

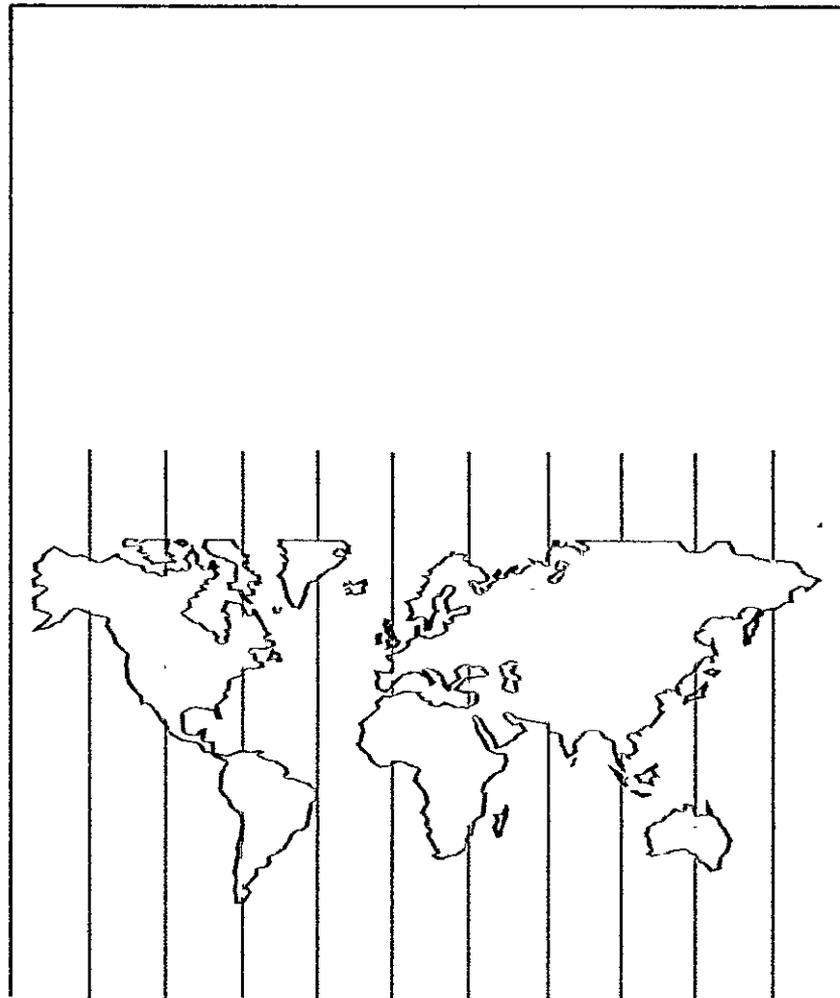
538-0021

PD-AAJ-457

ISN 960

UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
WASHINGTON

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CARIBBEANA COUNCIL

AUDIT REPORT NO. 0-000-81-141

SEPTEMBER 29, 1981

(GRANT NOS. LAC-0066-A-00-1014 AND  
538-0021-G-T)

CARIBBEANA COUNCIL

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## CARIBBEANA COUNCIL

### EXECUTIVE SUMMARY

#### Purpose of Review

The Caribbeana Council was incorporated in Washington, D. C. in March 1977. It is a non-profit, private organization created to address immediate and long-range needs of the Caribbean nations and territories. The Council has a board of directors and eight officers and staff. It obtains its funds from private and government sources for administrative support (unrestricted funds) and for specific projects (restricted funds).

In July 1978, the AID Mission in Barbados and Caribbeana Council signed a \$278,000 (subsequently increased to \$340,000) operational program grant agreement whereby the Council was to undertake a program to improve the quality of the indigenous so called Black Belly Sheep which is raised for meat rather than wool. The objective was to increase the commercial availability of the sheep "...thereby contributing to increased and improved quantities of animal protein for...(domestic) consumption and significant foreign exchange savings for Barbados." On December 23, 1980, AID awarded the Council a second, cooperative agreement grant, to continue the services performed under the first grant. The cooperative agreement provides \$306,000 to finance costs incurred during the period December 20, 1980 through December 19, 1981.

