

5380021/18

PDAAP 239

1An. 34653

CARIBBEANA COUNCIL

Cooperative Agreement No LAC-0066-A-00-1014

Audit Report No. 84-28

May 17, 1984

CARIBBEANA COUNCIL

Cooperative Agreement No LAC-0066-A-00-1014

Background

In response to the Office of Contract Management (CM/ROD/LAC) request dated May 20, 1983, we have performed a final audit of Cooperative Agreement No. LAC-0066-A-00-1014 with the Caribbeana Council.

The cooperative agreement provided \$306,000 to finance costs incurred during the period December 20, 1980 through December 19, 1981. The funds provided to Caribbeana Council were for a program to improve the quantity and quality of the Black Belly Sheep which are raised for meat rather than wool. The goal 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."

Objective, Scope and Methodology

The objective our review was to determine (1) the validity, allocability, allowability and reasonableness of costs claimed under the cooperative agreement and (2) the reasonableness of the overhead rates proposed for Fiscal Years ended May 31, 1981 and 1982. We did a selective test of the available accounting records and supporting documentation which we considered necessary in the circumstances. We did not verify accomplishments of the Caribbeana Council. Our examination was conducted in accordance with generally accepted audit standards and included tests deemed necessary in the circumstances.

FINDINGS, CONCLUSION AND RECOMMENDATIONS

Accounting Records Did Not Meet Requirements for Government Funded Contracts and Grants

In October 1983, we met with the Director and the Controller of the Council to brief them on our final audit of their Cooperative Agreement. We advised them which accounting records and other documents we would need to perform our audit. We requested a statement reconciling the project costs summarized in the Certified Public Accountant's (CPA) financial statements and the project costs reported to AID on the Financial Status Reports, Form 269-102.

The Council advised us that they had been unable to locate the accounting records and supporting documentation for the project costs reported to AID. However, since they had not yet examined all the files placed in storage, we agreed to give them additional time to locate the documentation and prepare the reconciliation we would need to complete our audit.

While the Council was still unable to locate accounting records by February 1984, the Council had located canceled checks, check stubs, and monthly summaries which listed U.S. dollar checks, payees, and amounts. The summaries also identified the applicable cost categories of the grant to which the expenditures were charged. In addition, the Council located the local currency accounting records maintained by their Barbados project office. Utilizing these documents, we were able to substantiate \$155,531 of the \$224,413 in claimed direct costs. A draft report summarizing the results of our review was provided to the Council.

In late March we had another meeting with the Council and their independent public accountant. The Council had located the project ledger in which all U.S. dollars and local currency disbursements had been recorded. The Council had also located the records for wire transfers supporting payments to a consultant. As a result of this additional documentation, we were able to substantiate \$187,579 in direct costs.

Poor accounting practices have been a long-standing problem in our reviews at the Council. The RIG/A/W audit report number 81-141, issued on September 29, 1981, indicated that control over financial accountability had been lost because, at the time of our previous audit, the records had not been posted for a period of one year. Also, the CPA's financial statements could not be reconciled to the cost ledger until the accountant's work papers were reviewed for year-end adjusting entries. Audit Report No. 81-141 recommended that AID 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.

During our current audit, the Council was unable to locate the general ledger which normally is the source for the annual financial reports. We were, therefore, unable to reconcile grant costs by budget line items to the financial reports.

Because of the problems we encountered in performing our current audit and its effect on the timely completion of this review, no future contracts/grants should be awarded to the Council until there is reasonable assurance their accounting system is operating satisfactorily.

Recommendation No. 1

The Office of Contract Management (SER/CM) should withhold awarding future contracts/grants to the Caribbeana Council until RIG/A/W determines that the Council's accounting records meet all requirements for government-funded contracts and grants.

Cooperative Agreement Costs

The costs claimed during the audit period from December 20, 1980 through December 19, 1981, totaled \$284,295. As a result of our audit, we questioned \$21,152 and considered the balance of \$263,143 eligible for acceptance. Most of the questioned cost related to the State University of New York (SUNY) subcontract (See Exhibit A).

In performing under the cooperative agreement, the Council entered into a technical assistance subcontract with SUNY. During our audit, we obtained a copy of a March 30, 1983 letter to AID's contracting office from the contract and grant administrator at SUNY. The letter requested AID to assist SUNY in recovering \$29,844 which had been invoiced to the Council but remains unpaid as of the completion date of our audit. Our analysis of the subcontract costs showed the following:

Costs invoiced by SUNY through 12-20-81	\$63,695
Payment in July 1981	<u>27,529</u>
Remaining Balance	\$36,166 <u>1/</u>
Payment in August 1982	<u>10,000</u>
Remaining Balance per Council records	<u>\$26,166</u>

1/ The Council claimed this amount on their financial report for the period November 1, 1981 to December 19, 1981.

We contacted SUNY to determine the reason for the difference of \$3,678 between the \$26,166 on the Council's records and the \$29,844 in SUNY's letter to AID. We were informed that SUNY had submitted an invoice for \$3,678 to the Council in early 1982 which apparently had not been recorded on the Council's records. The \$29,844 due SUNY represents invoices for technical services provided by SUNY from June 1, 1981 to December 19, 1981. The Council held on to unpaid invoices and at the same time claimed reimbursement from AID. In attempting to justify this, the Council stated there had been a long-standing dispute between the Council and SUNY over the latter's performance in Barbados.

