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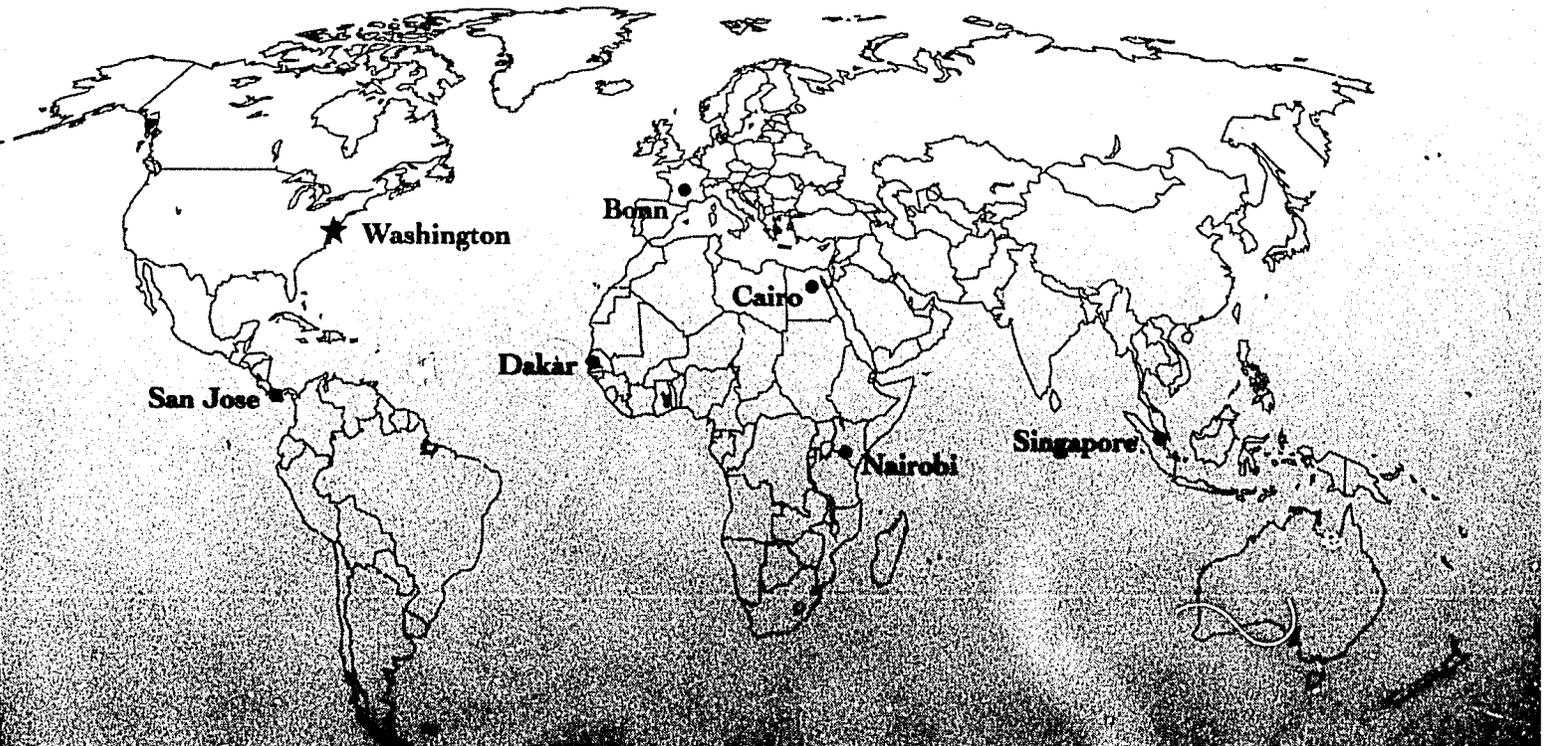
Financial Audits

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AUDIT OF INTERIM BILLINGS TO USAID  
BY FINANCIAL MARKETS INTERNATIONAL, INC.  
UNDER CONTRACT NO. 110-0005-C-00-4010-00

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Report No. 0-000-95-017C  
March 8, 1995



