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**AUDIT OF
SERVICIOS TECNICOS DEL CARIBE
CONTRACT COSTS**

**Audit Report No. 1-519-90-012
June 15, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
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OFFICE OF THE REGIONAL INSPECTOR GENERAL
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June 15, 1990

MEMORANDUM

TO: MS/OP Director, Terrence J. McMahon

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

SUBJECT: Audit of Servicios Tecnicos del Caribe Contract Costs

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of Servicios Tecnicos del Caribe Contract Costs. Five copies of the final audit report are attached for your action. We have also attached a listing of the contractor's employees for your information and use in resolving the issues in this report.

The draft audit report was submitted to you for comment; however, you provided no comments.

The report contains five recommendations of which one is directed to your office. It is unresolved and will remain open until further action is taken. Please advise us within 30 days of any additional actions taken to implement the recommendation.

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MEMORANDUM

TO: USAID/El Salvador Director, Henry Bassford

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

SUBJECT: Audit of Servicios Tecnicos del Caribe Contract Costs

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of Servicios Tecnicos del Caribe Contract Costs. Five copies of the final audit report are attached for your action. We have also attached a listing of the contractor's employees for your information and use in resolving the issues in this report.

The draft audit report was submitted to you for comment and your comments are attached to the report.

The report contains five recommendations of which four are directed to your office. All four are unresolved and will remain open until further action is taken. Please advise us within 30 days of any additional actions taken to implement the four recommendations.

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

EXECUTIVE SUMMARY

Servicios Tecnicos del Caribe (STC) is a minority-owned firm incorporated under the laws of the Commonwealth of Puerto Rico that provides technical assistance and consulting services to private and public institutions. A.I.D. executed two contracts with STC in El Salvador. One was executed on October 30, 1980 for the purpose of assisting the Agricultural Development Bank of El Salvador implement the Agrarian Reform Credit Project. As of September 30, 1983, STC had claimed \$1,034,197 of the \$1,082,274 obligated under the contract. The second contract was executed on June 5, 1981 for the purpose of assisting the Government of El Salvador implement its agrarian reform programs. As of September 30, 1983, STC had claimed \$1,895,527 of the \$1,907,507 obligated under the contract.

During the period November 1983 to May 1984 the Regional Inspector General for Audit/Tegucigalpa performed a financial related audit of the costs claimed by STC in fiscal year 1982 and 1983. During the audit, the United States Attorney in Puerto Rico initiated an investigation of Servicios Tecnicos del Caribe. That investigation delayed the release of this report.

We performed the audit in accordance with generally accepted government auditing standards and limited our review of internal controls and compliance to the issues in this report. We audited all of STC's El Salvador direct contract costs for fiscal years 1982 and 1983 totaling \$2,339,222. Also we audited STC's overhead cost pool to determine an indirect cost rate which would be applicable to all STC contracts for fiscal years 1982 and 1983. Total indirect costs claimed by STC during this period was \$987,322. Specific audit objectives were to determine the appropriateness of STC's claimed direct and indirect costs and its provisional overhead rate.

The audit questions the appropriateness of a total of \$625,629 in direct and indirect costs or 19 percent of the \$3,326,544 audited. Reducing the total direct and indirect costs by the amount questioned resulted in an adjusted overhead rate of 16.8 percent for fiscal year 1982 and 25.3 percent for fiscal year 1983.

The report contains five findings. The first four findings address questioned direct contract costs. The final finding addresses questioned indirect costs. Specifically, the audit found that (1) employee salaries were not always justified, (2) employee time and attendance records were not always accurate, (3) local currency expenditures were not appropriately claimed, (4) separate maintenance allowances were not properly documented, and (5) indirect costs included ineligible expenditures.

The report recommends that A.I.D. (1) collect \$243,981 from Servicios Tecnicos del Caribe for salaries and related cost in excess of authorized amounts, (2)

collect \$39,740 from Servicios Tecnicos del Caribe for time inappropriately charged under the contracts, (3) collect \$20,109 from Servicios Tecnicos del Caribe for excessive local currency costs, (4) obtain evidence from Servicios Tecnicos del Caribe that separate maintenance allowances were properly justified or otherwise issue a bill of collection for up to \$14,930 to Servicios Tecnicos del Caribe for these unsupported costs, and (5) recover the \$306,869 in ineligible indirect expense that it paid Servicios Tecnicos del Caribe.

We provided USAID/El Salvador with a draft of this audit report for its review and comment. Mission officials did not provide comments responsive to our draft report. Management Comments are appended to this report as Appendix 1. Office of the Regional Inspector General for Audit/Tegucigalpa Response to Management Comments is Appendix 2. We also provided the Bureau for Management Services, Office of Procurement (MS/OP) with a draft; however, its officials did not provide any comments.

Office of the Inspector General

Office of the Inspector General
June 15, 1990

**AUDIT OF
SERVICIOS TECNICOS DEL CARIBE
CONTRACT COSTS**

TABLE OF CONTENTS

	<u>Page</u>
PART I. INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	1
PART II. RESULTS OF AUDIT	3
A. Findings and Recommendations	4
1. Employee Salaries Were Not Always Justified	4
2. Employee Time and Attendance Records Were Not Accurate	6
3. Local Currency Contract Costs Were Not Appropriately Claimed	8
4. Separate Maintenance Allowances Were Not Properly Documented	9
5. Ineligible Expenditures Were Included in Indirect Costs	11
B. Compliance and Internal Control	13
PART III. EXHIBITS AND APPENDICES	
A. Exhibits	
1. Summary of All Servicios Tecnicos del Caribe Active Contracts as of September 1983	
2. Summary of Questioned Direct Contract Costs	

3. Summary of El Salvador Costs Claimed and Audit Adjustments
4. Summary of Questioned Direct Salaries and Allowances
5. Summary of Questioned Direct Time and Attendance Costs
6. Summary of Questioned Direct Local Currency Costs
7. Questioned Overhead Payments FY 1982
8. Questioned Overhead Payments FY 1983
9. Adjustments to STC's Total Overhead Costs for Fiscal Year 1982
10. Adjustments to STC's Total Overhead Costs for Fiscal Year 1983

B. Appendices

1. Management Comments
2. Office of the Regional Inspector General for Audit/Tegucigalpa Response to Management Comments
3. Report Distribution

**AUDIT OF
SERVICIOS TECNICOS DEL CARIBE
CONTRACT COSTS**

PART I - INTRODUCTION

A. Background

Servicios Tecnicos del Caribe (STC) is a minority-owned firm incorporated under the laws of the Commonwealth of Puerto Rico that provides technical assistance and consulting services to private and public institutions. A.I.D. has executed various contracts with STC including two contracts in El Salvador, contract Nos. LAC-0263-C-00-1001-00 and A.I.D. 519-0225. For a summary of STC contracts with A.I.D. see Exhibit 1.

On October 30, 1980 A.I.D. executed contract No. LAC-0263-C-00-1001-00 with STC for \$1,082,274. Under this contract STC was to assist the Agricultural Development Bank of El Salvador (Bank) implement the Agrarian Reform Credit Project. Specifically, STC was to help the Bank establish a multi-purpose farm credit system for cooperative associations and improve Bank services to the agrarian reform sector. As of September 30, 1983, STC had claimed \$1,034,197 under the contract.

On June 5, 1981 A.I.D. executed contract A.I.D. 519-0225 with STC for \$1,907,507. Under this contract STC was to assist the Government of El Salvador (GOES) implement its agrarian reform programs. Specifically, STC was to assist the GOES improve: cooperative and institutional accounting, organization, and management; agriculture sector and farm level planning; technical and management training; data management and programming; agriculture extension methodology and implementation; and cadastre and legal assistance. As of September 30, 1983, STC had claimed \$1,895,527 under the contract.

