.

The amount questioned had the following effect:

Legal and Audit expenses questioned		<u>\$156,912</u>
Allocated to Consulting Division	25.13%	\$ 39,432
Amount questioned under Note 2/	16.65%	26,126
Additional questioned - Note 9/	<u>8.48%</u>	<u>\$ 13,306</u>

10/ Utilities, Repairs and Maintenance charges in the amount of \$9,153 were transferred from Consulting Division overhead to G & A. (See Exhibit E, Note 5/.) The effect was as follows:

Amount transferred		<u>\$ (9,153)</u>
Allocated to Consulting Division	25.13%	\$ (2,300)
Amount Questioned under Note 2/	16.65%	(1,524)
Additional questioned - Note <u>10/</u>	<u>8.48%</u>	<u>\$ (776)</u>

11/ We questioned \$13,679 of charges for Telephone expenses that should have been charged to the Operations Division overhead pool, rather than G & A. Contractor concurred. The effect of the adjustment was as follows:

Amount of Telephone expenses questioned		<u>\$ 13,679</u>
Allocated to the Consulting Division	25.13%	\$ 3,438
Amount questioned - Note 2/	16.65%	2,278
Additional questioned - Note <u>11/</u>	<u>8.48%</u>	<u>\$ 1,160</u>

12/ We questioned \$105,849 of Operation Fees that should have been charged to the Operations Division overhead pool, rather than G & A. Contractor concurred. The effect of the adjustment was as follows:

Amount of Operation Fees questioned		<u>\$105,849</u>
Allocated to Consulting Division	25.13%	\$26,600
Amount questioned - Note 2/	16.65%	17,624
Additional questioned - Note <u>12/</u>	<u>8.48%</u>	<u>\$ 8,976</u>

RESOURCES MANAGEMENT INTERNATIONAL, INC.
CONSULTING DIVISION - OVERHEAD RATE COMPUTATION
CALENDAR YEAR 1982

EXHIBIT G

	<u>Proposed by</u> <u>Contractor</u>	<u>Per Audit</u>	
		<u>Questioned</u>	<u>Accepted</u>
<u>Base - Direct Salaries</u>	<u>\$2,143,641</u>	<u>\$(18,836) 8/</u>	<u>\$2,124,805</u>
 <u>Indirect Expenses</u>			
Salaries, Expatriate	\$ 189,656		\$ 189,656
Salaries, Indonesian	151,375	\$ 63,670 <u>1/</u>	87,705
Salaries, Indonesian O/T	91,868	38,635 <u>1/</u>	53,233
Indonesian Taxes, Expat.	14,987		14,987
Indonesian Taxes, Indo.	26,491	7,982 <u>7/</u>	18,509
Rent	47,013		47,013
Contribution to Profit Sharing	14,225		14,225
Dues, Subscriptions, Publications	1,632		1,632
Auto Expense	50,930		50,930
Housing, Quarters Expense	58,930		58,930
Medical Allowances	32,360	13,618 <u>1/</u>	18,742
Transportation Allowance	18,379	7,725 <u>1/</u>	10,654
Meal Allowance	4,937		4,937
Schooling	4,350		4,350
Severance Pay, Vacation, Bonuses	26,906	11,306 <u>1/</u>	15,600
Manila Office	82,275	8,456 <u>2/</u>	73,819
Washington, D.C. Office	66,207	6,475 <u>3/</u>	59,732
Insurance P/R Related, Expat.	2,655		2,655
Insurance P/R Related, Indo.	2,018		2,018
Group Insurance	4,235		4,235
Immigration Costs	5,580		5,580
Recruitment Costs	684		684
Mobilization/Denobilization	1,950		1,950
Transportation	12,267		12,267
Travel	14,326		14,326
Depreciation, Furniture & Fixtures	12,489		12,489
Depreciation, Autos	5,336		5,336
Office Supplies, Print., Repro.	51,977		51,977
Postage	166		166
Professional Services	11,221		11,221
Utilities, Office Repair, Maint.	59,363	32,644 <u>4/</u>	26,719
Telephone	30,051	14,623 <u>5/</u>	15,428
Money Purchase Pension Plan	16,541		16,541
Casual Labor	2,381		2,381
Operation Fees	3,600		3,600
Proposal Cost	2,544		2,544
Overhead Charge/(Credit)	(19,565)	(9,951) <u>6/</u>	(9,614)
Miscellaneous	11,608		11,608
 Subtotal Indirect Expenses	 <u>\$1,113,948</u>	 <u>\$ 195,183</u>	 <u>\$ 918,765</u>
Allocation of G & A Expenses <u>9/</u>	<u>1,211,929</u>	<u>644,634</u>	<u>567,295</u>
Total Indirect Expenses	<u>\$2,325,877</u>	<u>\$ 839,817</u>	<u>\$1,486,060</u>
 <u>Overhead Rate</u>			
Indirect Expenses divided by Direct Salaries	<u>108.5%</u>		<u>69.9%</u>

NOTES TO EXHIBIT G

1/ We questioned Indonesian Salaries, Overtime, Benefits, and Allowances for employees whose salaries and related expenses were not properly allocable to AID-funded contracts (See CFR 1-15.201-4 for definition of allocability). The amounts questioned, as detailed below, pertain to secretaries, drivers and other support personnel identified with and properly chargeable to either specific contracts not AID funded, or G & A.

