

UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL

**AUDIT OF THE  
TRAINING FOR DISTRIBUTION SYSTEMS  
PROGRAM MANAGED BY CREATIVE  
ASSOCIATES INTERNATIONAL INC.**

**Audit Report No. 1-522-90-36-N  
June 14, 1990**



Regional Inspector General for Audit  
TEGUCIGALPA

**AUDIT OF THE  
TRAINING FOR DISTRIBUTION SYSTEMS  
PROGRAM MANAGED BY CREATIVE  
ASSOCIATES INTERNATIONAL INC.**

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AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:  
RIG/T  
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA · HONDURAS

TELEPHONES:  
32-9987 · 32-3120  
FAX No. (504) 31-4465

June 14, 1990

MEMORANDUM

TO: Director, TFHA/Washington, Ted Morse

FROM: RIG/A/T, *Coinage N. Gothard*  
Coinage N. Gothard, Jr.

SUBJECT: Audit of the Training for Distribution Systems Program Managed  
by Creative Associates International, Inc., Audit Report No.  
1-522-90-36-N

This report presents the results of a non-Federal, concurrent financial audit of the Training for Distribution Systems Program (the Program) managed by Creative Associates International, Inc. (CAI). The audit was requested by the Task Force on Humanitarian Assistance (TFHA). The certified public accounting firm of Price Waterhouse prepared the report, which was transmitted to RIG/A/T on June 13, 1990.

The overall objective of Price Waterhouse's audit work was to perform a concurrent financial audit of the Program. The purpose of this audit was to report on (1) the fairness of the contract cost accountability statement of the Program for the period from June 1, 1989 to April 30, 1990, (2) the Program's internal control structure in Honduras and Washington, D.C., and (3) compliance by Creative Associates International, Inc. with contract terms and applicable laws and regulations.

In the opinion of Price Waterhouse, the contract cost accountability statement of the Training for Distribution Systems Program presents fairly, in all material respects, the Program's receipts and expenditures for the period from June 1, 1989 through April 30, 1990, in accordance with the corresponding agreement.

Price Waterhouse evaluated the internal control structure of the Program, noting no matters involving the internal control structure and its operations that the auditors considered to be material weaknesses. However, certain matters involving the internal control structure were observed and reported to TFHA and RIG/A/T.

In the opinion of Price Waterhouse, CAI complied, in all material respects, with contract terms and applicable laws and regulations for the items tested. Nothing came to the auditors' attention that caused them to believe that untested items were not in compliance with contract terms and applicable laws and regulations.

TFHA discussed the draft report with Price Waterhouse and RIG/A/T, and appropriate changes were made to the final report.

The Price Waterhouse report contains no recommendations. However, Price Waterhouse identified US\$5,854 in questionable costs. As a result, the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system.

**Recommendation No. 1**

We recommend that the Task Force on Humanitarian Assistance negotiate a settlement with Creative Associates International, Inc. for the disposition of the US\$5,854 in costs questioned by Price Waterhouse in its report dated June 13, 1990.

AGENCY FOR INTERNATIONAL DEVELOPMENT  
AUDIT OF THE  
TRAINING FOR DISTRIBUTION SYSTEMS PROGRAM  
TASK FORCE FOR HUMANITARIAN ASSISTANCE (TFHA)  
SUPPORTED BY CREATIVE ASSOCIATES INTERNATIONAL, INC.  
A.I.D. PROJECT NO. 594-003-3-90010

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## *Price Waterhouse*



June 13, 1990

Mr. Coinage N. Gothard, Jr.  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras

Dear Mr. Gothard:

This report presents the results of our concurrent financial audit of the Training for Distribution Systems Program, Project No. 594-003-3-90010 (the Program), managed by Creative Associates International, Inc. (CAI) during the period June 1, 1989 to April 30, 1990, under contract No. PDC-9001-C-00-9016-00 between the CAI and the U.S. Agency for International Development (A.I.D.).

### BACKGROUND

In December 1988, the U.S. Agency for International Development signed a contract with CAI. The objective of this contract was to provide non military training in fields relating to distribution systems management and administration to the Nicaraguan Resistance (NR) and their families in Honduras. The contract was administered by the Task Force for Humanitarian Assistance in Honduras (TFHA/H).

The budget for this contract, originally for \$1,024,616, covering the period December 23, 1988 to April 30, 1989, was modified by A.I.D. on April 20, 1989, to increase the total amount of the contract to \$1,500,000 and to extend the period of performance to May 31, 1989. The Program's activities were additionally amended as follows:

1. On May 19, 1989, A.I.D. increased the total amount of the contract to \$1,800,000, and extended the completion date to October 31, 1989.
2. On July 1, 1989, A.I.D. increased the total amount of the contract to \$6,274,599, and extended the completion date to December 31, 1989.
3. On July 13, 1989, A.I.D. modified the statement of work to add additional training in accordance with section C, paragraph III, B, 4.