USAID/El Salvador approved periodic payments to STC for contract work based on the submission of invoices. These payments covered costs related to implementing the contracts (direct) and those related to STC's administrative overhead (indirect). A.I.D. paid STC for direct costs based on costs incurred, and for indirect costs based on a provisional overhead rate times direct costs. This report discusses the results of our audit of payments to STC for direct costs under the two contracts and total indirect costs.

B. Audit Objectives and Scope

The Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) performed a financial related audit of the costs claimed by STC in fiscal years 1982 and 1

1983. Specific audit objectives were to determine the appropriateness of claimed direct and indirect costs and of its provisional overhead rate.

To accomplish these objectives we reviewed STC's financial records and accounting procedures at its offices in Puerto Rico and El Salvador and pertinent A.I.D. regulations, guidance and records at USAID/El Salvador. Discussions were also held with officials of STC and former employers of STC employees.

To determine the appropriateness of costs incurred, we compared STC claimed costs with source documents such as canceled checks and invoices and costs entered into their books. We reviewed salaries claimed by 14 of STC's 33 technicians to determine if salaries claimed in their biographical sheets were appropriate. This determination was made by comparing salaries to tax records and interviewing former employers to determine the accuracy of the claimed salaries. We also compared costs contained in STC's overhead proposals to Federal Procurement Regulations, A.I.D. Acquisition Regulations, and relevant A.I.D. policies to determine actual overhead rates for fiscal years 1982 and 1983.

The audit was made during the period November 1983 through May 1984 and covered the period October 1, 1981 through September 30, 1983. We audited all of STC's El Salvador direct contract costs for fiscal years 1982 and 1983 totaling \$2,339,222. Also we audited STC's overhead cost pool to determine an indirect cost rate which would be applicable to all STC contracts for fiscal years 1982 and 1983. Total indirect costs claimed by STC during this period was \$987,322. We limited the review of internal controls and compliance to the issues in this report and performed the audit in accordance with generally accepted government auditing standards.

Before the audit report could be issued the United States Attorney's Office in Puerto Rico initiated an investigation of STC. The United States Attorney requested that this report not be issued until their investigation of STC was completed. We were informed in May 1989 that its investigation had been completed and that the report could be issued.

**AUDIT OF
SERVICIOS TECNICOS DEL CARIBE
CONTRACT COSTS**

PART II - RESULTS OF AUDIT

The audit questions the appropriateness of a total of \$625,629 in direct and indirect costs or 19 percent of the \$3,326,544 audited. See Exhibit 3 for a summary of questioned costs. Reducing the total direct and indirect costs by the amount questioned resulted in an adjusted overhead rate of 16.8 percent for fiscal year 1982 and 25.3 percent for fiscal year 1983. See Exhibits 9 and 10 for the overhead rate calculations.

The report contains five findings. The first four findings address questioned direct contract costs (see Exhibit 2 for a summary of these costs). The fifth finding addresses questioned indirect costs. Specifically, the audit found that (1) employee salaries were not always justified (2) employee time and attendance records were not always accurate, (3) local currency expenditures were not appropriately claimed, (4) separate maintenance allowances were not properly documented, and (5) indirect costs included ineligible expenditures.

The report recommends that A.I.D. collect \$243,981 from STC for salaries and related cost in excess of authorized amounts, collect \$39,740 from STC for time inappropriately charged under the contracts, collect \$20,109 from STC for excessive local currency costs, obtain evidence from STC that separate maintenance allowances were properly justified or otherwise issue a bill for collection to STC for up to \$14,930 for these unsupported costs, and recover \$306,869 in ineligible indirect expense paid to STC by A.I.D.

A. Findings and Recommendations

1. Employee Salaries Were Not Always Justified

Contract provisions specify that salary payments to contractor employees normally cannot exceed the employees previous highest rate of salary for any of the immediate preceding three years. Some employees biographical data sheets submitted to A.I.D. did not contain accurate salary information. Inaccurate salary information went undetected because A.I.D. does not require its contracting officers or its contractors to verify employee salary history. As a result, A.I.D. overpaid Servicios Tecnicos del Caribe (STC) employees a total of \$243,981 in salaries and related benefits.

Recommendation No. 1

We recommend that USAID/El Salvador negotiate a settlement with Servicios Tecnicos del Caribe for the questioned \$243,981.

Discussion

Both contracts state that "Salaries and wages may not exceed the contractor's established policy and practice, including contractor's established pay scale for equivalent classification of employees, which will be certified to by the contractor, nor may any individual salary or wage, without approval of the Contracting Officer, exceed the employee's current salary or wage or the highest rate of annual salary or wage received during any full year of immediately preceding three, provided that if the work is to be performed by employees serving overseas for a period in excess of one year, the normal base salary may be increased in accordance with Contractor's established policy and practice, but not to exceed 10 percent of base U.S. salary excluding benefits...".

The contractor employee biographical data sheet (A.I.D. Form 1420-17) is the prescribed A.I.D. form for documenting employment related information. If properly completed, this is a valuable source of information on employee educational and professional experience and salary history. A.I.D. uses this document to establish employee salary compensation levels.

As part of this audit, we contacted former employers to verify the salary information on the biographical forms for 14 of 33 STC employees who worked on the two contracts. Our analysis revealed that 10 of the 14 forms, or 71 percent, contained inflated salary information ranging from \$4,238 to \$29,476, while the remaining 4 included accurate salary information. See Exhibit 4 for further details. The following example illustrates the type of discrepancy noted

on the biographical forms. One employee reported his annual salary from his previous employer as \$24,000. We obtained the employee's tax records which showed he was only paid \$16,200 or \$7,800 less than reported. In this case, STC used the inflated salary information on the biographical data sheets as the basis to establish the employee's salary. As a result, STC paid this employee more than authorized by the contract. See Exhibits 4.1 and 4.2 for the direct salary costs questioned by the audit.

USAID/El Salvador and STC did not detect these salary discrepancies because they did not verify the data reported on the employee biographical data sheets. Contributing to this situation was a lack of policy guidance on when employee salary data should be verified and by whom. Therefore, the information contained in the employee biographical data sheet was never questioned. The lack of an A.I.D. and STC policy for the verification of previous salaries and the erroneous statements made by some prospective employees resulted in USAID/El Salvador paying excessive salaries to employees under the contracts.

As a result of A.I.D. and STC not verifying the salary history of the employees working under the two contracts, a total of \$243,981 was overpaid to 10 employees in fiscal years 1982 and 1983. USAID/El Salvador should negotiate a settlement with STC for the questioned \$243,981.

Management Comments

USAID/El Salvador did not provide comments responsive to our recommendation.

2. Employee Time and Attendance Records Were Not Accurate

A.I.D. guidance requires that employee time and attendance records be appropriately controlled. Some employee time and attendance records did not accurately reflect the time worked on the contracts. Servicios Tecnicos del Caribe (STC) permitted its employees to maintain and submit their own time and attendance records without appropriate management reviews. As a result, USAID/El Salvador paid \$39,740 for time incorrectly charged to the contracts.

Recommendation No. 2

We recommend that USAID/El Salvador negotiate a settlement with Servicios Tecnicos del Caribe for the questioned \$39,740.

Discussion

A.I.D. Handbook 27 sets forth procedures for the maintenance of time and attendance records. As a minimum, the procedures require that a timekeeper be assigned responsibility for recording and maintaining time and attendance transactions. A.I.D. policy also prohibits the payment of overtime hours to employees in technical or professional positions.