<u>Expense Item</u>	<u>Proposed</u>	<u>Questioned</u>	<u>Transferred to G & A</u>	<u>Accepted</u>
Salaries, Indo.	\$151,375	\$ 45,117	\$ 18,553	\$ 87,705
Salaries, Indo. O/T	91,868	27,374	11,261	53,233
Medical Allow.	32,360	9,653	3,965	18,742
Transport. Allow.	18,379	5,471	2,254	10,654
Severance, Vac.	26,906	8,006	3,300	15,600
Total	<u>\$320,888</u>	<u>\$ 95,621</u>	<u>\$ 39,333</u>	<u>\$185,934</u>

Contractor concurred with Audit determination.

2/ Manila Office costs proposed \$ 82,275
 Manila Office costs, not supported \$1,531

Items included in proposal that are unallowable:

Entertainment (41 CFR 1-15.201.11) 6,775

Payroll processing (profit on the payroll processing function not authorized for reimbursement, as explained in Exhibit E, Note 2/) 150

Total questioned 8,456

Manila Office costs accepted \$ 73,819

Contractor concurred.

3/ Washington, D. C. Office costs proposed \$ 66,207

Items included in proposal that were unallowable:

Entertainment (See Note 2/, above) \$ 4,675

Payroll processing (See Note 2/, above) 1,800

Total questioned 6,475

Washington, D. C. Office costs accepted \$ 59,732

Contractor concurred.

4/ The Utilities, Office Repair and Maintenance account included costs in the amount of \$32,644 that were improperly allocated to the Consulting Division. These costs should have been charged to:

Operations Division	\$ 18,013
G & A Expenses	<u>14,631</u>
Total	<u>\$ 32,644</u>

Contractor concurred.

5/ The Telephone account included costs in the amount of \$14,623 that were improperly allocated to the Consulting Division. These costs should have been charged to:

Operations Division	\$ 8,426
G & A Expenses	<u>6,197</u>
Total questioned	<u>\$ 14,623</u>

Contractor concurred.

6/ Two Consulting Division officials, whose salaries normally were charged to overhead, worked a portion of their time in 1982 on direct tasks for the USAID AARP contract. The direct portion of their salaries was subject to an overhead application. RMI properly applied overhead in the amount of \$9,951 (89.2% of \$11,156 direct salaries), and billed the USAID accordingly. The Contractor, however, erroneously reduced the overhead pool by the amount of overhead billed. This action was not consistent with their established procedures for billing overhead. We adjusted to reinstate those expenses erroneously deleted from the overhead pool. Contractor concurred.

7/ We have questioned Indonesian Taxes, Indonesian applicable to support personnel identified with and properly chargeable to cost centers other than Consulting Division overhead:

Specific contracts, not AID-funded	\$ 3,273
Operations Division	<u>1,569</u>
Subtotal	\$ <u>4,842</u>
G & A (See Exhibit H, Note <u>5/</u> for credit)	<u>3,140</u>
Total questioned	<u>\$ 7,982</u>

Contractor concurred.

8/ We adjusted the 1982 Consulting Division direct salary base to reconcile with direct salaries accepted by Audit for application of overhead, as shown in Exhibit B of this report. The differences resulted from RMI arithmetical errors, and USAID adjustments (debit memos) not given effect in RMI records. The adjustment was \$18,836 and applied to AID-funded contracts as follows:

<u>Contract</u>	<u>Direct Salaries</u>		
	<u>Proposed</u>	<u>Understated (Overstated)</u>	<u>Accepted</u>
No. 497-79-100.37	\$ 285,834	\$ (6,391)	\$ 279,443
No. 497-0276-C-00-1010	202,831	-0-	202,831
No. 497-0281-C-00-1089	160,281	(4,958)	155,323
Host Country-Proj. 0302	105,840	(7,487)	98,353
Subtotal	\$ 754,786	\$ (18,836)	\$ 735,950
Total of Contracts not AID-funded	1,388,855	-0-	1,388,855
Total Direct Salary Base	<u>\$2,143,641</u>	<u>\$ (18,836)</u>	<u>\$2,124,805</u>

9/ See Exhibit H for G & A Expenses proposed, questioned and accepted.

RESOURCES MANAGEMENT INTERNATIONAL, INC.
GENERAL AND ADMINISTRATIVE EXPENSES (G & A)
ALLOCATED TO CONSULTING DIVISION - CALENDAR YEAR 1982