The primary purpose of our audit was to ascertain if the poor financial condition of the Caribbeana Council as discussed in our previous audit has improved.

Our review was performed at the Council's headquarters in Washington, D. C. and included such necessary steps to determine: (1) if the financial position has improved; (2) the propriety and applicability of expenditures incurred and billed; (3) the adequacy of administrative controls and procedures; and (4) the reasonableness of the fiscal year 1980 overhead proposal.

#### Financial Management and Controls Need Improvement

Our previous audit report (No. 80-4 dated October 22, 1979) disclosed that the Council's accounting system was not adequate for accumulating, segregating and recording direct and indirect costs. In addition, the accounting records did not reflect costs billed to AID, and, at the end of July 1979, the books had not been posted since May 31, 1979.

Subsequent to our previous audit, Caribbeana Council officials outlined plans designed to upgrade the organization's financial and management capabilities. This upgrading, however, has not happened. For example, official accounting records are still not posted on a timely basis; the Council's financial viability is questionable; and, the Council has not been reporting project expenditures to AID.

## Council's Management Controls Need Improvement

During the review, we determined that Council management controls are weak or nonexistent. The Council does not segregate subgrant expenditures; its employees do not submit travel vouchers; its revenues were counted twice; and, it disposed of a project vehicle without notifying AID.

## Conclusions and Recommendations

Based on our review we conclude that Caribbeana Council has not improved its financial and management capabilities as Council officials indicated subsequent to our previous audit. As a result of our review, we recommend that:

- The Bureau for Latin America and Caribbean Affairs (AA/LAC) terminate its relationship with the Caribbeana Council upon the expiration of the current AID-funded grant in December 1981, and not provide future contracts or grants to the Council until such time as the Council can demonstrate that:
  - (i) its financial records are maintained on a current basis;
  - (ii) and it successfully generates an increase in private funding.
  
- The Office of Contract Management (SER/CM) require the Council to use the Pan American Development Foundation in accordance with the grant agreement.
  
- The Office of Contract Management (SER/CM) should notify Caribbeana Council that: (i) subgrant cost must be properly segregated from Council incurred costs; (ii) travel vouchers must be implemented immediately; and (iii) revenues must be reported in the year actually incurred.

## I. INTRODUCTION AND SCOPE

### Introduction

The Caribbeana Council was incorporated in Washington, D. C. in March 1977. It is a non-profit, private organization created to address immediate and long-range needs of the Caribbean nations and territories. The Council has a board of directors and eight officers and staff. It obtains its funds from private and government sources for administrative support (unrestricted funds) and for specific projects (restricted funds).

In October 1977, AID's Advisory Committee on Voluntary Foreign Aid (a group of private citizens appointed by the Administrator) certified that Caribbeana Council had qualified for voluntary registration pursuant to Part 203, Registration of Agencies for Voluntary Foreign Aid, of Title 22, Code of Federal Regulations. This action made the Council eligible to receive AID grants as a private and voluntary organization.

In July 1978, the AID Mission in Barbados and Caribbeana Council signed a \$278,000 (subsequently increased to \$340,000) operational program grant agreement whereby the Council was to undertake a program to improve the quality of the indigenous so called Black Belly Sheep which is raised for meat rather than wool. The objective was to increase the commercial availability of the sheep "...thereby contributing to increased and improved quantities of animal protein for ...(domestic) consumption and significant foreign exchange savings for Barbados."

On December 19, 1980, the original grant expired. On December 23, 1980, AID awarded the Council a second, cooperative agreement grant, to continue the services performed under the first grant. The cooperative agreement provides \$306,000 to finance costs incurred during the period December 20, 1980 through December 19, 1981.

### Purpose and Scope

The primary purpose of our audit was to ascertain if the poor financial condition of the Caribbeana Council as discussed in our previous audit has improved.

Our review was performed at the Council's headquarters in Washington, D. C. and included such necessary steps to determine: (1) if the financial position has improved; (2) the propriety and applicability of expenditures incurred and billed; (3) the adequacy of administrative controls and procedures; and (4) the reasonableness of the fiscal year 1980 overhead proposal.