We reviewed time and attendance transactions for 14 of STC's 33 technicians to verify the accuracy of hours reported. STC policy states that technicians will be authorized 20 days annual leave. The contract states that annual leave will be accumulated according to contractor's policy, but should not exceed 26 days. The audit found that USAID/El Salvador had paid some employees more compensation than authorized by A.I.D. and STC policy. For example certain employees working under contract No. LAC-0263-C-00-1001-00 accumulated and were paid for more annual leave than they were entitled. Some employees were under the impression that they were authorized to accumulate the maximum stated in the contract so they accumulated and were paid for 26 days of annual leave instead of the authorized 20. Leave balances were not always recorded correctly because each technician individually interpreted what constituted proper annual leave. In some instances, technicians incorporated their accumulated overtime hours worked in their leave balances and in other instances technicians would take leave and not charge it to their leave balances, but would charge it to compensatory time.

For example, the audit identified one employee that had been paid for overtime hours not authorized under either STC or A.I.D. policy. In addition, the employee was out of the country during parts of April and August 1983, working on another STC contract in Honduras. His time and attendance card for those months showed that he was working in El Salvador full time. He

received salary payments in Honduras in addition to his full pay in El Salvador. This would not have been a problem if the employee was working in Honduras on his annual leave. However, the audit disclosed that this employee was accumulating leave in excess of authorized annual leave. After adjustment for excess leave and overtime, the employee was paid an excess of \$9,511 in salary in El Salvador.

Situations such as this existed because STC did not have appropriate control over employee time and attendance records. STC had not assigned responsibility to a timekeeper for maintaining the technicians time and attendance records. Each technician was responsible for maintaining his/her own time and attendance record, including accounting for annual and sick leave. As a result of inadequate controls over time and attendance records, USAID/El Salvador paid \$39,740 for time incorrectly charged to the contracts. See Exhibit F for total direct time and attendance costs questioned by the audit. USAID/El Salvador should seek settlement from STC for the questioned \$39,740.

Management Comments

USAID/El Salvador did not provide comments responsive to our recommendation.

3. Local Currency Contract Costs Were Not Appropriately Claimed

Servicios Tecnicos del Caribe (STC) was entitled to reimbursement for actual costs incurred under the contracts. STC claimed greater local currency costs than it actually incurred because of its use of different exchange rates. As a result of this practice, STC overcharged A.I.D. a total of \$20,109.

Recommendation No. 3

We recommend that USAID/El Salvador negotiate a settlement with Servicios Tecnicos del Caribe for the questioned \$20,109.

Discussion

Under the two contracts with USAID/El Salvador, STC was entitled to reimbursement for actual costs incurred. For local currency costs, STC was entitled to obtain reimbursement in United States dollars, but at the same exchange rate that it purchased the local currency.

On August 9, 1982 the Government of El Salvador (GOES) officially established a "parallel" exchange rate of United States \$1 to Salvadoran c3.80 (c=colon, El Salvador's currency). At the same time, the "official" exchange rate was United States \$1 to Salvadoran c2.50. STC bought colons at the parallel rate to pay for its local cost such as housing and transportation. Instead of claiming reimbursement for these costs at the same rate used to purchase the local currency, STC used the official rate.

As a result of using different exchange rates, STC overcharged A.I.D. a total of \$20,109. See Exhibit 6 for details of excess direct costs claimed as a result of different exchange rates. USAID/El Salvador should seek settlement from STC for the questioned \$20,109.

Management Comments

USAID/El Salvador did not provide comments responsive to our recommendation.

4. Separate Maintenance Allowances Were Not Properly Documented

Government Standardized Regulations require that in order for an employee to be eligible to claim separate maintenance allowance for children by a previous marriage, the employee must establish that he/she has joint custody of the children. Our review showed that three Servicios Tecnicos del Caribe (STC) employees had not furnished the required documentation to support the separate maintenance allowances that they had received because neither USAID/El Salvador nor STC required the submission of such data. As a result, separate maintenance allowance payments totaling \$14,930 were not properly justified.

Recommendation No. 4

We recommend that USAID/El Salvador (1) obtain evidence that the three Servicios Tecnicos del Caribe employees in question have presented appropriate documentation to establish their joint custody for the children that received separate maintenance allowances or (2) issue a bill for collection to Servicios Tecnicos del Caribe for the unsupported costs.

Discussion

Government Standardized Regulations, Section 260, states that separate maintenance allowances are intended to assist in offsetting additional expenses incurred by an employee in maintaining a separate household for his/her family. A separate maintenance allowance shall not be granted if there is a legal voluntary separation between an employee and spouse or a separation occurring through a divorce decree. Also, a separate maintenance allowance shall not be granted for a child when the child's legal custody is vested wholly or in part in a person other than the employee, unless joint custody is established.

Thirteen of STC's 33 technicians claimed separate maintenance allowances. Three of the 13 claimed allowances totaling \$14,930 for dependents by previous marriages. The Mission paid STC for the allowances claimed.

Employee Number	Amount Inadequately Supported
21	\$ 3,967
35	1,547
37	9,416
	<u>\$14,930</u>
	=====

Our review showed that neither USAID/El Salvador nor STC required employees to submit adequate documentation to justify their separate maintenance allowances.

As a result, separate maintenance allowance payments totaling \$14,930 were not properly justified. USAID/El Salvador needs to obtain appropriate support for these costs or seek reimbursement from the contractor.

Management Comments

USAID/El Salvador did not provide comments responsive to our recommendation.

5. Ineligible Expenditures Were Included In Indirect Costs

A.I.D. procurement regulations establish eligibility criteria for expenditures that can be claimed as part of a contractor's indirect costs. Servicios Tecnicos del Caribe claimed and was reimbursed for ineligible indirect expenditures. As a result, A.I.D. paid a total of \$306,869 in excess indirect costs for fiscal years 1982 and 1983. See Exhibits 7 and 8.

Recommendation No. 5

We recommend that the Bureau for Management Services, Office of Procurement negotiate a settlement with Servicios Tecnicos del Caribe for the questioned \$306,869.

Discussion

A.I.D. procurement regulations permit A.I.D. contractors to claim, as part of the total contract costs, a percentage of their overhead or indirect costs. This percentage or overhead rate is determined by dividing the contractor's total eligible indirect costs (indirect cost pool) by the direct contract costs incurred during the same time period. The established overhead rate is important because it is used as the basis for calculating the indirect charges that the contractor can claim under the contract until a financial audit is performed to determine the appropriateness of these costs. A.I.D. procurement regulations establish the eligibility criteria for expenditures that can be claimed as indirect costs.

The audit found that STC had included ineligible expenses such as promotional, entertainment, travel, and others in their indirect costs. The following examples illustrate the type of indirect expenditures that we question:

- Supplemental salary payments totaling \$8,000 were made to STC's chief of party in El Salvador and his wife for unspecified services.
- Consulting and related per diem fees totaling \$13,030 were paid to two sons of the STC President for unspecified services. Both sons were listed as Vice Presidents and were attending colleges in the United States. These payments coincided with trips from the United States to Puerto Rico during normal school breaks. Travel costs for these trips totaling \$7,203 were also paid as part of STC's indirect costs.
- Payments totaling \$28,269 were made to one employee for costs which were not supported by adequate documentation. This individual had the

title of Director of International Operations. He was a former A.I.D. Mission Director and apparently acted as a liaison between STC and A.I.D./Washington. His job description indicated that his main duties were to promote STC in the Washington, D.C. area where he lived and conducted most of his work. During the two fiscal years audited he received: (1) salary payments totaling \$18,800, (2) payments totaling \$5,700 for part of his residence that was rented as office space and \$1,700 paid to his son for secretarial and public relation services, and (3) payments totaling \$2,069 for the use of his private telephone. We question these costs because they were not supported by adequate documentation and because it appeared that this employee's responsibilities were primarily promotional in nature, which is contrary to Section 1-15.205-1 of the Federal Procurement Regulations.