G & A Expense Item	Proposed by Contractor			Questioned by Audit			Accepted for Allocation to Consulting Division	
	Amount Booked	Not Claimed	Amount Claimed	Allocation to Consulting Div. (48.45%) 1/	Allocation to Consulting Div. (26.64%) 2/	Other Reason, As Noted		Total Amount Questioned
Salaries, Expatriate	\$ 562,815		\$ 562,815	\$ 272,684	\$149,934		\$149,934	\$122,750
Salaries, Indonesian	304,332		304,332	147,449	81,074		77,028	70,421
Salaries, O/T, Indo.	82,472		82,472	39,958	21,970	\$(4,046) 4/	19,514	20,444
Indonesian Taxes, Expat.	116,203		116,203	56,300	30,956	(2,456) 4/	30,956	25,344
Indonesian Taxes, Indo.	36,930		36,930	17,892	9,838	(685) 5/	9,153	8,739
Rent	125,224		125,224	60,671	33,360		33,360	27,211
Entertainment & Promotion	96,655	\$ 96,655	-0-	-0-	-0-	-0-	-0-	-0-
Dues, Subscrip. & Publica.	15,188		15,188	7,359	4,046		4,046	3,313
Auto Expense	98,607		98,607	47,775	26,269		26,269	21,506
Housing & Quarters Expense	130,064		130,064	63,016	34,649		34,649	28,367
Medical Allowance	26,023		26,023	12,608	6,932	(865) 4/	6,067	6,541
Transportation Allowance	13,591		13,591	6,585	3,621	(492) 4/	3,129	3,456
Meal Allowance	13,334		13,334	6,460	3,552		3,552	2,908
Schooling	18,988		18,988	9,200	5,058		5,058	4,142
Severance, Vacation, Bonuses	16,614		16,614	8,049	4,426	(720) 4/	3,706	4,343
Bangkok Office	202,507		202,507	92,115	53,948		53,948	44,167
Payroll Taxes	34,641		34,641	16,784	9,228		9,228	7,556
Insurance P/R Related, Expat.	8,478		8,478	4,108	2,259		2,259	1,849
Insurance P/R Related, Indo.	13,779		13,779	6,676	3,671		3,671	3,005
Group Insurance	16,336		16,336	7,915	4,352		4,352	3,563
Immigration Costs	9,809		9,809	4,752	2,613		2,613	2,139
Recruitment Costs	5,816		5,816	2,818	1,549		1,549	1,269
Mobilization/Demobilization	4,553		4,553	2,206	1,213	552 9/	1,765	441
Transportation Costs	98,152		98,152	47,555	26,148	(5,664) 9/	20,484	27,071
Travel Expenses	78,133		78,133	37,855	20,815		20,815	17,040
Depreciation, Furn., & Autos	63,200		63,200	30,620	16,836		16,836	13,784
Office Supplies, Print., Repro.	93,860		93,860	45,475	25,004		25,004	20,471
Legal and Audit	218,143		218,143	105,690	58,113	5,767 6/	63,880	41,810
Postage and Freight	20,949		20,949	10,150	5,581		5,581	4,569
Taxes and Licenses	24,588		24,588	11,913	6,550		6,550	5,363
Professional Services	18,642		18,642	9,032	4,966		4,966	4,066
Util., Office Repair, Maint.	72,949		72,949	35,344	19,434	(3,191) 7/	16,243	19,101
Foreign Exchange	(227,839)		(227,839)	(110,388)	(60,696)		(60,696)	(49,692)
Bank Commissions & Charges	52,610		52,610	25,490	14,015		14,015	11,475
Telephone Expense	78,441		78,441	38,005	20,897	(1,352) 8/	19,545	18,460
Telex Expense	58,971		58,971	28,571	15,710		15,710	12,861
Interest	473,971	473,971	-0-	-0-	-0-		-0-	-0-
Casual Labor	5,600		5,600	2,713	1,492		1,492	1,221
Insurance Not P/R Related	15,427		15,427	7,474	4,110		4,110	3,364
Bonuses	250,000	250,000	-0-	-0-	-0-		-0-	-0-
Operation Fees	6,980		6,980	3,382	1,859		1,859	1,523
Proposal Cost	33,808		33,808	16,380	9,006		9,006	7,374
Overhead Charge/(Credit)	(215,996)		(215,996)	(104,650)	(57,541)		(57,541)	(47,109)
Contri. to Pension Plan	63,726		63,726	30,875	16,977		16,977	13,898
Contri. to Profit Sharing	54,804		54,804	26,552	14,000		14,000	11,952
Miscellaneous	29,950		29,950	14,511	7,979		7,979	6,532
RMI Ltd - Thailand						(8,587) 3/	(8,587)	8,587
Total G & A Expenses	\$3,322,028	\$820,626	\$2,501,402	\$1,211,929	\$666,373	\$(21,739)	\$644,634	\$567,295

EXHIBIT H

NOTES TO EXHIBIT H

1/ In its revised proposal, RMI allocated G & A expenses to the Consulting and Operations Division overhead pools for calendar year 1982 in the following amounts:

	Ratio	Amount
Consulting Division	48.45%	\$1,211,929
Operations Division	51.55%	1,289,472
Total	100.00%	\$2,501,401

The base for allocation was direct salaries. Allocation percentages were derived by dividing total direct salaries of the particular division by total direct salaries of both divisions.

2/ We believe that Cost of Sales is a more equitable basis for allocating G & A expenses to the overhead pools of the Divisions benefited, as explained on page 5, and reallocated the Contractor's 1982 G & A expenses on that basis, as follows:

	Cost of Sales	Ratio
Consulting Division	\$ 5,301,938	21.81%
Operations Division	19,012,614	78.19%
Total	\$24,314,552	100.00%

A summary of total G & A expenses proposed by RMI, amount allocated to the Consulting Division by the Contractor, and allocations accepted by Audit, is as follows:

Total G & A expenses claimed	\$2,501,402
------------------------------	-------------

	Percent of Total	Amount
Allocation by Contractor	48.45%	\$1,211,929
Accepted by Audit	21.81%	545,556
Questioned by Audit	26.64%	\$ 666,373

3/ The Contractor's overhead proposal for 1982 did not include G & A expenses of Resources Management International - Thailand, a company 100 percent owned and managed by the Contractor. RMI Ltd - Thailand's total cost of sales was included in the base for determining the percentage of G & A expenses that should be allocated to each of the Contractor's two divisions. For accounting consistency, RMI Ltd - Thailand's G & A expenses should be included in the Contractor's G & A expense pool that is being allocated. Therefore, we accepted \$39,374 of this company's G & A expenses for inclusion in the pool.