4. On December 29, 1989, A.I.D. extended the period of performance to March 31, 1990, and modified the scope of work to include additional training activities and to include the use of an additional training center.
5. On February 6, 1990, A.I.D. increased the total amount of the contract to \$6,522,006.
6. On February 27, 1990, A.I.D. increased the total amount of the contract to \$6,770,886, and extended the completion date to April 30, 1990.
7. On February 28, 1990, A.I.D. increased the total amount of the contract to \$6,935,886, and extended the completion date to June 30, 1990.

#### AUDIT OBJECTIVES AND SCOPE

The overall objective of our audit work was to perform a concurrent financial audit of the contract for Training for Distribution Systems Program managed by Creative Associates International, Inc. for the period June 1, 1989 to April 30, 1990.

Our audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision), and accordingly included the review of documentation, accounting records, internal control structure, and such other auditing procedures as we considered necessary to determine whether:

1. The contract cost accountability statement of the Program under contract No. PDC 9001-C-00-9016-00 presents the Program's receipts and expenditures in accordance with the terms of the contract, identifying any costs which were not fully supported with adequate records or which were not allowable under the terms of the contract,
2. The internal control structure of the Program in Honduras Costa Rica and Washington, D.C. is adequate and functioning as intended, and
3. CAI complied with applicable laws, regulations, and contract terms.

The following major audit procedures were conducted as necessary in Honduras, Costa Rica and Washington, D.C. in order to meet the stated audit objectives.

1. We reviewed the following documents to become familiar with the Program:

- a) The contract between A.I.D. and CAI, including the related amendments,
  - b) The Action Plans submitted by the contractor to TFHA/H,
  - c) The budgets and written procedures prepared by CAI to manage the Program, and
  - d) Charts of accounts, organization charts, accounting system descriptions, and procurement policies and procedures as necessary to successfully complete the required work.
2. We reviewed the Program ledgers to determine whether costs incurred were proper. We reconciled direct costs billed and reimbursed to the Program ledger.
  3. We reviewed the procedures to control the funds, including the bank account controls and monthly bank account reconciliations, and confirmed the final balance with the custodian bank.
  4. We reviewed direct and indirect costs billed to TFHA/H to identify questionable costs.
  5. We reviewed salary charges to determine whether salary rates were in accordance with those approved by A.I.D. and if salaries paid were supported by appropriate payroll records.
  6. We reviewed monthly disbursements made by CAI in Honduras, Costa Rica, and Washington, D.C. during the period June 1, 1989 through April 30, 1990 for a total of \$3,702,374 and made 78 on-site inspections of CAI's activities in Tegucigalpa, Yamales and the Mosquitia region of Honduras and San Jose, Costa Rica.
  7. We reviewed the cash receipts for the period and on a selective basis we traced them to reports submitted to A.I.D.
  8. We observed activities under the environment and sanitary programs and observed the operation of the Medical Centers.
  9. We physically inspected office furniture and equipment purchased or rented with Program funds.
  10. We reviewed the procurement procedures and practices used to determine that sound commercial practices were used.

11. On a limited basis we reviewed and evaluated the internal control structure, conducting compliance tests to determine the extent to which established procedures and controls were functioning as intended.
12. We reviewed CAI's compliance with applicable laws, regulations, and contract terms.

During our work we were alert for situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

#### RESULTS OF THE AUDIT

##### Contract Cost Accountability Statement

In our opinion, the contract cost accountability statement of the Training for Distribution Systems Program, Project No. 594-003-3-90010 managed by Creative Associates International, Inc. presents fairly, in all material respects, the Program's receipts and expenditures for the period June 1, 1989 to April 30, 1990, in accordance with terms of contract No. PDC-9001-C-00-9016-00.

##### Internal Control Structure

In planning and performing our audit of the contract cost accountability statement of the Program for the period June 1, 1989 to April 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the contract cost accountability statement and not to provide assurance on the internal control structure. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control structure and its operation that we have reported in writing upon identification to the Regional Inspector General for Audit in Tegucigalpa and the Task Force for Humanitarian Assistance.

##### Compliance with Applicable Laws, Regulations and Contract Terms

We tested transactions and records for the period June 1, 1989 to April 30, 1990, which included receipts, disbursements, and reporting to determine CAI's compliance with applicable laws, regulations, and contract terms. The results of our tests indicated that, with respect to the items tested, Creative Associates International, Inc. complied, in all material respects, with applicable laws, regulations, and contract terms. With respect to items not tested nothing came to our attention that caused us to believe that Creative Associates International, Inc. had not complied, in all material respects, with applicable laws, regulations, and contract terms.