## II. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### Financial Management and Controls Need Improvement

Our previous audit report (No. 80-4 dated October 22, 1979) disclosed that the Council's accounting system was not adequate for accumulating, segregating and recording direct and indirect costs. In addition, the accounting records did not reflect costs billed to AID, and at the end of July 1979, the books had not been posted since May 31, 1979.

Subsequent to our previous audit Caribbeana Council officials outlined plans designed to upgrade the organization's financial and management capabilities. This upgrading, however, has not happened. For example, official accounting records are still not posted on a timely basis; there is no steady and secure flow of donations to support program objectives; the services of the Pan American Development Foundation have not been properly utilized; and AID had not been notified of expenditures under the new grant.

#### Accounting Records Not Current

Completion of our review was somewhat delayed because Council financial records had not been posted for a period of one year. In addition, previous year audited financial statements could not be reconciled to the ledgers because year-end adjusting entries had not been posted. Only after obtaining workpapers from the public accounting firm were we able to reconcile the books to the financial statements.

The Council's accounting system is adequate for recording, accumulating and segregating costs incurred under government funded contracts or grants. However, when not posted on a current basis, all control over financial accountability is lost. In order to assure that the system is serving management's needs, the Council must: (1) keep financial records posted up to date; (2) accrue and post costs at least quarterly; and (3) prepare monthly trial balances to ensure that the accounting records are properly posted.

In addition, the Council does not have a financial management manual which outlines and governs its accounting system. Because of its size, the Council does not need a sophisticated accounting system, but it should at least have a list of standard practices and procedures to be adhered to by its financial management personnel.

#### Financial Viability is Questioned

As pointed out in our previous audit, the Council has experienced cash flow problems. Other than the AID grant funds, it has lacked a steady flow of private funding from which to finance its operational expenses. During the last three years contributions from private donors were:

<u>FY</u>	<u>Amount</u>
1979	\$33,698
1980	87,481
1981	51,940

After the financial records were posted up to date, we computed an estimated current ratio (current assets ÷ current liabilities) as of May 31, 1981. The current ratio, which was .56:1, verifies that the Council is still facing financial problems. An example of the Council's lack of adequate funding is accrued salaries which as of May 31, 1981 amounted to \$119,142. They represent amounts due, but not paid, to the two executive officers.

As of May 31, 1980, the audited financial statements indicated that \$10,171 in federal income taxes had been withheld from employees' salaries, but not paid to Internal Revenue Service. As of May 31, 1981, one year later, the amount had increased to \$10,287. Council officials held negotiations with the IRS to determine the exact liability and made payment subsequent to the completion of our audit.

As of May 31, 1980, the Council's financial records reflected an accounts receivable from Walker Williams and Co. in the amount of \$16,834. As far as we could determine, the receivable represents rental and telephone expenses applicable to Walker Williams and Co. but paid by the Council. Walker Williams and Co. jointly occupies the office space and facilities with the Council, and Mr. Williams serves as Council Executive Director. The Council does not maintain an accounts receivable listing and keeps only an informal accounts payable listing. Based on our analysis of salaries payable and actual payments to date, we determined that the Council owes the executive director \$49,050 in back pay. In our opinion, the accrued salary due Mr. Williams should be offset against the \$16,834 due from Walker Williams and Company.

The original grant was permitted to expire on December 19, 1980. Effective December 23, 1980, AID awarded a new grant to the Council to continue the program in Barbados. Under the new grant, the Council had applied for and received periodic cash advances totalling \$121,500 to cover grant expenditures through May 31, 1981. Expenditures, however, amounted to only \$49,158 through May 31, 1981, leaving a net cash balance on hand of \$72,342. The advances were based on the Council's submission of estimated cash outlays.

In our draft report we recommended that the Office of Contract Management (SER/CM) require the Council to refund advances in excess of the Council's immediate needs. In commenting on our draft audit report, AID's Office of Financial Management advised that the Council has now refunded advances not required for immediate disbursement. The current advance funding is \$44,318 which approximates their estimated cash requirement for August and September 1981. Therefore, we have eliminated this recommendation from our final report.