The effect was as follows:

Additional G & A expenses allowed	<u>\$(39,374)</u>
Amount applicable to Consulting Division - 21.81% per Note <u>2/</u> , above	<u>\$(8,587)</u>

4/ These adjustments resulted from the transfer of costs from the Consulting Division overhead to G & A, as explained in Note 1/ to Exhibit G. The effect was as follows:

<u>Expense Item</u>	<u>Total Amount Transferred</u>	<u>Applicable To Consulting Division (21.81%)</u>
Salaries, Indo.	\$(18,553)	\$ (4,046)
Salaries, Indo. O/T	(11,261)	(2,456)
Medical Allow.	(3,965)	(865)
Transport. Allow.	(2,254)	(492)
Severance, Vac.	(3,300)	(720)
Total	<u>\$(39,333)</u>	<u>\$ (8,579)</u>

5/ Indonesian Taxes, Indonesian, in the amount of \$3,140 was transferred from Consulting Division overhead to G & A. (See Exhibit G, Note 7/.) The effect was as follows:

Total Indonesian Taxes, Indonesian transferred to G & A	<u>\$ (3,140)</u>
Amount applicable to Consulting Division - 21.81% per Note <u>2/</u> , above	<u>\$ (685)</u>

6/ Legal and Audit expenses contained \$26,442 of legal fees paid by the Contractor in the pursuit of a lawsuit against a joint-venture partner. We questioned this amount because the Contractor could not show that this expense was "necessary for the conduct of the contractor's business or the performance of the (USAID) contract(s)". (Ref: 41 CFR 1-15.201-3(a)). Contractor concurred.

The amount questioned had the following effect on G & A applicable to the Consulting Division:

Total Legal and Audit expenses questioned \$26,442

Amount applicable to Consulting Division -
21.81% per Note 2/, above. \$ 5,767

7/ Utilities, Repairs and Maintenance charges in the amount of \$14,631 were transferred from Consulting Division overhead to G & A. (See Exhibit G, Note 4/). The effect was to increase allowable G & A expenses, as follows:

Total Utilities, Repairs and Maintenance
expenses transferred to G & A \$(14,631)

Amount applicable to Consulting Division -
21.81% per Note 2/, above \$(3,191)

8/ Telephone charges in the amount of \$6,197 were transferred from Consulting Division overhead to G & A. (See Exhibit G, Note 5/). The effect was to increase allowable G & A expenses as follows:

Total Telephone expenses transferred to G & A \$(6,197)

Amount applicable to Consulting Division -
21.81% per Note 2/, above \$(1,352)

9/ The Contractor's G & A proposal for 1981 included charges for Mobilization/Demobilization expenses (\$88,626) and Transportation expenses (\$35,770) which were estimated and accrued at year end. RMI set up liability accounts at the time of accrual, but the amounts estimated in both cases were excessive. The Contractor adjusted these liability account balances as of December 31, 1982, and again, as of December 31, 1983. The result of these book entries was to arbitrarily shift costs among the three years. We reversed these entries to recognize actual costs for the year in which paid. To reverse these entries for 1982, consistent with prior year adjustments, we reduced Mobilization/Demobilization expenses by \$2,530 and increased Transportation expenses by \$25,970. Contractor concurred. The effect was as follows:

	<u>Mobilization/ Demobilization</u>	<u>Transportation</u>
Total amount questioned (added)	<u>\$2,530</u>	<u>\$(25,970)</u>
Amount applicable to Consulting Division - 21.81% per Note <u>2/</u> , above	<u>\$ 552</u>	<u>\$(5,664)</u>

