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Audit of  
GENERAL CABLE EXPORT CORPORATION  
Contract Termination Claim

Audit Report No. 86-04

March 31, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C.

March 31, 1986

MEMORANDUM FOR M/SER/PPE, Elizabeth Cordaro

FROM: RIG/A/W, *Mervin F. Boyer, Jr.*

SUBJECT: Review of Contract Termination Claim Submitted  
by General Cable Export Corporation

This report presents the results of the review of a contract termination claim submitted by General Cable Export Corporation. The claim, in the amount of \$358,748, was submitted as a result of the termination of an AID financed contract that General Cable had with the Government of Syria. We are questioning \$113,477 of the \$358,748 claim.

Background

On February 8, 1983, General Cable Export Corporation, Greenwich, Connecticut, entered into a fixed price contract with the Public Establishment of Electricity (PEE) in the amount of \$342,553 to deliver galvanized steel strand wire to the PEE on behalf of the Government of Syria. An additional \$61,248 was provided for the cost of ocean freight and insurance for a total contract value of \$403,801.

Effective November 14, 1983, Congress enacted U.S. legislation which terminated the AID program with the Government of Syria. The legislation authorized AID to adopt General Cable's U.S. financed contracts as though they were contracts directly with the U.S. Government and to fund appropriate contract termination costs. In a letter to General Cable dated January 29, 1985, AID outlined conditions under which AID would adopt the contract. For AID to adopt the contract, General Cable had to agree that the Federal Procurement Regulations (FPR) 1/ would be applicable.

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1/ The Federal Procurement Regulations were superceded by the Federal Acquisition Regulation (FAR) effective April 1, 1984. Cable claim assumes that disposition of the wire will be made by delivery to the United States Government.

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to the termination claim. General Cable agreed, so on February 1, 1985, General Cable was notified that AID formally adopted the contract and that the contract was being terminated for the convenience of the Government. On July 15, 1985, General Cable submitted a contract termination settlement proposal totaling \$352,108 for review and acceptance by AID. On January 9, 1986, General Cable submitted an amended termination settlement proposal which increased the total claim from \$352,108 to \$358,748.

When the contract was terminated all goods had been manufactured and placed in storage at General Cable's plant. The only uncompleted portion of the contract was final delivery of the wire to Syria. The contractor alleged there was no alternative market for the wire, which was produced in accordance with unique specifications promulgated by PEE. The General Cable claim assumes that disposition of the wire will be made by delivery to the United States Government.

#### Audit Objectives and Scope

The review was performed by the Office of the Regional Inspector General for Audit, Washington (RIG/A/W) and covered the period February 13, 1983 to January 31, 1986. The objective of the review was to determine the reasonableness, allocability and allowability of the \$358,748 claim. The review was limited to an evaluation of the termination claim. We reviewed documents and accounting records supporting the claim. In addition, we physically verified the accuracy of the wire inventory at the General Cable manufacturing plant in Muncie, Indiana on January 28, 1986. The audit was conducted in accordance with generally accepted government auditing standards.

#### Results of Audit

As a result of the review of General Cable's \$358,748 termination claim, we recommend acceptance of \$245,271. The balance of \$113,477 is composed of \$111,904 which we have suspended pending final disposition by the Contracting Officer and \$1,573 which we recommend not be included in the final settlement with General Cable.

A summary of General Cable's claim and the costs questioned and recommended for acceptance are shown in Exhibit A. Exhibits B through D provide details of the costs questioned and recommended for acceptance.

#### Recommendation No. 1

We recommend the Bureau of Management's Office of Policy, Planning and Evaluation resolve the suspended costs of \$113,477

included in General Cable Export Corporation's \$358,748 termination claim.

Please provide written notice within 30 days of the actions planned or taken to implement the recommendation.

GENERAL CABLE EXPORT CORPORATION  
Termination Claim Review

Summary of Cost Claimed, Questioned, and  
Recommended for Acceptance

	<u>Proposed Cost</u>	<u>Questioned Cost</u>	<u>Recommended for Acceptance</u>
Direct Material	\$ 76,958		\$ 76,958
Direct Labor	15,456		15,456
Indirect Factory Expense	107,742		107,742
Other Direct Cost	21,774	\$ 14,885 <u>1/</u>	6,889
General and Administrative	<u>29,597</u>	<u>20,878</u> <u>2/</u>	<u>8,719</u>
Total Cost	251,527	35,763	215,764
Profit	<u>91,026</u>	<u>91,026</u> <u>3/</u>	<u>          </u>
Total Cost and Profit	342,553	126,789	215,764
Settlement Expense	<u>16,195</u>	<u>(13,312)</u> <u>4/</u>	<u>29,507</u>
TOTAL CLAIM	<u>\$358,748</u>	<u>\$113,477</u>	<u>\$245,271</u>

Explanatory Notes

- 1/ Refer to Exhibit B.
- 2/ Refer to Exhibit C.
- 3/ Represents an estimate of the profit General Cable would have earned if the contract had been completed and accepted by Syria. This represents a profit of 27 percent. Based on audited financial statements for 1984 and 1983, the consolidated company profit rate was 7.8 percent and 6.3 percent respectively; therefore, we believe the profit being claimed is excessive and should be negotiated down to a reasonable rate based on prior years actual profit margins.
- 4/ Refer to Exhibit D.