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

March 8, 1995

**MEMORANDUM FOR M/OP/OD, Marcus L. Stevenson**

**FROM:** IG/A/FA, *Thomas F. O'Connor*  
Thomas F. O'Connor

**SUBJECT:** Audit of Interim Billings to USAID by Financial Markets International, Inc.

This memorandum is our report on the "Audit of Interim Billings to USAID by Financial Markets International, Inc. under Contract No. 110-0005-C-00-4010-00," Report No. 0-000-95-017C. We considered your comments on the draft report, as well as those of the contractor and the Regional Contracting Officer at USAID/Ukraine, and have included them as an appendix to this report (see Appendix II). Based on the results of our audit, the report contains one recommendation. Please respond to the report within 30 days indicating any actions planned or taken to implement the recommendation contained in the report.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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### **Background**

Financial Markets International, Inc. (FMI) received U.S. Agency for International Development (USAID) funds under a \$2.9 million, cost-plus-fixed-fee contract (No. 110-0005-C-00-4010-00) which was approved on February 15, 1994. Billings under the contract were \$935,681 through October 31, 1994.

FMI is a six-person for-profit firm based in Bethesda, Maryland, which specializes in international market development and education and training. Based on *unaudited financial results* for the ten months ending October 31, 1994, FMI's revenue was \$1.6 million, almost equally divided between revenue from its services to commercial banks and exchanges and its USAID contract.

Under the terms of the contract, FMI provides technical assistance, primarily through the use of expatriate consultants, to further USAID's initiative of privatizing civilian and defense industries in the New Independent States (NIS) of the former Soviet Union. Specifically, the contract's aim was to introduce an appropriate legal and regulatory framework and develop institutions for securities and commodities exchanges in two states.

In July 1994, FMI fielded two teams of four to five long-term consultants in Central Asia to implement contract activities. The contract's objective in the Kyrgyzstan Republic was to develop a legal and regulatory framework, and a share registration program among selected companies. In Kazakhstan, the objective was to facilitate the development of a newly formed Securities Commission.

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### **Audit Objective**

The audit was performed to answer the following objective:

**Were interim costs billed by the contractor Financial Markets International, Inc. reasonable, allocable and allowable in accordance with the terms of its contract with USAID?**

See Appendix I for a discussion of the scope and methodology.

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### **Audit Finding**

In general, we concluded that FMI's interim billings for *direct costs* to USAID were adequately supported, reasonable, allocable and allowable in accordance with the terms of its contract with USAID. For billings related to *indirect costs* and *fee*, our review was limited to verifying that billings were at the provisional rates and that the fee was paid as specified by the terms of the contract.

The contract stated that the contractor shall be reimbursed in U.S. dollars for reasonable, allocable, allowable and necessary costs incurred during the performance of the contract. It establishes the Federal Acquisition Regulations' (FAR) cost principles as criteria for determining whether costs are reasonable, allowable, allocable and necessary.

The FAR, Subpart 31.2, states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Similarly, a cost is allocable if it is chargeable to one or more cost objectives on

the basis of relative benefits received or other equitable relationship. The FAR also states that reasonableness, allocability and the terms of the contract should be used in determining whether a cost is allowable.

FMI billed USAID \$689,085 of *direct costs* for the period June 1, 1994, through October 31, 1994. Of this amount, we concluded that \$685,760 was adequately supported, reasonable, allocable and allowable in accordance with the terms of the contract and the FAR. We questioned the remaining \$3,325 primarily on the basis of incomplete documentation. FMI agreed on \$2,596 of the questioned costs and made appropriate adjustments in its November and December billings. FMI further agreed to adjust the remaining \$729 in subsequent billings. We do not consider the amounts questioned to be material but we did informally reach agreement with FMI on improvements in its procedures which should preclude future similar occurrences.

For billings related to *indirect costs* and *fee*, totalling \$185,395 and \$61,202 for the same period, our review was limited to verifying that billings were at the provisional rates and that the fee was paid as specified by the terms of the contract.

We observed four vulnerabilities in the contractor's internal control environment. These vulnerabilities consisted of: (1) smallness of staff making separation of duties difficult; (2) cash basis of field operations due to the operating environment in Kyrgyzstan and Kazakhstan; (3) newness of FMI's operations and business; and (4) the use of separate systems for accounting and billing transactions. We recognize that the first three of these vulnerabilities cannot be readily eliminated, but we did take them into account in deciding the scope and methodology of our audit. We believe the fourth area of vulnerability can and should be corrected.

#### **FMI Needs to Integrate Its Billing and Accounting Systems**

A preaward survey of FMI conducted by a USAID consultant in October 1993 noted that FMI maintained a computerized accrual accounting system (Peachtree software) and supplemented it with consulting services of an external accountant. Further, the survey concluded that FMI's accounting system was adequate for accumulating, segregating and recording costs under government contracts. Although the preaward survey did not explicitly address whether a good accounting system should provide the capability for generating billings--in our opinion, it should.