RESOURCES MANAGEMENT INTERNATIONAL, INC.
CONSULTING DIVISION - OVERHEAD RATE COMPUTATION
CALENDAR YEAR 1983

EXHIBIT I

	<u>Proposed by</u> <u>Contractor</u>	<u>Per Audit</u>	
		<u>Questioned</u>	<u>Accepted</u>
<u>Base - Direct Salaries</u>	<u>\$1,888,122</u>	<u>\$ 586,323 1/</u>	<u>\$2,474,445</u>
 <u>Indirect Expenses</u>			
Salaries, Expatriate	\$ 217,092		\$ 217,092
Salaries, O/T, Bonuses, Indo.	107,590		107,590
Indonesian Taxes, Expatriate	8,373		8,373
Indonesian Taxes, Indonesian	15,370		15,370
Rent	11,906		11,906
Dues, Subscriptions, Publications	959		959
Auto Expense	44,521		44,521
Housing, Quarters Expense	57,341		57,341
Employee Benefits	5,756		5,756
Manila Office	65,264	9,530 <u>2/</u>	55,734
Washington, D.C. Office	56,874	8,931 <u>3/</u>	47,943
Insurance P/R Related, Expat.	1,088		1,088
Insurance P/R Related, Indo.	2,677		2,677
Group Insurance	4,294		4,294
Immigration Costs	2,148		2,148
Recruitment Costs	2,324		2,324
Mobilization/Demobilization	1,422		1,422
Transportation	11,675		11,675
Travel	4,794		4,794
Depreciation, Furniture & Fixtures	7,286		7,286
Depreciation, Autos	3,334		3,334
Office Supplies, Print., Repro.	21,991		21,991
Postage	1,354		1,354
Professional Services	8,622		8,622
Utilities, Office Repair, Maint.	19,809		19,809
Miscellaneous	9,776		9,776
Proposal Cost	17,400		17,400
Overhead Charge/(Credit)	(18,045)		(18,045)
Contribution to Profit Sharing	18,516		18,516
Contribution to Money Purchase Pension Plan	21,530		21,530
Subtotal Indirect Expenses	<u>\$ 733,041</u>	<u>\$ 18,461</u>	<u>714,580</u>
Allocation of G & A Expenses <u>4/</u>	<u>977,965</u>	<u>187,721</u>	<u>790,244</u>
Total Indirect Expenses	<u>\$1,711,006</u>	<u>\$206,182</u>	<u>\$1,504,824</u>
 <u>Overhead Rate</u>			
Indirect Expenses divided by Direct Salaries	<u>90.6%</u>		<u>60.8%</u>

NOTES TO EXHIBIT I

1/ Direct salary base proposed by Contractor \$1,888,122

Audit adjustments:

Ref.

below

(a)	To reconcile with direct salaries accepted for USAID-funded contracts as shown in Exhibit B of this report. The differences resulted from RMI errors and USAID adjustments not recorded in RMI books.	\$ (35,324)
(b)	To add back amounts designated as "post differential" without support, and excluded from the direct salary base. This affected nine non-AID-funded contracts.	128,408
(c)	To add back salaries of two contracts reclassified, without support, from the Consulting Division to the Operations Division	<u>493,239</u>
	Total adjustments	<u>586,323</u>
	Direct salary base per Audit	<u>\$2,474,445</u>

Adjustments (b) and (c) are further explained on page 7 of this report. Details of the adjustments, by contract, are as follows:

	<u>Direct Salary Base</u>			
	<u>Proposed</u>	<u>Understated (Overstated)</u>	<u>Ref. Above</u>	
<u>USAID-Funded Contracts</u>				
No. 497-79-100.37	\$ 182,236	\$ 698	(a)	\$ 182,934
No. 497-0276-C-00-1010	262,700	(4,130)	(a)	258,570
No. 497-0281-C-00-1089	267,737	(1,183)	(a)	266,554
Host Country-Proj.0302	377,098	(30,709)	(a)	346,389
Subtotal USAID-funded	<u>\$1,089,771</u>	<u>\$ (35,324)</u>	(a)	<u>\$1,054,447</u>
<u>Non-AID-Funded Contracts</u>				
No. 46	\$ 82,491	\$ 4,494	(b)	\$ 86,985
71	76,478	16,117	(b)	92,595
92	304,716	33,876	(b)	338,592
98	9,704	1,456	(b)	11,160
100	48,241	8,388	(b)	56,629
517	23,172	2,317	(b)	25,489
530	173,088	25,845	(b)	198,933
542	80,461	-0-		80,461
94	-0-	361,522	(c)	
		16,203	(b)	377,725
532	-0-	131,717	(c)	
		19,712	(b)	151,429
Subtotal Non-AID-funded	<u>\$ 798,351</u>	<u>\$ 621,647</u>		<u>\$1,419,998</u>
Total	<u>\$1,888,122</u>	<u>\$ 586,323</u>		<u>\$2,474,445</u>

2/ Manila Office costs proposed \$ 65,264

Items included in proposal that were unallowable:

Entertainment (41 CFR 1-15.205-11)	\$ 7,730	
Payroll processing (profit on the payroll processing function not authorized for reimbursement, as explained in Exhibit E, Note <u>2/</u>).	<u>1,800</u>	
Total questioned		<u>\$ 9,530</u>

Manila Office costs accepted \$ 55,734

Contractor concurred.

3/ Washington, D.C. Office costs proposed \$ 56,874

Items included in proposal that were unallowable:

Entertainment (See Note <u>2/</u> , above)	\$ 5,331	
Payroll processing (See Note <u>2/</u> , above)	<u>3,600</u>	
Total questioned		<u>8,931</u>

Washington, D. C. Office costs accepted \$ 47,943

Contractor concurred.

4/ See Exhibit J for G & A Expenses proposed, questioned and accepted.