- Finally, the audit questions some transportation and entertainment expenses. For example, in fiscal years 1982 and 1983, USAID/Costa Rica and Government of Costa Rica officials visited Puerto Rico for the purpose of visiting low cost housing projects there. Expenditures totaling \$3,949 were incurred by STC for entertaining and transporting these visitors. STC recovered these costs through its overhead charge. In another case, STC paid and recovered through its overhead charge the first night's lodging totaling \$160 for a USAID/Costa Rica and a Government of Costa Rica official traveling to Puerto Rico under invitational travel orders. Besides not having adequate documentation to support STC's payment of these costs, the audit found that the two individuals were reimbursed for their travel costs by their own organizations. See Exhibits 9 and 10 for details of questioned indirect costs.

This audit determined that the correct overhead rate for fiscal year 1982 is 16.8 percent and 25.3 percent for fiscal year 1983. Thus A.I.D. paid a total of \$306,869 in excess indirect costs for the two fiscal years because of improper billings. MS/OP should negotiate a settlement with STC for the questioned \$306,869.

Management Comments

MS/OP provided no comments to our draft report.

B. Compliance and Internal Control

We limited the review of compliance to contractual requirements and Federal Procurement Regulations. Our review of internal controls was limited to the review of contractors time and attendance policy and whether the recording of time and attendance was proper.

Compliance

There were four compliance exceptions. First, employee salaries were not properly justified (Finding 1). Second, local currency expenditures were not properly documented (Finding 3). Third, separate maintenance allowances were not properly documented (Finding 4). Last, indirect costs included ineligible expenditures (Finding 5).

Internal Control

The audit disclosed one internal control deficiency. STC did not properly control employee's time and attendance (Finding 2).

**AUDIT OF
SERVICIOS TECNICOS DEL CARIBE
CONTRACT COSTS**

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

SUMMARY OF ALL
SERVICIOS TECNICOS DEL CARIBE
ACTIVE CONTRACTS
AS OF SEPTEMBER 1983

COUNTRY	CONTRACT NUMBER	SIGNED	AMOUNT	TOTAL EXPENDITURES 1/
El Salvador	AID 519-225	05-Jun-81	1,907,507	1,895,527
	LAC-0263-C-00-1001-00	30-Oct-80	1,082,274	1,034,197
Subtotal			\$2,989,781	\$2,929,724
Honduras	LAC-C-1404	18-Sep-80	198,839	177,853
	LAC-0150-C-1032	19-May-81	342,263	283,535
	522-0157-C-00-3066	03-Jun-83	87,185	33,205
	LAC-0176-C-00-2017	08-Mar-82	479,061	257,952
	LAC-0178-C-00-3025	21-Mar-83	291,840	100,191
	522-9103-C-00-3059	02-May-83	34,100	33,492
Subtotal			\$1,436,288	\$886,228
Dominican Rep	517-0124	31-Jan-80	232,274	113,359
Haiti	521-C-116	28-Mar-80	1,593,231	1,509,533
Guatemala	520-475	17-Sep-79	379,848	374,473
TOTAL			\$6,631,422	\$5,813,317
			=====	=====

1/ Includes expenditures for years prior to Fiscal Years 1982 and 1983

SUMMARY OF QUESTIONED DIRECT CONTRACT COSTS

	REFERENCE	FY 1982	FY 1983	TOTAL
Overpayment of Salaries and Allowances	Exhibits 4-1 and 4-2	\$119,579	\$124,402	\$243,981
Technician Time and Attendance Review	Exhibit 5		\$39,740	\$39,740
Reimbursement of Local Currency Costs at the Official Rate	Exhibit 6		\$20,109	\$20,109
Separate Maintenance Allowance	Page No. 9	\$5,942	\$8,988	\$14,930
		\$125,521 =====	\$193,239 =====	\$318,760 =====

EXHIBIT 3

SERVICIOS TECNICOS DEL CARIBE
 SUMMARY OF COSTS CLAIMED AND AUDIT ADJUSTMENTS
 OCTOBER 1, 1981 THROUGH SEPTEMBER 30, 1982

FISCAL YEAR 1982

	CLAIMED AND PAID	QUESTIONED	ACCEPTED	REFERENCE
DIRECT COSTS	\$1,874,402 1/	\$125,521	\$1,748,881	Exhibit 2
INDIRECT COSTS	547,979	254,167	293,812	Exhibit 7
	\$2,422,381	\$379,688	\$2,042,693	

AUDITED OVERHEAD RATE: 16.8 Percent 2/

FISCAL YEAR 1983

	CLAIMED AND PAID	QUESTIONED	ACCEPTED	REFERENCE
DIRECT COSTS	\$1,721,465 1/	\$193,239	\$1,528,226	Exhibit 2
INDIRECT COSTS	439,343	52,702	386,641	Exhibit 8
	2,160,808	245,941	1,914,867	

AUDITED OVERHEAD RATE: 25.3 Percent 3/

TOTAL CLAIMED
 INDIRECT COSTS \$947,122

1/ Total direct costs audited for El Salvador for Fiscal Years 1982 and 1983 was \$2,339,222 (See Exhibits 7 and 8)

2/ See Exhibit 9

3/ See Exhibit 10

SUMMARY OF QUESTIONED DIRECT COSTS
FOR SALARIES AND ALLOWANCES

EMPLOYEE No.	SALARY REPORTED		MAXIMUM ELEGIBLE SALARY PER CONTRACT PROVISIONS	2/	STC ESTABLISHED SALARY	EXCESS SALARY FACTOR	3/ 3/	PERCENT OF MAXIMUM ELEGIBLE SALARY
	BIO-DATA SHEET	TAX RECORDS						
02	22,000	18902	20792		45000	24208	116	
04	39,000	8113	8924		38400	29476	330	
09	24,000	16200	5894	4/	12900	7005	119	
11	41,600	15487	17036		40000	22964	135	
21	14,700	12030	13233		25000	11767	89	
22	20,500	14969	16486		24996	8530	52	
28	19,860	22523	24775		39000	14225	57	
31	26,767	24072	8962	4/	13200	4238	47	
38	39,000	30572	6596	4/	9180	2584	39	
41	22,384	19330	21263		30000	8737	41	

1/ Salary information on employers' income tax records were used as basis for calculating maximum eligible salary.

2/ Employees can be paid up to 10 percent more than previous salary.

3/ Difference between STC established salary and maximum eligible salary.

4/ Short-Term Employee (Less 1 year)
Contract Provisions = ((Tax records X 1.10) / 260) X period worked

SERVICIOS TECNICOS DEL CARIBE
OVERPAYMENT OF SALARIES AND ALLOWANCES
DUE TO OVERSTATED SALARY HISTORY
FISCAL YEAR 1982

EMPLOYEE NUMBER	ANNUAL EMPLOYMENT		EXCESS SALARY FACTOR 1/	OVERPAYMENT		
	FROM	TO		SALARY	POST DIFFERENTIAL 2/	TOTAL
02	11/15/81	09/30/82	24,208	\$21,450.98	\$5,362.74	\$26,813.72
04	10/01/81	09/30/82	29,476	29,795.32	7,448.83	37,244.15
11	10/01/81	09/30/82	22,964	23,212.78	5,803.19	29,015.97
21	02/15/82	09/30/82	11,767	7,419.75	1,854.94	9,274.69
22	02/15/82	09/30/82	8,530	5,381.01	1,345.25	6,726.26
28	09/07/82	09/30/82	14,225	908.82	227.20	1,136.02
38	01/20/82	09/30/82	2,584	1,815.98	453.99	2,269.97
41	02/08/82	09/30/82	8,737	5,679.05	1,419.76	7,098.81
TOTAL				\$95,663.69 =====	\$23,915.90 =====	\$119,579.59 =====

1/ See Exhibit 4

2/ Based on 25 percent of employee salary.