The Council proposed indirect cost rates of 64.22 and 122.1 percent for Fiscal Years ended May 31, 1981 and May 31, 1982, respectively. Our review of the CPA's 1981 financial reports indicated the indirect cost proposal failed to exclude \$10,000 for local salaries, equipment, and subcontracts from the direct cost base. Therefore, the overhead rate for 1981 should have been 72.6 percent. (See Exhibit B). In 1982, they failed to exclude subcontract costs totaling \$30,734. Therefore, the 1982 proposed overhead rate should have been 164.5 percent (See Exhibit C).

Cooperative Agreement No. LAC-0066-1-00-1014 included a maximum indirect costs rate of 65 percent. Therefore, instead of applying the higher rates as proposed, we applied the ceiling rate of 55 percent to the overhead-bearing

direct costs totaling \$116,252. As a result, we computed allowable indirect costs of \$75,564 (See Exhibit A).

As a result of our audit, we have accepted direct and indirect costs totaling \$263,143. The Council received advances totaling \$306,000 of which \$16,142 previously had been refunded to AID, leaving net advances of \$289,858. AID is due a refund of \$26,715 which is the difference between the net advances and accepted costs (See Exhibit A).

Recommendation No. 2

The Office of Contract Management (SER/CM) should finalize the overhead rate and take appropriate action to ensure settlement of the \$26,715 due AID.

CARIBBEANA COUNCIL
Cooperative Agreement No. LAC-0066-A-00-1014

Summary of Costs Claimed and Audit Adjustments

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
U.S. Salaries	\$ 47,010	\$ (928) 1/	\$ 47,938 3/
Local Salaries	10,281	20 T/	10,261
Fringe Benefits	7,512	73 T/	7,439 3/
SUNY	61,521	23,992 T/	37,529
PDAF	3,205	-	3,205
Supplies, Materials, Shipping	23,193	(431) 1/	23,624 3/
Livestock	-	-	-
Training	4,472	1,889 1/	2,583 3/
Equipment	29,642	9,310 T/	20,332
Travel	13,899	3,671 T/	10,228 3/
Consultants	23,678	(762) T/	24,440 3/
Subtotal - Direct Costs	<u>\$ 224,413</u>	<u>\$36,834</u>	<u>\$187,579</u>
Overhead	59,882	(15,682) 2/	75,564
 TOTAL COSTS	 <u>\$284,295</u>	 <u>\$21,152</u>	 \$263,143
Less: Funds Advanced to Council			<u>289,858</u>
Amount due AID			<u>\$ 26,715</u>

Explanatory Notes:

- 1/ Represents differences between project costs reported to AID and actual expenditures supported by documentation provided by the contractor.
- 2/ Represents overhead adjustment, as follows:
- | | | |
|--|------------|-------------------|
| Overhead claimed | | \$ 59,882 |
| Direct costs accepted 3/ | \$116,252 | |
| Maximum overhead rate
allowed by cooperative
agreement | <u>65%</u> | |
| Overhead accepted | | <u>75,564</u> |
| Additional overhead due
the Council | | <u>\$(15,682)</u> |
- 3/ Represents direct costs to which the overhead rate is applied.

CARIBBEANS COUNCIL
Cooperative Agreement No. LAC-0066-A-00-1014

Computation of Overhead Rate for
Fiscal Year Ended May 31, 1981

	<u>Cost Proposed</u>	<u>Audit Adjustments</u>	<u>Costs Accepted</u>
Indirect Costs (Pool)	\$55,479	-	\$55,479
Direct Costs (Base)	<u>\$85,383</u>	<u>\$ 10,000</u>	<u>\$76,383</u>
Overhead Rate: Pool ÷ Base	<u>64.22%</u>		<u>72.6%</u>

Explanatory Note

1/ Caribbeana Council did not exclude the following direct costs from the direct costs base:

Local Salaries	\$ 2,563
Equipment	3,774
Subcontracts	3,663
Total	<u>\$10,000</u>

The Cooperative Agreement states that the base for computing overhead is total direct costs less equipment, livestock, local salaries and subcontracts.

EXHIBIT C

CARIBBEANS COUNCIL
Cooperative Agreement No. LAC-0066-A-00-1014

Computation of Overhead Rate for
Fiscal Year Ending May 31, 1982

	<u>Costs Proposed</u>	<u>Audit Adjustments</u>	<u>Costs Accepted</u>
Indirect Costs (Pool)	<u>\$145,560</u>	<u>\$ -</u>	<u>\$145,560</u>
Direct Costs (Base)	<u>\$119,213</u>	<u>\$30,734</u>	<u>\$ 88,479</u>
Overhead Rate: Pool ÷ Base	<u>122.1%</u>		<u>164.5%</u>

Explanatory Note

- 1/ Caribbeana Council did not exclude subcontract costs from the direct cost base. (See Exhibit B)

CARIBBEANA COUNCIL

LIST OF REPORT RECIPIENTS

Associate Assistant to the Administrator for Management Services, (M/AAA/SER)	1
Audit Liaison Office, (M/AAA/SER)	1
Assistant Administrator, Bureau for Latin America and the Caribbean ,(AA/LAC)	5
Audit Liaison Office, (LAC)	5
Office of Caribbean Affairs, (LAC/CAR/BBEC I)	1
USAID/Barbados	1
Senior Assistant Administrator, Bureau for Science and Technology, (SAA/S&T)	1
Director, Office of Contract Management, (M/SER/CM)	1
Office of Contract Management, (SER/CM/ROD/LAC)	1
Office of Development Information and Utilization, (PPC/E/DIU)	2
Office of Financial Management, (M/FR/ASD)	2
Office of the General Counsel,(GC)	1
Office of Public Affairs, (OPA)	2
Office of Legislative Affairs, (LLA)	1
Office of Inspector General, (IG)	1
IG/A	1
IG/PPP	1
IG/II	1
IG/EMS/C&R	16