RESOURCES MANAGEMENT INTERNATIONAL, INC.
GENERAL AND ADMINISTRATIVE EXPENSES (G & A)
ALLOCATED TO CONSULTING DIVISION - CALENDAR YEAR 1983

G & A Expense Item	Proposed by Contractor			Questioned by Audit			Accepted for Allocation to Consulting Division	
	Amount Booked	Not Claimed	Amount for Allocation	Allocation to Consulting Div. (36.48%) 1/	Allocation to Consulting Div. (3.72%) 2/	Other Reason, As Noted		Total Amount Questioned
Salaries, Expatriate	\$ 544,337		\$ 544,337	\$198,574	\$20,249		\$ 20,249	\$178,325
Salaries, O/T, Indo.	340,732		340,732	124,299	12,675		12,675	111,624
Indonesian Taxes, Expat.	108,596		108,596	39,616	4,040		4,040	35,576
Indonesian Taxes, Indo.	59,203		59,203	21,597	2,202		2,202	19,395
Rent	81,043		81,043	29,565	3,015		3,015	26,550
Entertainment & Promotion	78,163	\$ 78,163	-0-	-0-	-0-		-0-	-0-
Dues, Subscrip. & Publica.	16,239		16,239	5,924	604		604	5,320
Auto Expense	98,268		98,268	35,848	3,656		3,656	32,192
Housing & Quarters Expense	76,383		76,383	27,865	2,842		2,842	25,023
Medical Allowance	23,687		23,687	8,641	881		881	7,760
Transportation Allowance	11,936		11,936	4,354	444		444	3,910
Meal Allowance	20,029		20,029	7,307	745		745	6,562
Schooling	6,841		6,841	2,496	254		254	2,242
Severance, Vacation, Bonuses	293,687	264,000	29,687	10,830	1,104		1,104	9,726
Bangkok Office	70,095		70,095	25,571	2,608		2,608	22,963
Insurance P/R Related, Expat.	4,211		4,211	1,536	157		157	1,379
Insurance P/R Related, Indo.	9,372		9,372	3,419	349		349	3,070
Group Insurance	8,605		8,605	3,139	320		320	2,819
Immigration Costs	10,146		10,146	3,701	377		377	3,324
Recruitment Costs	17,118		17,118	6,245	637		637	5,608
Transportation	55,034		55,034	20,077	2,047		2,047	18,030
Travel	48,156		48,156	17,567	1,791		1,791	15,776
Depreciation, Furn. & Autos	34,845		34,845	12,711	1,296		1,296	11,415
Office Supplies, Print., Repro.	72,728		72,728	26,531	2,706		2,706	23,825
Legal and Audit	266,334	69,777	196,557	71,704	7,312		7,312	64,392
Postage and Freight	14,551		14,551	5,308	541		541	4,767
Taxes and Licenses	12,850		12,850	4,688	478		478	4,210
Professional Services	2,115		2,115	772	79		79	693
Util., Office Repair, Maint.	66,090		66,090	24,110	2,459		2,459	21,651
Foreign Exchange	(2,967)		(2,967)	(1,082)	(110)		(110)	(972)
Bank Commissions & Charges	63,233		63,233	23,067	2,352		2,352	20,715
Telephone	97,884		97,884	35,708	3,641		3,641	32,067
Telex	47,517		47,517	17,334	1,768		1,768	15,566
Interest	103,154	103,154	-0-	-0-	-0-		-0-	-0-
Payroll Processing Cost	11,550		11,550	4,213	430	\$ 3,783 4/	4,213	-0-
Insurance Not P/R Related	8,691		8,691	3,170	323		323	2,847
Operation Fees	18,003		18,003	6,567	670		670	5,897
Proposal Cost	11,226		11,226	4,095	418		418	3,677
Overhead Charge/(Credit)	(13,781)		(13,781)	(5,027)	(513)		(513)	(4,514)
Funded Employee Trust	150,000		150,000	54,720	5,580	49,140 5/	54,720	-0-
Contri. to Profit Sharing	20,869		20,869	7,613	776		776	6,837
Contri. to Pension Plan	68,610		68,610	25,029	2,552		2,552	22,477
Negotiated PAE Overhead	107,052		107,052	39,053	3,982	35,071 3/	39,053	-0-
RMI Ltd - Thailand	37,783		37,783	13,783	1,406		1,406	12,377
Miscellaneous	15,700		15,700	5,727	584		584	5,143
Total G & A Expenses	\$3,195,918	\$515,094	\$2,680,824	\$977,965	\$99,727	\$ 87,994	\$187,721	\$790,244

EXHIBIT J

1/1

NOTES TO EXHIBIT J

1/ RMI allocated G & A expenses to the Consulting and Operations Division overhead pools for calendar year 1983 in the following amounts:

	Ratio	Amount
Consulting Division	36.48%	\$ 977,965
Operations Division	63.52%	1,702,859
Total	100.00%	\$2,680,824

The base for allocation was direct salaries. Allocation percentages were derived by dividing total direct salaries of the particular division by total direct salaries of both divisions.