SERVICIOS TECNICOS DEL CARIBE
OVERPAYMENT OF SALARIES AND ALLOWANCES
DUE TO OVERSTATED SALARY HISTORY
FISCAL YEAR 1983

EMPLOYEE NUMBER	ANNUAL EMPLOYMENT		EXCESS SALARY FACTOR 1/	OVERPAYMENT		
	FROM	TO		SALARY	POST DIFFERENTIAL 2/	TOTAL
02	10/01/82	09/30/83	\$24,208	\$24,476.98	\$6,119.24	\$30,596.22
04	10/01/82	09/30/83	29,476	29,795.32	7,448.83	37,244.15
09	05/24/83	09/30/83	7,006	2,899.71	724.93	3,624.64
11	10/01/82	09/30/83	22,964	33,212.78	5,803.19	29,015.97
21	10/01/82	03/31/83	11,767	5,916.19	1,479.05	7,395.24
22	10/01/82	05/15/83	8,530	5,352.58	1,338.14	6,690.72
28	10/01/82	12/13/82	14,225	2,884.51	721.13	3,605.64
31	06/27/83	08/13/83	4,238	553.29	138.32	691.61
38	10/01/82	01/19/83	2,584	789.56	197.39	986.95
41	10/01/82	02/28/83	8,737	3,640.42	910.10	4,550.52
TOTAL				\$99,521.34 =====	\$24,880.32 =====	\$124,401.66 =====

1/ See Exhibit 4

2/ Based on 25 percent of employee salary.

SUMMARY OF QUESTIONED
DIRECT TIME AND ATTENDANCE COSTS
ADJUSTMENTS TO ANNUAL LEAVE
BALANCES AS OF SEPTEMBER 30, 1983

EMP NO.	AUDIT ANNUAL LEAVE ACCUAL COMPUTATION		STC ANNUAL LEAVE ACCUAL COMPUTATION		DIFFERENCE	DAILY RATE 3/	SALARY ADJUSTMENT	POST DIFFERENTIAL ADJUSTMENT 4/	TOTAL ADJUSTMENT
	DAYS 1/	DAYS 2/	DAYS	DAYS					
02	7.52		27.19		(19.67)	\$173.08	(\$3,404)	(\$851)	(\$4,256)
04	-11.15		18.4		(29.55)	147.69	(4,364)	(1,091)	(5,455)
05	-0.08		26.75		(26.83)	138.46	(3,715)	(929)	(4,644)
13	3.5		21.9		(18.40)	184.62	(3,397)	(849)	(4,246)
20	-8.97		0.17		(9.14)	115.38	(1,055)	(264)	(1,318)
35	-14.92		36.6		(51.52)	147.69	(7,609)	(1,902)	(9,511)
36	-6.63		1.6		(8.23)	115.38	(950)	(237)	(1,187)
37	32.38		53.83		(21.45)	110.77	(2,376)	(594)	(2,970)
38	-11.42		0.97		(12.39)	180.00	(2,230)	(558)	(2,788)
39	-19.39		0.06		(19.45)	138.46	(2,693)	(673)	(3,366)
TOTAL							(\$31,793)	(\$7,948)	(\$39,740)
							=====	=====	=====

1/ Annual leave balance established by audit.

2/ Actual leave balance recorded on STC records.

3/ Employee daily salary rate.

4/ Based on 25 percent of employee salary.

EXHIBIT 5

SUMMARY OF QUESTIONED
DIRECT LOCAL CURRENCY COSTS

LOCAL CURRENCY COST ITEMS	COST INCURRED USING		COST REIMBURSED USING EXCESS COST REIMBURSEMENT
	PARALLEL RATE	OFFICIAL RATE	
Transportation	3,113	2,026	1,087
Salaries/Overtime	8,947	5,703	3,244
Housing Allowance	37,742	27,853	9,889
Other Direct Costs	16,531	10,642	5,889
TOTAL	\$66,333	\$46,224	\$20,109
	=====	=====	=====

EXHIBIT 7

SERVICIOS TECNICOS DEL CARIBE
QUESTIONED OVERHEAD PAYMENTS
FISCAL YEAR 1982

COUNTRY	DIRECT COSTS PAID	ADJUSTMENTS	ADJUSTED DIRECT COSTS	INDIRECT COSTS PAID	INDIRECT COSTS AT RECOMMENDED RATE	QUESTIONED OVERHEAD PAYMENTS
El Salvador	\$1,156,003	\$125,521 1/	\$1,030,482	\$336,413	\$173,121	\$163,292
Honduras	179,799		179,799	54,142	\$30,206	\$23,936
Haiti	379,755		379,755	123,600	\$63,799	\$59,801
Guatemala	70,540		70,540	15,280	\$11,851	\$3,429
Dominican Republic	88,305		88,305	18,544	\$14,835	\$3,709
TOTAL	\$1,874,402	\$125,521	\$1,748,881	\$547,979	\$293,812	\$254,167

1/ See Exhibit 3

23

EXHIBIT 8

SERVICIOS TECNICOS DEL CARIBE
 QUESTIONED OVERHEAD PAYMENTS
 FISCAL YEAR 1983

COUNTRY	DIRECT COSTS PAID	ADJUSTMENTS	ADJUSTED DIRECT COSTS	INDIRECT COSTS PAID	INDIRECT COSTS AT RECOMMENDED RATE	QUESTIONED OVERHEAD PAYMENTS
El Salvador	\$1,183,219	\$193,239 1/	\$989,980	\$268,554	\$250,465	\$18,089
Honduras	401,618		401,618	128,765	101,609	27,156
Haiti	132,890		132,890	42,024	33,621	8,403
Guatemala	3,738		3,738	0	946	(946)
Dominican Rep.			0	0	0	0
TOTAL	\$1,721,465	\$193,239	\$1,528,226	\$439,343	\$386,641	\$52,702