SUMMARY OF MANAGEMENT COMMENTS

The TFHA reviewed the draft of this report and is generally in agreement with the contents of this report. The TFHA discussed their comments with Price Waterhouse and the Regional Inspector General for Audit, and did not suggest any changes to the final report. TFHA also expressed its appreciation for the assistance it has received from RIG/AT and Price Waterhouse auditors in the implementation of this Program.

*Price Waterhouse*

Price Waterhouse



*Price Waterhouse*



AGENCY FOR INTERNATIONAL DEVELOPMENT

TRAINING FOR DISTRIBUTION SYSTEMS PROGRAM  
MANAGED BY CREATIVE ASSOCIATES INTERNATIONAL, INC.  
A.I.D. PROJECT NO. 594-003-3-90010

CONTRACT COST ACCOUNTABILITY STATEMENT  
FOR THE PERIOD JUNE 1, 1989 TO APRIL 30, 1990  
AND ACCUMULATED

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying contract cost accountability statement of the Training for Distribution Systems Program, Project No. 594-003-3-90010 (the Program) managed by Creative Associates International, Inc. under contract No. PDC-9001-C-00-9016-00 for the period June 1, 1989 to April 30, 1990, and accumulated from the inception of the Program. The contract cost accountability statement is the responsibility of the management of Creative Associates International, Inc. Our responsibility is to express an opinion on the contract cost accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the contract cost accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the contract cost accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the contract cost accountability statement of the Training for Distribution Systems Program, Project No. 594-003-3-90010, presents fairly, in all material respects, the Program's receipts and expenditures for the period June 1, 1989 to April 30, 1990, and the accumulated from the inception of the Program, in accordance with terms of contract No. PDC-9001-C-00-9016-00.

This report is intended solely for the use of Creative Associates International, Inc. and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Price Waterhouse*

May 28, 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT  
 AUDIT OF THE  
 TRAINING FOR DISTRIBUTION SYSTEMS PROGRAM  
 TASK FORCE FOR HUMANITARIAN ASSISTANCE (TFHA)  
 SUPPORTED BY CREATIVE ASSOCIATES INTERNATIONAL, INC. (Note 2)

CONTRACT COST ACCOUNTABILITY STATEMENT  
 FROM JUNE 1, 1989 TO APRIL 30, 1990  
 AND ACCUMULATED  
 (Expressed in U.S. Dollars—Note 1)

	BUDGET		RECEIPTS AND EXPENDITURES			BALANCE	QUESTIONABLE
	ORIGINAL	AMENDED	ACCUMULATED TO 05/31/89	THIS PERIOD	TOTAL	(OVER) UNDER BUDGET	COSTS (NOTE 3)
PROGRAM RECEIPTS	\$1,500,000	\$6,935,886	\$1,346,923	\$4,654,917	\$6,001,840	\$934,046	
PROGRAM EXPENDITURES							
Direct Costs							
Salaries and wages			404,386	1,476,545	1,880,931		
Fringe benefits			47,863	120,538	168,401		
Overhead			88,634	223,218	311,852		
Travel and per diem			231,855	730,687	962,542		\$520
Training material			276,241	290,732	566,973		
Other direct costs			96,845	171,859	268,504		136
Expenses Honduras				1,121,762	1,121,762		348
Expenses Costa Rica				212,639	212,639		4,391
Subtotal			1,145,624	4,347,980	5,493,604		5,395
General and administrative expenses			97,703	369,578	467,281		
Fees			99,772	377,404	477,176		459
			197,475	746,982	944,457		459
Additional training			3,824		3,824		
<b>TOTAL PROGRAM EXPENDITURES</b>	<b>\$1,500,000</b>	<b>\$6,935,886</b>	<b>\$1,346,923</b>	<b>5,094,962</b>	<b>6,441,885</b>	<b>494,001</b>	<b>\$5,854</b>
Excess of Expenditures Over Receipts (Note 4)				(\$440,045)	(\$440,045)	\$440,045	

# Price Waterhouse



## AGENCY FOR INTERNATIONAL DEVELOPMENT

### TRAINING FOR DISTRIBUTION SYSTEMS PROGRAM MANAGED BY CREATIVE ASSOCIATES INTERNATIONAL, INC. A.I.D. PROJECT NO. 594-003-3-90010

#### NOTES TO THE CONTRACT COST ACCOUNTABILITY STATEMENT FOR THE PERIOD JUNE 1, 1989 TO APRIL 30, 1990 AND ACCUMULATED

#### NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies adopted by Creative Associates International, Inc. to manage the Program are summarized as follows:

##### Basis of Accounting

The accrual basis of accounting was used in recording the expenditures of the Program.