2/ We believe that Cost of Sales is a more equitable basis for allocating G & A expenses to the overhead pools of the Divisions benefited, as explained on page 5, and reallocated the Contractor's 1983 G & A expenses on that basis, as follows:

	Cost of Sales	Ratio
Consulting Division	\$ 6,132,800	32.76%
Operations Division	12,588,811	67.24%
Total	\$18,721,611	100.00%

A summary of total G & A expenses proposed by RMI, amount allocated to the Consulting Division by the Contractor, and allocations accepted by Audit, was as follows:

Total G & A expenses claimed		\$2,680,824
	Percent of Total	Amount
Allocation by Contractor	36.48%	\$ 977,965
Accepted by Audit	32.76%	878,238
Questioned by Audit	3.72%	\$ 99,727

3/ A negotiated settlement resulted from a law suit between RMI and Pacific Architects and Engineers, Inc. (PAE), a former joint-venture partner. As part of the settlement, RMI was required to pay PAE \$107,052 for previously unreimbursed overhead. The Contractor charged this amount to the organization's 1983 G & A expense pool, but was unable to identify the charge by element of cost or year of incurrence, or otherwise support its propriety as an allowable cost under the USAID contracts. We adjusted to remove this charge with the following effect:

Total Negotiated PAE Overhead questioned \$107,052

Amount applicable to the Consulting Division -
32.76%, per Note 2/, above \$ 35,071

4/ We questioned Computer Fee/Payroll Processing charges of \$11,550, which represent an unauthorized profit added to RMI-owned companies' costs of performing the payroll processing function. It had been previously agreed between USAID/Indonesia and RMI that these charges would not be reimbursed under the USAID-funded contracts. The Contractor concurred with our adjustment to eliminate them.

The effect of this adjustment was to question G & A in an additional amount of \$3,783, as follows:

Total Payroll Processing costs questioned \$11,550

Amount applicable to Consulting Division -
32.76%, per Note 2/, above \$ 3,783

5/ The Contractor, through Far East Manpower Services, Ltd, set up an employee trust in the amount of \$150,000, primarily for the benefit of the organization's Controller. Although the trust agreement was not executed until June 4, 1984, and no benefits under the agreement were payable until February 1, 1986, the Contractor accrued the liability on company books as of December 31, 1983, and charged the \$150,000 to the organization's G & A expense pool for 1983. For reasons explained on page 10, we questioned the entire amount. The effect was as follows:

Total Funded Employee Trust questioned \$150,000

Amount applicable to the Consulting Division -
32.76%, per Note 2/, above \$ 49,140

UNAUTHORIZED ADD-ONS TO SUBCONTRACT SALARIES
AND EXCESSIVE FIXED FEE REIMBURSEMENTS

Subcontract

RMI had a subcontract agreement with the International Rice Research Institute (IRRI) under the USAID-funded host country contract (Project No. 497-0302). In accordance with the contract, IRRI provided two employees and their logistic support. IRRI billed a lump sum to RMI each month for the salaries and support costs of the two employees. RMI submitted to the USAID for reimbursement, IRRI's total subcontract charges as direct salaries, along with the salaries of their own employees, . In their billings for "salaries", RMI added and was reimbursed for RMI overhead, social charge, and fixed fee. RMI, by contract, was entitled to these add-ons to their own direct salaries. They were also entitled to reimbursement for the IRRI subcontract charges, but not for any add-ons, because RMI did not provide the services or incur the costs for which the add-ons were intended. The Contractor conceded that the charges were not appropriate for subcontract salaries and did not plan to contest our adjustments to effect a refund for the amounts incorrectly billed.

The overcharges pertained to the period July 1982 through February 1984. RMI discontinued billing the social charge on subcontract salaries after their December 1983 invoice but continued billing overhead and fixed fee through February 1984. The USAID, by withholding from RMI's March 1984 invoice, recovered most of the overpayment for the social charge, but had not recovered any of the overpayments of overhead and fixed fee. As of September 25, 1984, the net overcharge was \$140,989, as detailed below:

		Overcharges (Add-Ons to Subcontract Salaries)			
	IRRI Subcontract Salaries	Social Charge 1/	Overhead (89.2%)	Fixed Fee 2/	Total
1982	\$ 33,650	\$ 2,355	\$ 30,016	\$ 8,946	\$ 41,317
1983	75,500	\$ 5,285	67,346	20,072	92,703
Subtotal as of	<u>12/31/83</u>	<u>\$109,150</u>	<u>\$ 7,640</u>	<u>\$ 97,362</u>	<u>\$29,018</u>
1984 thru	<u>Feb.</u>	<u>\$ 12,000</u>	<u>-0-</u>	<u>10,704</u>	<u>3,076</u>
Total Overcharge		<u>\$ 7,640</u>	<u>\$108,066</u>	<u>\$32,094</u>	<u>\$147,800</u>
Recovered by the USAID		6,811	-0-	-0-	6,811
Balance of Overcharge		<u>\$ 829</u>	<u>\$108,066</u>	<u>\$32,094</u>	<u>\$140,989</u>

RMI erroneously included subcontract salaries in its own direct salary base for computing Consulting Division overhead rates. Subcontract salaries are not eligible for overhead application and should not be included in the Contractor's base for computing the overhead rate. We therefore adjusted to exclude these salaries from the base (Exhibit B, Note 2/) and effectively questioned all overhead reimbursed on IRRI salaries through December 31, 1983, the audit cut-off date. Consequently, our Recommendation 2b, which recommends the recovery of \$726,168 in overpayments of overhead, already provides for the portion applicable to the IRRI subcontract (\$97,362). However, another \$43,627 in overcharges resulted from add-ons to the IRRI invoices, as follows:

Social Charge, per above	\$ 829
Overhead 1984 thru Feb.	10,704
Fixed Fee, per above	32,094
Total	<u>\$43,627</u>

Fixed Fee

RMI received other payments of fixed fee under this contract that were also excessive but not attributable to the IRRI subcontract. The formula for billing fixed fee under the host country contract was the sum of direct salaries, social charge and overhead, times 13.55 percent. A change of value in any one

1/ Social charge computed at 7.0 percent of direct salaries.