The questionable financial viability of the Council could affect the successful completion of the Black Belly Sheep Production project. AID financing for the project is scheduled to terminate as of December 19, 1981. According to the present AID agreement, full accomplishment of project objectives may require a longer term program. The Council, therefore, has agreed to seek other sources of financing to continue the project after the termination of AID funding. The present level of contributions from private donors will not, however, provide the money needed for project continuation.

In summary, the Council needs to improve its current financial posture in order to ensure viability.

### Pan American Development Foundation Assistance Has Not Materialized

Because of a desire to be associated with an organization experienced in administrating AID programs, the Council requested assistance from the Pan American Development Foundation (PADF). PADF agreed to work with the Council in moving the Black Belly Sheep Project toward economic self-sufficiency so that it might continue as a viable project after termination of the AID grant.

Specifically, PADF was to continue work already in process in providing technical assistance and oversight to Council people both in Washington and in the field. A program officer from PADF was supposed to go to the Council office in Barbados to resume implementation of the program as soon as AID funding was continued. The new grant was awarded on the basis that PADF would provide the guidance and assistance. The new grant also stipulated that PADF would be paid \$10,764 for these services.

PADF did send a staff member to Barbados to help resume the program. However, based upon the condition of the accounting records and reporting accomplishments, PADF has not been assisting the Council to improve its financial management.

### Council Is Not Reporting Expenditures to AID

As mentioned previously, the Council received cash advances totaling \$121,500 based on their submission of estimated cash outlays under the terms and conditions of a new grant issued December 23, 1980. After six months of incurring expenditures the Council has yet to submit any "no-pay vouchers" to AID's Office of Financial Management accounting for expenses incurred against the advance. A "no-pay voucher" should be submitted at least quarterly. Subsequent to completion of our field audit work, the Council has submitted expenditure reports.

#### Recommendation No. 1

The Bureau for Latin American and Caribbean Affairs (AA/LAC) terminate its relationship with the Caribbean Council upon the expiration of the current AID-funded grant in December 1981, and not provide future contracts or grants to the Council until such time as the Council can demonstrate that: (i) its financial records are maintained on a current basis; (ii) and it successfully generates an increase in private funding.

#### Recommendation No. 2

The Office of Contract Management (SER/CM) require the Council to use the Pan American Development Foundation in accordance with the grant agreement.

### The Council's Management Controls Need Improvement

During the review we determined that Council management controls are weak or nonexistent. The Council does not segregate subgrant expenditures; its employees do not submit travel vouchers; its revenues were counted twice; and, it disposed of a project vehicle without notifying AID.

#### Subgrant Costs are Commingled

New York State University at Farmingdale has a subgrant with the Council which is being funded under the AID grant. The University periodically submits costs summaries to the Council showing costs incurred in performing the required services. The Council distributes the costs by line item such as consultants, travel, etc., rather than booking it as a subgrant cost as reflected in the budget. The Council is reimbursed overhead on the basis of total incurred costs, excluding equipment, livestock, subcontracts and local salaries. Therefore, it is imperative that subgrant cost be distributed to the subgrant line item in accordance with the grant budget.

#### Travel is not Supported by Expense Vouchers

Our review disclosed that Council staff members traveling to and from Barbados are not submitting travel vouchers supporting their travel expenses. A Council official has indicated a travel voucher form has been developed and would be implemented in the near future.

#### Reported Revenues Were Erroneously Stated

As previously stated, the Council's financial records were not posted for one year. Based on our request, the Council updated its project ledger. However, in the process of updating the ledger AID grant revenues and expenditures applicable to FY 1980 were reflected in FY 1981. In addition, some revenues were recorded twice.

#### AID Was Not Notified of Property Disposal

A vehicle procured with AID grant funds was destroyed. The Council collected \$8,750 from its insurance carrier and has no plans of replacing the vehicle. The Council should have notified AID on the disposition of the vehicle and credited the \$8,750 against grant funds.