##### Exchange Rate

The accounting records of the Program are maintained in United States dollars. Transactions in Honduran lempiras and Costa Rica colones are converted to dollars at the official rate of exchange prevailing at the transaction date.

#### NOTE 2 - HISTORY AND OPERATIONS OF THE PROGRAM

In December 1988, A.I.D. approved contract No. PDC-9001-C-00-9016-00 with CAI. The objective of that contract was to provide non-military training in fields relating to distribution systems management and administration to the Nicaraguan Resistance (NR) and their families in Honduras.

#### NOTE 3 - QUESTIONABLE COSTS

A summary of questionable costs is presented as follows:

<u>Cost item</u>	<u>Explanation</u>	<u>Amount</u>
Travel and per diem	Overpayment of per diem to Martha Navas	\$ 423
	Overpayment of per diem paid to Marcelo Fabre	<u>97</u> 520
Carried forward		<u>\$ 520</u>

<u>Cost Item</u>	<u>Explanation</u>	<u>Amount</u>
Brought forward		\$ 520
Other direct costs	Expenses not related to the Program	136
Expenses/Honduras	Expenses not related to the Program	348
Expenses/Costa Rica	Long distance telephone calls without support documentation	4,391
<u>Total Direct Costs</u>		<u>5,395</u>
General and administrative expenses	8.5% of total questionable direct costs	459
<u>Total questionable costs</u>		<u>\$5,854</u>

NOTE 4 - EXCESS OF EXPENDITURES OVER RECEIPTS

Excess of expenditures over receipts for the period June 1, 1989 to April 30, 1990 is comprised by accounts receivable from A.I.D. as follows:

	<u>Amount</u>
Reimbursement received by CAI on May 14, 1990 after close of period	\$143,555
Vouchers No. 33 and 34 of April 1990 invoiced by CAI and not yet paid by A.I.D.	283,465
Difference between the amount invoiced by CAI and reimbursed by A.I.D. on voucher No. 26	415
Accrued expenditures	12,610
	<u>\$440,045</u>

*Price Waterhouse*



AGENCY FOR INTERNATIONAL DEVELOPMENT  
TRAINING FOR DISTRIBUTION SYSTEMS PROGRAM  
MANAGED BY CREATIVE ASSOCIATES INTERNATIONAL, INC.  
A.I.D. PROJECT NO. 594-003-3-90010

INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the contract cost accountability statement of the Training Distribution Systems Program, Project No. 594-003-3-90010 (the Program), managed by Creative Associates International Inc. for the period June 1, 1989 to April 30, 1990, and accumulated from the inception of the Program, and have issued our report thereon dated May 28, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the contract cost accountability statement is free of material misstatement.

In planning and performing our audit of the contract cost accountability statement of the Program for the period June 1, 1989 to April 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the contract cost accountability statement and not to provide assurance on the internal control structure.

The management of Creative Associates International, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures might become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting process
- Budgetary control process
- Payroll procedures
- Procurement procedures
- Receipts and disbursements

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Program contract cost accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported in writing upon identification to the Regional Inspector General for Audit in Honduras and the Task Force for Humanitarian Assistance.

This report is intended solely for the use of Creative Associates International, Inc. and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Pricewaterhouse*  
May 28, 1990



*Price Waterhouse*



AGENCY FOR INTERNATIONAL DEVELOPMENT

TRAINING FOR DISTRIBUTION SYSTEMS PROGRAM  
MANAGED BY CREATIVE ASSOCIATES INTERNATIONAL, INC.  
A.I.D. PROJECT NO. 594-003-3-90010

COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS, AND CONTRACT TERMS

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the contract cost accountability statement of the Training for Distribution Systems Program, Project No. 594-003-3-90010 (the Program), managed by Creative Associates International, Inc. under contract No. PDC-9001-C-00-9016-00 for the period June 1, 1989 to April 30, 1990, and accumulated from the inception of the Program, and have issued our report thereon dated May 28, 1990.

We conducted our audit in accordance with generally accepted auditing standards and U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the contract cost accountability statement is free of material misstatement.

Compliance with applicable laws, regulations, and contract terms is the responsibility of the management of Creative Associates International, Inc. As part of obtaining reasonable assurance about whether the contract cost accountability statement is free of material misstatement, we performed tests of the Program's compliance with certain provisions of applicable laws, regulations, and contract terms. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicated that, with respect to the items tested, Creative Associates International, Inc. complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested nothing came to our attention that caused us to believe that Creative Associates International, Inc. had not complied, in all material respects, with those provisions.

This report is intended solely for the use of Creative Associates International, Inc. and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Price Waterhouse*

May 28, 1990

APPENDIX 1

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