In fact, we found that FMI's billing system was separate from its accounting system. FMI maintained a computerized spreadsheet program to record and bill costs under its USAID

contract. Receipts and other supporting documents were submitted from the field where the secretary compiled and reviewed the data before it was input to a spreadsheet program under the supervision of FMI's Vice President. The resulting spreadsheet was used to generate USAID billing invoices which included costs associated with the provisional indirect cost rates specified in the contract. Separately, FMI maintained a computerized accrual accounting system (Peachtree software) and supplemented it with the consulting services of an outside accounting firm.

An FMI official stated that the use of a separate system for USAID billings was primarily for "ease of use" by FMI's secretary who prepared the billings. This same official agreed that one accounting system was preferable and also with our conclusion that separate systems increase the potential for errors, duplication of data or manipulation of USAID billings. Therefore, we are making the following recommendation:

**Recommendation No. 1: We recommend that the Director, Office of Procurement, Bureau for Management ensure that Financial Markets International, Inc. integrate its USAID billing and accounting functions into one system (or an equivalent alternative) in the event of any future contract awards.**

#### **Management Comments and Our Evaluation**

Due to the geographical separation of the organizations involved in this audit, for expediency, we directly solicited comments from the following: (1) USAID's Office of Procurement in Washington; (2) Financial Markets International, Inc. in Maryland; and (3) the Regional Contracting Office at USAID/Ukraine. All agreed with our audit's findings and the recommendation. Based on these comments, we consider the recommendation to be resolved. This recommendation can be closed by a written statement from the Office of Procurement assuring us that FMI will be required to implement the recommendation before any future contract awards.

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## SCOPE AND METHODOLOGY

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### Scope

The Inspector General's Office of Financial Audits audited interim billings of \$935,681 in accordance with generally accepted government auditing standards. These interim billings to USAID were for costs incurred and fee earned by Financial Markets International, Inc. (FMI), the contractor, under a cost-plus-fixed-fee contract (No. 110-0005-C-00-4010-00) for the period June 1, 1994 through October 31, 1994.

Our audit fieldwork was conducted at the Bethesda, Maryland offices of FMI and at USAID's project, procurement and financial management offices in Rosslyn, Virginia and Washington, D.C. We conducted our fieldwork from December 6, 1994 through January 31, 1995. Although there were no prior audit reports to review for this contract, we obtained and examined the preaward survey conducted by a USAID consultant in October 1993.

Because of certain characteristics in the contractor's internal control environment (e.g., smallness of staff making separation of duties difficult, cash basis of field operations, newness of business and the use of separate systems for accounting and billing transactions), we audited 100 percent of the *direct costs* billed to USAID. These costs totaled \$689,085 for the period June 1, 1994, through October 31, 1994. We reviewed salaries and time charges, consultant fees and other direct costs to determine the existence of supporting documentation, as well as to determine compliance with general and specific provisions of the contract.

For billings related to *indirect costs* and the *fee*, totalling \$185,395 and \$61,202, respectively, our review was limited to verifying that billings were at the provisional rates and that the fee was being paid as specified by the terms of the contract. We could not audit for the purpose of determining final indirect cost rates because final costs had not yet been determined by FMI for its initial accounting period ending December 31, 1994. These final indirect costs will be audited and the indirect cost rates will be determined by the Defense Contract Audit Agency (DCAA) once final costs have been billed by FMI. It should be noted that final acceptance of amounts claimed under U.S. Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed--in this case, DCAA.

As noted under the Audit Objective section of this report, our purpose was to audit interim costs billed by FMI and not to audit the performance of the contractor, the cost effectiveness of the program or the financial statements of FMI. Accordingly, we do not express an opinion on the effectiveness of the program or whether FMI's financial statements are fairly presented.

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## **Methodology**

We reviewed interim expenditures incurred by FMI to determine if the expenditures were adequately supported by documentary evidence and if they were allowable, allocable and reasonable in accordance with the terms and conditions of the contract. Since most of the supporting documentary evidence for FMI's field expenditures was in Russian, we selected a judgmental sample of the documentation and had it translated. During the course of the audit, we interviewed FMI officials, consultants and a representative from FMI's audit firm to gain an understanding of the internal control processes at FMI to approve, record and bill costs to USAID. We coordinated our work with the Regional Contracting Officer, USAID/Ukraine, and with auditors from USAID's Regional Inspector General's Office/Bonn, who had conducted a limited survey in Kyrgyzstan, one of FMI's field sites.