#### Recommendation No. 3

The Office of Contract Management (SER/CM) should notify Caribbeana Council that: (i) subgrant cost must be properly segregated from Council incurred costs; (ii) travel vouchers must be implemented immediately; and (iii) revenues must be reported in the year actually incurred.

Grant Costs

Grant costs posted to the financial records for the period August 1, 1978 through May 31, 1981 totaled \$373,738. The sum of \$372,470 is recommended for acceptance by the grant officer. Costs questioned represent adjustments calculated by the auditors primarily for overhead. These amounts are summarized below, and detailed in the referenced exhibits:

	<u>Costs Examined</u>	<u>Costs Questioned</u>	
Grant No. LAC-0066-A-00-1014-00	\$ 36,625	\$ 12,533	A
Grant No. 538-0021-G-T	337,113	(13,801)	B
	<u>\$373,738</u>	<u>\$ (1,268)</u>	

During our examination we reviewed the Council's overhead submission for the fiscal year ended May 31, 1980. We determined the actual 1980 overhead rate to be 57.42% applied to total direct cost. The revised rate is reflected in our recommended cost adjustments.

Recommendation No. 4

Office of Contract Management (SER/CM) take appropriate action to:

- A) ensure settlement of costs questioned totaling \$1,268;
- B) negotiate final overhead rates for fiscal year 1980.

AID Management Controls

Copies of our draft report were sent to USAID/Barbados, Bureau for Latin America and Caribbean Region, Office of Financial Management, and Office of Contract Management for review and comments. The Office of Financial Management and the Office of Contract Management submitted written comments which were taken into consideration in the final report.

### III. LIST OF RECOMMENDATIONS

#### Recommendation No. 1

The Bureau for Latin American and Caribbean Affairs (AA/LAC) terminate its relationship with the Caribbeana Council upon the expiration of the current AID-funded grant in December 1981, and not provide future contracts or grants to the Council until such time as the Council can demonstrate that: (i) its financial records are maintained on a current basis; (ii) and it successfully generates an increase in private funding.

#### Recommendation No. 2

The Office of Contract Management (SER/CM) require the Council to use the Pan American Development Foundation in accordance with the grant agreement.

#### Recommendation No. 3

The Office of Contract Management (SER/CM) should notify Caribbeana Council that: (i) subgrant cost must be properly segregated from Council incurred costs; (ii) travel vouchers must be implemented immediately; and (iii) revenues must be reported in the year actually incurred.

#### Recommendation No. 4

Office of Contract Management (SER/CM take appropriate action to:

- (A) ensure settlement of costs questioned totaling \$1,268;
- (B) negotiate final overhead rates for fiscal year 1980.

IV. List of Report Recipients

Deputy Administrator	1
Assistant Administrator, Bureau for Latin America and the Caribbean	5
Assistant Administrator, Bureau for Program and Management Services	2
USAID/Barbados	5
Audit Liaison, LAC	1
Audit Liaison, SER.	1
Office of Legislative Affairs	1
General Counsel	1
Office of Financial Management	2
DS/DIU/DI	1
Office of Contract Management	5
Inspector General	1
PFC/E	1
IG/PPP	1
IG/IIS	1
IG/EMS	12

Caribbeana Council  
 Cooperative Agreement No. LAC-0066-A-00-1014-00

Summary of Costs Incurred and Accepted  
 Dember 23, 1980 through May 31, 1981

	<u>Costs Incurred</u> <sup>a/</sup>	<u>Additional Costs Recommended</u>	<u>Costs Accepted</u>
Direct Salaries	\$ 17,076	\$	\$ 17,076
Occupancy Expenses	1,947		1,947
Local Transport	1,781		1,781
Office Supplies	172		172
Utilities	1,412		1,412
Shipping and Postage	341		341
Project Supplies	590		590
Travel and Transportation	5,037	[1,035] <sup>b/</sup>	4,002
Miscellaneous	<u>2,561</u>	<u>[1,605]</u> <sup>c/</sup>	<u>956</u>
Total Direct Costs	\$ 30,917	\$ [2,640]	\$ 28,277
Equipment	2,040		2,040
Subcontract Cost	3,668	1,035 <sup>b/</sup>	4,703
Overhead	_____	<u>14,138</u> <sup>d/</sup>	<u>14,138</u>
Total Costs	\$ <u>36,625</u>	\$ <u>12,533</u>	\$ <u>49,158</u> <sup>e/</sup>

Explanatory Notes:

a/ The Council has not submitted any public vouchers, to date, on expenditures incurred under this grant (see Recommendation No. 1). These costs represent actual costs incurred and distributed to this project in the cost ledger.