1/ See Exhibit 3

- 24

ADJUSTMENTS TO SERVICIOS TECNICOS DEL CARIBE
TOTAL OVERHEAD COSTS
FISCAL YEAR 1982

SERVICIOS TECNICOS DEL CARIBE

ACCT. NO.	NOMENCLATURE	OVERHEAD EXPENDITURE	ADJUSTMENTS		RECOMMENDED OVERHEAD POOL
			REASON	AMOUNT	
601	Salaries	157,399.23			157,399.23
602	Fees	25,453.80	EXH. 9-1	15,050.00	10,403.80
603	FICA	9,859.31			9,859.31
604	Unemployment Insurance	5,598.23			5,598.23
605	Disability Insurance	1,085.55			1,085.55
606	Medical Expenses	3,031.17			3,031.17
607	State Insurance Fund	1,609.44			1,609.44
608	General Insurance	4,305.09			4,305.09
609	Bonus-Employees	1,740.00			1,740.00
610	Vacations-Employees	1,072.16			1,072.16
611	Rent-Offices	22,510.26	EXH. 9-2	3,450.00	19,060.26
612	Interest Expenses	8,349.87	1/	8,349.87	0.00
613	Telephone, Telegrams & Cables	9,740.22	2/	649.45	9,090.77
614	Office Materials	8,813.80	2/	81.03	8,732.77
615	Postage	1,609.94	2/	28.62	1,581.32
616	Int'L Travel	14,489.96	EXH. 9-3	5,918.35	8,571.61
617	Promotion Expenses	4,463.77	1/	4,463.77	0.00
618	Janitorial Expenses	681.30			681.30
619	Automobile Expenses	8,060.77	3/	8,059.09	1.68
620	Property Taxes	307.57			307.57
621	Municipal Taxes	663.89			663.89
622	Donations	809.00	1/	809.00	0.00
623	Subscriptions	1,444.98	4/	105.25	1,339.73
624	Depreciation Furniture & Fixtures	1,123.83			1,123.83
625	Depreciation Automobile	0.00			0.00
626	Retirement Fund	33,506.40			33,506.40
627	Other Gral Administrative Expenses	8,486.80	EXH. 9-4	2,345.91	6,140.89
629	Int' Per Diem & Related Costs	8,192.70	EXH. 9-5	2,934.75	5,257.95
630	Local Transportation	2,565.62	5/	1,738.00	827.62
631	Repair and Maintenance	512.51			512.51
		-----		-----	-----
		\$347,487.17		\$53,983.09	\$293,504.08
		=====		=====	=====

Total Adjusted (Exhibit 3) Direct Expense Reimbursed by the USAIDs \$1,748,881

Recommended Overhead Rate 16.8%
=====

- 1/ Not allowable under the Federal Procurement Regulations. (These are now called the Federal Acquisition Regulations)
- 2/ Expenses incurred by employee No. 45 not properly supported.
- 3/ Expenses involved operation and leasing an automobile used by STC president.
- 4/ Not properly documented.
- 5/ Questionable entertainment and auto rentals.

25

EXHIBIT 9-1

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENTS-FEES
 FISCAL YEAR 1982

CHECK NO	DATE	EMPL NO.	AMOUNT
1890	09/29/82	1/	\$1,700
1209	01/07/82	044 2/	1,500
1526	04/20/82	044 2/	750
1953	08/16/82	044 2/	5,500
1108	12/10/81	045 2/	700
1294	02/05/82	045 2/	700
1656	05/26/82	045 2/	700
1569	04/29/82	045 2/	700
1752	06/28/82	045 2/	700
1999	08/27/82	045 2/	1,700
2057	09/09/82	045 2/	400
TOTAL			\$15,050 =====

1/ Expenses not properly supported. STC did not provide the name of payee.

2/ Expenses incurred by this employee are not properly supported.

SERVICIOS TECNICOS DEL CARIBE
INDIRECT EXPENSES ADJUSTMENT-RENT
FISCAL YEAR 1982

CHECK NUMBER	DATE	ENPL. NO.	AMOUNT
1108	12/10/81	45 1/	\$300
1294	02/05/82	45 1/	300
1569	04/29/82	45 1/	300
1656	05/26/82	45 1/	300
1671	05/28/82	45 1/	300
1752	06/28/82	45 1/	300
1890	09/29/82	3/	300
1999	08/27/82	45 1/	300
2150	09/27/82	45 1/	300
2164	09/30/82	103 2/	750

TOTAL			\$3,450
			=====

- 1/ Monthly payment for part of this employee's residence as office space to conduct STC business. Individual has not submitted proper justification to support this claim.
- 2/ Payment for office rent in Haiti was not properly justified. STC records did not show the reason why the office was established or its purpose.
- 3/ Not properly supported. STC did not provide the name of payee.

SERVICIOS TECNICOS DEL CARIBE
INDIRECT EXPENSE ADJUSTMENT
INTERNATIONAL TRAVEL AND TRANSPORTATION
FISCAL YEAR 1982

CHECK NO.	DATE	EMPL. NO.	AMOUNT	
1159	12/21/81	1	\$585.00	Unofficial Trip to Puerto Rico
1078	12/03/81	43 1/	534.20	Trip San Juan-Chicago-San Juan
1812	07/08/82	43 1/	471.20	Trip San Juan-Chicago-San Juan
2163	09/30/82	43 1/	532.20	Trip San Juan-Chicago-Mexico-San Juan
1510	04/07/82	43 1/	539.67	Trip SJ-NY-SF-LA-NY
1022	11/24/81	44 1/	292.00	Trip Chicago-New York
1219	01/31/82	44 1/	547.34	Trip San Juan-Chicago
1539	04/27/82	44 1/	406.20	Trip IND-San Juan-Atlanta-IND
1929	08/03/82	44 1/	487.20	Trip Chicago-Puerto Rico
1655	05/26/82	45 1/	381.20	Transportation Expenses
1720	06/22/82	45 1/	530.00	Trip Washington-Panama-Washington
1965	08/17/82	45 1/	559.14	Trip Wash-Panama-San Jose-Wash
1427	03/15/82	47	53.00	Cost Differential Tourist and First Class.

TOTAL			\$5,918.35	
			=====	

1/ Airfare not properly justified.

28

EXHIBIT 9-4

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENTS
 OTHER GENERAL AND ADMINISTRATIVE EXPENSES
 FISCAL YEAR 1982

CHECK NO	DATE	EMPL NO.	AMOUNT
1717	06/16/82	1/	\$35.00
1609	07/07/82	2/	60.00
1810	07/07/82	2/	91.00
1819	07/09/82	2/	46.05
2058	09/09/82	2/	249.90
2073	09/15/82	47 2/	111.95
1800	07/01/82	47 2/	339.50
1987	08/26/82	2/	40.00
2084	09/17/82	61 2/	25.79
1214	01/12/82	47 2/	27.70
1965	08/17/82	45 2/	99.00
2057	09/09/82	45 2/	22.86
1972	08/19/82	2/	50.00
1955	08/16/82	18 3/	72.40
1965	08/17/82	45 4/	430.91
1718	06/22/82	45 4/	50.00
1318	02/12/82	47 5/	52.95
1534	04/26/82	47 5/	40.90
1841	07/16/82	6/	500.00
TOTAL			\$2,345.91 =====

- 1/ Purchase of flowers.
- 2/ Entertainment of government officials.
- 3/ Wedding gift.
- 4/ Documentation does not show purpose or justification for these expenditures.
- 5/ No invoice available. Unable to determine reason for expenditure.
- 6/ Honorarium paid to this employee to escort Peace Corps and USAID/Costa Rica Officials.

29

EXHIBIT 9-5

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENT
 INTERNATIONAL PERDIEM AND RELATED COST
 FISCAL YEAR 1982

CHECK NO.	DATE	EMPL. NO.	AMOUNT
1655	05/26/82	045 1/	\$325.00
1718	06/22/82	045 1/	497.00
1965	08/17/82	045 1/	992.45
1982	08/24/82	045 1/	480.00
1127	12/17/82	047 2/	236.46
1429	03/16/82	047 2/	78.75
1676	05/28/82	047 2/	49.30
1840	07/16/82	047 2/	107.54
1925	08/02/82	047 2/	38.25
2056	09/09/82	047 2/	100.00
2061	09/10/82	047 2/	30.00
TOTAL			----- \$2,934.75 -----

1/ Expenses incurred by this employee are questioned because justification and purpose of this trip is not properly documented.

2/ Entertainment of host country government officials.