GENERAL CABLE EXPORT CORPORATION  
Termination Claim Review

Other Direct Cost

	<u>Proposed Cost</u>	<u>Questioned Cost</u>	<u>Recommended for Acceptance</u>
Non-returnable pallets per packaging requirements, 400 pallets at a cost of \$17.22 per pallet	\$ 6,889		\$ 6,889
Freight and pier loading, Muncie, Indiana to FOB vessel, containerized, Port of New York	<u>14,885</u>	<u>\$ 14,885 1/</u>	<u>          </u>
TOTAL Other Direct Costs	<u>\$ 21,774</u>	<u>\$ 14,885</u>	<u>\$ 6,889</u>

Explanatory Note

1/ The freight and pier loading charges are questioned because the contract material was never shipped from the manufacturing facility. The contractor recognized this and reflected a credit of \$14,885 in settlement expense (Exhibit D). We are questioning the freight as other direct cost.

GENERAL CABLE EXPORT CORPORATION  
Termination Claim Review

General and Administrative

	<u>Proposed Cost</u>	<u>Questioned Cost</u>	<u>Recommended for Acceptance</u>
Divisional Administration Dept.	\$ 1,184		\$ 1,184
Divisional Comptroller Dept.	1,500		1,500
MIS - Computer Dept.	981		981
Corporate Headquarters Allocation	5,054		5,054
General Cable Export Company	5,275	\$ 5,275 <sup>1/</sup>	
Agent Commission	<u>15,603</u>	<u>15,603</u> <sup>2/</sup>	
TOTAL General & Administrative	<u>\$ 29,597</u>	<u>\$ 20,878</u>	<u>\$ 8,719</u>

Explanatory Notes

- <sup>1/</sup> The documentation offered by General Cable in support of this item was based upon a calculation of estimated expenses for the Syria order. We are therefore suspending this item because we are unable to determine its reasonableness.
- <sup>2/</sup> This amount represents a marketing consultant commission claimed by General Cable for the American Foreign Trade Company, a division of Soliman International, Inc. Inasmuch as the Syria contract was terminated prior to delivery, we are suspending this item.

GENERAL CABLE EXPORT CORPORATION  
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Settlement Expense

	<u>Proposed Cost</u>	<u>Questioned Cost</u>	<u>Recommended for Acceptance</u>
Storage of completed wire - 10/83 through 11/85	\$ 21,580		\$ 21,580
Freight and pier loading expense credit - material was never shipped	(14,885)	\$(14,885) 1/	
Legal expense for service subsequent to 1/30/85	<u>9,500</u>	<u>1,573</u> 2/	<u>7,927</u>
TOTAL Settlement Expense	<u>\$ 16,195</u>	<u>\$(13,312)</u>	<u>\$ 29,507</u>

Explanatory Notes

- 1/ Freight and pier loading expense is credited in settlement expense and claimed in other direct costs. We questioned freight charges as other direct cost; therefore, this credit is questioned and will offset the questioned cost.
- 2/ In preparing the claim, General Cable estimated legal fees. Since we can accept only actual billings, this figure represents the difference between estimated and actual amounts paid as follows:

	<u>Claimed</u>	<u>Estimate Over Actual</u>	<u>Actual</u>
Legal fees	\$ 9,000	\$ 1,476	\$ 7,524
Miscellaneous Disbursements	<u>500</u>	<u>97</u>	<u>403</u>
	<u>\$ 9,500</u>	<u>\$ 1,573</u>	<u>\$ 7,927</u>

GENERAL CABLE EXPORT CORPORATION

List of Recipients

Assistant Administrator Bureau for Management, AA/M	1
Associate Assistant to the Administrator for Management, M/AAA/SER	1
Audit Liaison Office, M/AAA/SER	1
Office of Press Relations, XA/PR	2
Assistant Administrator, Bureau for External Affairs, AA/XA	2
Office of General Counsel, GC	1
Office of Legislative Affairs, LEG	1
Office of Financial Management, M/FM/ASD	2
Center of Development Information and Evaluation, PPC/CDIE	3
Office of Acquisition and Assistance Management, M/SER/AAM	5
Office of Inspector General	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Tegucigalpa	1
AIG/A	1
IG/PPO	2
IG/LC	1
AIG/II	1
IG/EMS/C&R	16