- b/ Represents subcontract costs which are reclassified from the travel and transportation category to the subcontract category.
- c/ Represents costs incurred in Barbados for the SUNY Research Foundation not applicable to the AID-financed grant.
- d/ Represents overhead calculated at the provisional rate of 50% applied to total direct costs. The Council has not yet submitted an overhead rate proposal for FY 1981 (see Recommendation No. 4). Therefore, the provisional rate can not be adjusted to actual.
- e/ The Grantee has been advanced \$127,500 to date by AID (see Recommendation No. 1).

Grant No. AID-538-0021-G-T (Barbados)  
 Summary of Costs Reimbursed and Accepted  
August 1, 1978 Through December 19, 1980

Best Available Copy

	Costs Reimbursed				Costs Questioned	Costs Accepted
	8/1/78 to 5/31/79	6/1/79 to 5/31/80	6/1/80 to 12/19/80	Total Total		
Personnel Costs	\$ 46,584	\$ 43,608	\$ 23,334	\$ 113,526		\$ 113,526
Rent & Utilities	--0--	11,286	5,500	16,786		16,786
Equipment	13,583	--0--	--0--	13,583		13,583
Supplies & Material	24,003	2,754	4,209	30,966		30,966
Workshops	--0--	9,946	--0--	9,946		9,946
Travel	20,308	1,217	1,193	22,718		22,718
Misc.	--0--	--0--	174	174		174
Total Direct Costs (TDC)	\$104,478	\$ 68,811	\$ 34,410	\$ 207,699		\$ 207,699
Overhead	66,866	46,017	16,531	129,414	\$(13,801) <sup>a)</sup>	115,613
Total	\$171,344	114,828	\$ 50,941	\$ 337,113	\$(13,801)	323,312

Explanatory Note.

a) Represents adjustment of overhead as shown below:  
 Overhead Reimbursed \$129,414

Overhead Accepted  
 Total Direct Costs (FY 1981)<sup>1)</sup> \$31,104  
 Provisional Overhead Rate 50% \$15,552  
 Total Direct Costs (FY 1980)<sup>2)</sup> \$57,811  
 Audited Overhead Rate  
 (see Exhibit C) 57.42% 33,195

Overhead Accepted (FY 1979) 66,866  
 Total Overhead Accepted 115,613  
 Net Adjustment \$(13,801)

1/ Excludes \$3,306 in local salaries  
 2/ " \$11,000 in local salaries

Caribbean Council  
Overhead Rate Computation; Fiscal Year Ended  
May 31, 1980

EXHIBIT C

<u>Overhead Pool</u>	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Indirect Salaries .	\$ 60,491	\$ a/	\$ 60,491
Fringe Benefits	2,636	(2,636)	
Professional Fees	5,707	(587)b/	5,120
Supplies	190		190
Telephone and Telegram	7,122		7,122
Postage and Shipping	376		376
Interest Expense	2,784	(2,784)c/	
Occupancy	5,213		5,213
Travel and Transportation	1,145		1,145
Printing and Duplicating	551	d/	551
Loan Guarantee Fee	1,799	(1,799)	
Depreciation	320		320
Miscellaneous	449		449
<b>Total Pool</b>	<u>88,783</u>	<u>(7,800)</u>	<u>80,977</u>

Overhead Base

Total Direct Costs \$141,033

Overhead Rate 57.42%

Explanatory Notes:

- a/ Represents insurance premiums accrued but never paid in FY 1980.
- b/ Represents Consultant Fees paid for direct project costs.
- c/ Interest expense is not an allowable expense under AID Regulations.
- d/ Capital cost is not an allowable expense under AID Regulations.