ADJUSTMENTS TO SERVICIOS TECNICOS DEL CARIBE
TOTAL OVERHEAD COSTS
FISCAL YEAR 1983

SERVICIOS TECNICOS DEL CARIBE

ACCT NO.	NOMENCLATURE	OVERHEAD EXPENDITURE	ADJUSTMENTS		RECOMMENDED OVERHEAD POOL
			REASON	AMOUNT	
601	Salaries	231,088.83			217,488.83
602	Fees	27,767.50	EXH. 10-1	14,780.00	12,967.50
603	FICA	13,837.47			13,837.47
604	Unemployment	7,152.32			7,152.32
605	Disability Insurance	779.89			779.89
606	Medical Expenses	8,325.00			8,325.00
607	State Insurance Fund	2,182.84			2,182.84
608	General Insurance	7,403.53	3/	1,341.00	6,062.53
609	Employee Bonus	2,750.00			2,750.00
611	Rent-Offices	24,141.14	EXH. 10-2	5,300.00	18,841.14
612	Interest	757.30	1/	757.30	
613	Telephone, Telegraph and Cable	15,308.63	EXH. 10-3	1,559.64	13,748.99
614	Office Materials	9,142.77	2/	37.00	9,105.77
615	Postage	1,801.68			1,801.68
616	Int'L Travel and Transportation	17,081.35	EXH. 10-4	9,494.03	7,587.32
617	Promotional Expenses	7,787.68	1/	7,787.68	
618	Janitorial Expenses	771.00	2/	15.00	756.00
619	Auto Expense	10,252.38	4/	9,324.92	927.46
620	Property Tax	426.42			426.42
621	Municipal Taxes	226.41			226.41
622	Donations	1,255.00	1/	1,255.00	
623	Subscriptions	2,400.98			2,400.98
624	Depreciation Furniture & Fixtures	1,640.68			1,640.68
625	Repair & Maintenance	551.00			551.00
626	Retirement Fund	37,742.47			37,742.47
627	Other Gral. Administrative Expenses	13,194.11	EXH. 10-5	2,204.38	10,989.73
628	Local Transportation	3,807.23	EXH. 10-6	2,781.93	1,025.30
629	Int'L Per Diem & Related Costs	13,508.18	EXH. 10-7	7,179.58	6,328.60
630	Technical Cooperative Programs	2,088.09	EXH. 10-8	1,906.89	181.20
		----- \$455,171.88 -----		----- \$79,324.35 -----	----- \$385,847.53 -----

Total Adjusted (Exhibit 3) Direct Expense Reimbursed by the USAIDs \$1,528,225

Recommended Overhead Rate 25.3%
=====

1/ Not allowable under the Federal Procurement Regulations. (These are now called the Federal Acquisition Regulations.)

2/ Expenses incurred by employee No. 45 not properly supported.

3/ Auto insurance for which STC had no documentation available to determine if autos were used for business purposes.

4/ Expenses include the operation and leasing of an automobile that was used by the STC president.

SERVICIOS TECNICOS DEL CARIBE
INDIRECT EXPENSE ADJUSTMENTS-FEES
FISCAL YEAR 1983

CHECK NO.	DATE	EMPL NO.	AMOUNT
3430	08/29/83	001 1/	\$1,000
3270	07/28/83	001 1/	1,000
2962	04/29/83	001 1/	1,000
3171	06/29/83	001 1/	1,000
3049	05/27/83	001 1/	1,000
3320	07/29/83	044 2/	3,500
2521	12/30/82	044 2/	1,980
3048	05/27/83	136 2/	500
3441	08/29/83	136 2/	500
2971	05/02/83	136 2/	500
3178	06/29/83	136 2/	500
3271	07/28/83	136 2/	500
3546	09/30/83	136 2/	500
2757	03/14/83	045 3/	125
3139	06/28/83	045 3/	125
3272	07/28/83	045 3/	125
2908	04/22/83	045 3/	125
2412	12/13/82	045 3/	100
3008	05/13/83	045 3/	125
3403	08/22/83	045 3/	125
2323	11/15/82	045 3/	100
2758	03/14/83	045 3/	125
2218	10/26/82	045 3/	100
2550	01/13/83	045 3/	125
TOTAL			----- \$14,780 =====

- 1/ This employee was paid for full-time services under the Agrarian Reform contract.
- 2/ Expenses incurred by this employee are not properly supported.
- 3/ Monthly payment for secretarial and public relation services not supported by adequate documentation.

EXHIBIT 10-2

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENT-RENT
 FISCAL YEAR 1983

CHECK NO.	DATE	EMPL. NO.	AMOUNT
2234	10/29/82	45 1/	\$300
2360	11/29/82	45 1/	300
2479	12/24/82	45 1/	300
2585	01/28/83	45 1/	300
2692	02/28/83	45 1/	300
2925	04/28/83	45 1/	300
3440	08/29/83	45 1/	300
3544	09/30/83	45 1/	300
3408	08/25/83	45 1/	900
2748	03/11/83	103 2/	750
2994	05/09/83	151 2/	500
3321	07/29/83	151 2/	500
3364	08/09/83	151 2/	250

TOTAL			\$5,300
			=====

- 1/ Monthly payment for part of this employee's residence as office space to conduct STC business. Individual has not submitted proper justification to support this claim.
- 2/ Payment for office rent in Haiti was not properly justified. STC records did not show the reason why the office was established or its purpose.

23/

SERVICIOS TECNICOS DEL CARIBE
INDIRECT EXPENSE ADJUSTMENT-TELEPHONE, TELEGRAM AND CABLE
FISCAL YEAR 1983

CHECK NO.	DATE	EMPL. NO.	1/	AMOUNT
2218	10/26/82	45		\$138.29
2323	11/15/82	45		157.00
2412	12/13/82	45		120.11
2550	01/13/83	45		132.02
2757	03/14/83	45		120.61
2758	03/13/83	45		186.73
2741	03/09/83	45		44.95
2908	04/22/83	45		139.91
3008	05/13/83	45		99.47
3139	06/28/83	45		88.98
3272	07/28/83	45		78.44
3403	08/22/83	45		130.06
3550	09/30/83	45		123.07

TOTAL				\$1,559.64
				=====

1/ STC was paying this employee's total home telephone cost, which included personal use of the telephone.

SERVICIOS TECNICOS DEL CARIBE
INDIRECT EXPENSE ADJUSTMENT
INTERNATIONAL TRAVEL AND TRANSPORTATION
FISCAL YEAR 1983

CHECK NO.	DATE	EMPL. NO.	AMOUNT	
2413	12/13/82	45 1/	\$344.20	Trip to Puerto Rico
2452	12/20/82	45 1/	108.00	Trip to Haiti
2592	01/31/83	47 1/	548.20	Trip to Haiti
2592	01/31/83	1/	653.84	Trip San Jose-San Juan-San Jose
2667	02/18/83	45 1/	875.00	Trip to Colombia & Panama
2727	03/02/83	45 1/	1,018.00	Trip Wash-Colombia-Panama-Wash
2813	03/30/83	45 1/	124.88	Trip Colombia & Panama
3196	06/30/83	45 1/	130.00	Trip to New York
3197	06/30/83	45 1/	522.20	Trip to Haiti
3415	08/26/83	45 1/	142.00	Trip to Haiti
3490	08/31/83	01 1/	516.84	Trip to Puerto Rico
3404	08/22/83	45 1/	481.00	Trip to San Juan
2544	01/12/83	44 1/	701.20	Trip Chicago-Puerto Rico-Chicago
2545	01/12/83	44 1/	938.40	Trip San Juan-Chicago-SJ. SJ-NY-SJ
2592	01/31/83	43 1/	421.20	Trip Chicago-San Juan-Chicago
3563	09/30/83	44 1/	443.00	Trip from Chicago to Puerto Rico
3563	09/30/83	43 1/	252.20	Trip from Chicago to Puerto Rico
3589	09/30/83	43 1/	436.87	Trip from Chicago to Puerto Rico
3320	07/29/83	44 1/	200.00	Trip Chicago-Puerto Rico
2-88	01/28/83	01 2/	637.00	
TOTAL			----- \$9,494.03 =====	

- 1/ The trips were not properly justified.
- 2/ These expenditures were not properly supported.