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MANAGEMENT COMMENTS



U.S. AGENCY FOR  
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TO: IG/A/FA, Thomas F. O' Connor  
FROM: M/OP, Marcus E. Stevenson  
SUBJECT: Draft Audit of Financial Markets International, Inc.'s  
(FMI) Interim Billings to USAID

Thank you for the opportunity to comment on the subject draft audit forwarded to me by your memo of February 21, 1995.

Since this is an incurred cost audit of a field managed contract, I think the Contracting Officer in Kiev is the appropriate one to comment on this audit, and you have indicated that you are seeking his comments. I have no comments on the report.

Although we have no current contracts with FMI, we would like a copy of your final report for our consideration in future awards to the firm.



**Financial Markets International, Inc.**

**APPENDIX II**

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**March 7, 1995**

**TO: Thomas F. O'Connor  
Division Chief for Financial Audit  
USAID Inspector General Office**

**FM: Robert D. Bond**

**RE: Response to Draft Audit Report of FMI Billings to USAID  
REF: Contract No. 110-0005-CC-00-4010-00**

FMI is pleased with your principal conclusion that, "FMI's interim billings for direct costs to USAID were adequately supported, reasonable, allocable, and allowable in accordance with the terms of its contract with USAID." We were also pleased with Mr. Peter Greene's oral statement at the exit conference that FMI's report is, "As good as an audit finding can be."

We believe this result reflects well on the systems that we have in place to manage USAID contracts, identify and segregate costs, account for expenditures of U.S. Government funds, and generally voucher in a responsible manner. While our procedures can and will be improved, we think the results reflect the seriousness and attention we apply, particularly given the difficulties of managing projects 12,000 miles away and the accounting/receipts deficiencies existing in Central Asia.

Your auditors examined \$689,085 of direct costs for the period June 1, 1994 to October 31, 1994. Of this amount, you questioned \$4,047. Of this amount, we made appropriate adjustments in later invoices for \$2,596. Of the remaining \$1,451, we have provided supporting documentation for an additional \$751 of questioned costs, leaving only the item of a lack of a receipt for a \$700 charge for rent; we will reverse this amount if we are not able to obtain this receipt.

Thus, questioned costs amounted to a total of \$3,696. This is equal to one-half of one percent (0.005%) percent of the total direct costs billed.

Your report makes one recommendation: that Financial Markets International integrate its USAID billing and accounting function into one system, or an equivalent alternative. We concur in this recommendation, and are taking steps to see that it is accomplished, including training of our administrative assistant by our accounting firm and hiring a part-time accountant.

As we stated to you, an integrated accounting and billing system was and is our intention. However, please appreciate that our delay in implementation was the direct result of uncertainties involving our government contract work, caused by USAID's Procurement

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**MAR 07 '95 11:32AM FINANCIAL MARKETS INTERNATIONAL**

**Office. Had we been awarded the contract amendment, recommended by the USAID Technical Office in September 1994, increasing the LOE and dollar amount of the referenced contract (respectively, 7180 person days and \$9.6 million) we would have implemented our accounting system plans earlier. Absent a secure level of government contract work, this expense is not warranted by a small business for its commercial clients.**

**While we acknowledge the value of this improvement in our system, the fact remains that we have accounted for direct costs billed to USAID under our contract in exemplary fashion. We are proud of our accomplishments, both in performing superior technical work for USAID and in segregating and allocating direct costs properly.**

**Thank you for the thoroughness of your staff efforts over the past several months.**

**RDB**

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To: Peter Greene@IG.FA@AIDW  
Cc:  
Bcc:  
From: Jerry Kryschtal@RCO@KIEV  
Subject: re: FMI Report  
Date: Monday, March 6, 1995 3:51:59 EST  
Attach: ATTRIBS.BND  
Certify: N  
Forwarded by:

APPENDIX II  
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I have review the draft of the FMI audit of interim billings. My only suggestion is to add a generic comment that as this is a cost audit, the actual performance of the contractor or cost effectiveness were not being evaluated.

Thanks.

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Original Text  
From Peter Greene@IG.FA@AIDW, on 3/6/95 8:21 AM:  
Hi Jerry,

Just a reminder that we would appreciate your comments to the draft I sent you by 3/7/95.

Thanks,

pete