2/ Fixed fee billed at 13.55 percent of direct salaries, social charge and overhead.

of these elements would affect the amount of fee earned. The most significant change occurred in the overhead element as a result of this audit. There were also minor adjustments to the other elements in the fee base that affected the amount of fee earned. Excessive fixed fee, attributable to disallowed overhead in the fee base and minor adjustments, was \$15,632, as shown in the following computation:

	<u>1982</u>	<u>1983</u>	<u>Total</u>
Fixed Fee per Audit			
Base			
Direct Salaries per Audit	\$ 98,353	\$346,389	\$444,742
Social Charge @ 7.0%	6,885	24,247	31,132
Overhead per Audit	68,749	210,604	279,353
Total Base	<u>\$173,987</u>	<u>\$581,240</u>	<u>\$755,227</u>
Acceptable Fixed Fee			
Base x 13.55%	\$ 23,575	\$ 78,758	\$102,333
Fixed Fee reimbursed by USAID	35,093	114,966	150,059
Excess reimbursement	<u>\$ 11,518</u>	<u>\$ 36,208</u>	<u>\$ 47,726</u>
Excess due to IRR1 subcontract, per above			32,094
Excess due to questioned overhead and minor adjustments			<u>\$ 15,632</u>

The USAID should take separate action to recover \$59,259 in Contractor overpayments under the host country contract:

Balance due from unjustified add-ons to the IRR1 invoices	\$ 43,627
Fixed Fee due to overstated fee base	15,632
Total	<u>\$ 59,259</u>

MISSION OFFICIALS' COMMENTS

UNCLASSIFIED

JAKARTA 010348

ACT: AID-6 INFO: AMB DCM ECON ADB CHRON/10GG

VZCZCML0049

RR RUEHML

DE RUEHJA #0348 1750603

ZNR UUUUU ZZH

R 240603Z JUN 85

FM AMEMBASSY JAKARTA

TO AMEMBASSY MANILA 3324-----

BT

UNCLAS JAKARTA 10248

LOC: 36/37

25 JUN 85

CN: 06307

CHRG: AID

DIST: AID

AIDAC

FOR RIG/A/MANILA

E.O. 12356: N/A

SUBJECT: AUDIT REPORT NO. 2-497-85.03 RMI

REF: MANILA 17588

MISSION HAS NO COMMENTS REGARDING SUBJECT DRAFT AUDIT
REPORT. HOLDRIDGE

BT

0348

NNNN

UNCLASSIFIED

JAKARTA 010348



AID HEADQUARTER'S CONTRACT MANAGEMENT
OFFICIALS' COMMENTS

UNCLASSIFIED

STATE 190267

ACT: AID-6 AMB DCM ECON ADB CHRON/10/GG

VZCZCML0312

RR RUEHML

CALL

DE RUEHC,#0267 1720249

ZNR UUUUU ZZH

R 210248Z JUN 85

FM SECSTATE WASHDC

TO AMEMBASSY MANILA IMMEDIATE 0244-----

LOC: 33

821

21 JUN 85

0248

CN: 025658

CHRG: AID

DIST: AID

UNCLAS STATE 190267

AIDAC LEE L. LAMOTTE, RIG/A

E.O. 12356: N/A

TAGS: N/A

SUBJECT: DRAFT AUDIT REPORT NO. 2-497-85-03, RESOURCES
MANAGEMENT INTERNATIONAL, INC. (RMI), OVERHEAD
REIMBURSEMENT

1. IN ACCORDANCE WITH YOUR REQUEST, WE HAVE REVIEWED THE SUBJECT AUDIT REPORT.
2. WE ARE NOT IN A POSITION TO COMMENT ON THE FACTS AS PRESENTED IN THE REPORT BECAUSE OUR OFFICE HAS HAD ONLY VERY LIMITED EXPERIENCE WITH THE CONTRACTOR CONCERNING INDIRECT COST RATES.
3. IN REVIEWING THE REPORTED AUDIT FINDINGS, WE FULLY CONCUR IN THE STATED OPINION, CONCLUSIONS, AND RECOMMENDATIONS AS PRESENTED BY YOUR OFFICE. SHULTZ

0267

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UNCLASSIFIED

STATE 190267



List of Recommendations

APPENDIX 3

Page

Recommendation No. 1

We recommend that USAID/Indonesia finalize the Contractor's overhead rate for 1979 at 59.0 percent.

2

Recommendation No. 2

3

We recommend that USAID/Indonesia

- a. Finalize USAID-funded contract overhead rates for 1980, 1981, 1982, and 1983 at 56.1, 66.2, 69.9, and 60.8 percent as presented in Exhibits C, E, G, and I, respectively;
- b. Recover from RMI \$726,168 in overhead overcharges for the five-year period ending December 31, 1983, as presented in Exhibit A; and
- c. Establish a new provisional rate of 65.6 percent for billing overhead under USAID-funded contracts, effective January 1, 1984.

Recommendation No. 3

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We recommend that USAID/Indonesia recover \$59,259 in Contractor overpayments that resulted from unjustified add-ons to IRRI subcontract salaries and an overstated fixed fee base under the host country contract.

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