SERVICIOS TECNICOS DEL CARIBE
INDIRECT EXPENSE ADJUSTMENTS
OTHER GENERAL AND ADMINISTRATIVE EXPENSES
FISCAL YEAR 1983

CHECK NO	DATE	EMPL NO.	AMOUNT
2180	10/05/82	1/	\$269.13
2263	10/29/82	47 1/	54.20
2304	11/04/82	1/	134.65
2569	01/24/83	45 1/	31.20
2741	03/09/83	45 1/	228.45
2758	03/13/83	1/	37.00
2829	03/30/83	47 1/	102.00
2881	04/15/83	1/	50.00
2976	05/03/83	47 1/	25.00
3008	05/13/83	45 1/	17.30
3197	06/30/83	45 1/	48.00
3273	07/28/83	45 1/	24.00
3420	08/29/83	47 1/	83.00
2520	12/30/82	47 1/	183.00
2410	12/07/82	47 2/	60.00
3089	05/31/83	2/	290.00
3141	06/21/83	2/	180.00
3408	08/25/83	45 2/	322.45
3326	07/29/83	2/3/	40.00
3520	09/16/83	4/	25.00

			\$2,204.38
			=====

- 1/ Entertainment expenses.
- 2/ These expenditures were not properly supported.
- 3/ Purchase of flowers.
- 4/ Traffic fine.

36

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENTS
 LOCAL TRANSPORTATION
 FISCAL YEAR 1983

CHECK NO	DATE	EMPL NO.	AMOUNT
2423	12/15/82	1/	\$700.00
2516	12/30/82	47	237.50
2530	01/04/83	1/	250.00
2519	12/31/82	45	200.00
3111	06/13/83	45	286.00
3141	06/21/83	1/	81.00
3490	08/31/83	47	261.38
2218	10/26/83	1/	22.00
2413	12/13/83	47	69.00
2550	05/13/83	45	45.00
2569	01/13/83	45	21.00
2653	01/24/83	45	18.00
2907	02/11/83	47	128.25
2908	04/22/83	47	79.25
3008	05/13/83	47	66.00
3139	06/28/83	2/	36.80
3196	06/30/83	2/	64.75
3550	09/30/83	45	81.60
3272	07/28/83	2/	37.20
3404	08/22/83	2/	33.20
3404	08/22/83	2/	64.00

TOTAL			\$2,781.93
			=====

1/ Transportation of government officials.

2/ These expenditures were not properly supported.

EXHIBIT 10-7

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENT
 INTERNATIONAL PERDIEM AND RELATED COST 1/
 FISCAL YEAR 1983

CHECK NO.	DATE	EMPL. NO.	AMOUNT
2540	01/12/83		\$392.68
3490	08/31/83	001	84.26
2183	10/13/82	043	785.23
2528	01/04/83	044	299.42
2413	12/13/82	045	400.00
2569	01/24/83	045	262.00
2562	01/19/83	045	500.00
2632	01/31/83	045	222.24
2653	02/11/83	045	61.00
2653	02/11/83	045	760.00
2741	03/09/83	045	484.00
2741	03/09/83	045	224.75
2908	04/22/83	045	22.00
3197	06/30/83	045	86.00
3197	05/30/83	045	548.00
3273	07/28/83	045	20.00
3404	08/22/83	045	400.00
2206	10/10/82	047	31.00
3504	09/13/83	047	176.50
3141	06/21/83	066	687.50
3112	06/13/83	129	480.00
3112	06/13/83	129	250.00

TOTAL			\$7,179.58
			=====

1/ Expenses were not properly justified and/or supported.

27

SERVICIOS TECNICOS DEL CARIBE
 INDIRECT EXPENSE ADJUSTMENTS
 TECHNICAL COOPERATION PROGRAM
 FISCAL YEAR 1983

CHECK NO.	DATE	EMPL. NO.	AMOUNT
2862	04/08/83	1/	\$160.00
2872	04/13/83	67 2/	225.94
2985	05/06/83	2/	448.40
3505	09/13/83	47 2/	22.50
3515	09/15/83	98 2/	25.05
2902	04/20/83	3/	450.00
2874	04/14/83	126 4/	125.00
2910	04/22/83	4/	200.00
2893	04/18/83	4/	250.00
TOTAL			----- \$1,906.89 =====

- 1/ Payment of lodging for government officials which was also paid under A.I.D. invitational travel orders.
- 2/ Questioned entertainment cost.
- 3/ Questioned transportation services.
- 4/ These expenses were not properly supported.

memorandum

DATE: April 9, 1990

REPLY TO
ATTN OF: Richard K. Archi, A/DIR, USAID/ES*Archi*APPENDIX
Page 1 ofSUBJECT: Mission Response to the Draft Audit Report on Servicios
Técnicos del Caribe (STC), 1982-83 Activities

TO: Mr. Coinage Gothard, RIG/A/T

The Mission regrets that it is unable at this time to provide a more detailed response to the draft audit report; however, it has met several substantial hurdles in resolving the issues. These include the following: (1) The report was not provided to STC by RIG, which was unaware that any audit was being conducted or was open, and it does not contain the views of the STC officials. (2) The report is on activities that took place seven to eight years ago for which the Mission's own records are in permanent storage in Suitland, Maryland, in accordance with agency policy. (3) Certain individuals were acquitted following trials on the same charges that the Mission is now faced with negotiating and the Mission has little information on these cases. (4) Specific contract numbers were not included in the draft audit report and, because of the age of the activities, the Mission has not yet been able to determine whether it has any valid remedy so long after the activities took place.

The Mission wants to obtain the best possible settlement for the United States Government and to proceed to do so. However, the Mission does not have all of the facts. The Mission has learned that the audit report was delayed because of an investigation that led to criminal charges being filed in federal court in Puerto Rico. These charges relate to some of the same issues contained in the draft report. We understand that one defendant was found guilty but that three others were acquitted. STC, which we were told paid for defense costs for all defendants, is fully informed in detail on the proceedings, including the perceived strengths and weaknesses of their case and ours. The Mission is not. The United States Government's interests can be served only if the Contracting Officer can sit across the negotiating table in a position of equal or better negotiating strength. The Mission would sincerely appreciate the assistance of the Inspector General in this regard.

45

- 2 -

Mission's Attempts to Obtain Information:

We wish to inform you that we have tried to get the needed information on the court proceedings. We first asked the Inspector General's office for it. We were told that we would have to get it directly from the court in Puerto Rico, that the RIG office had no further information.

Then our Regional Legal Advisor on March 23, 1990, after some expense of time, learned the name of the Assistant United States Attorney who had tried the case and reached him by telephone. He is Antonio Bazan and he provided a brief synopsis of the case, that is that four defendants were acquitted of falsely representing salary levels and that only one was convicted. He offered whatever help he could provide and agreed to meet with the Contracting Officer should she have to travel to Puerto Rico to conduct the negotiation.

However, with respect to records, he said that none of the testimony or proceedings of the trials had been transcribed and that all documentary evidence had been returned to STC. He said that he had nothing of any use to us but that the Inspector General had prepared a very important chronology and analysis that would be extremely useful to us. It is in the form of a diskette and Mr. Bazan strongly encouraged us to locate it, providing the name of the Inspector General's staff who had prepared it and last had it.

After making several telephone calls to identify the location of the diskette, the Mission's Audit Liaison Officer (ALO) spoke with Kurt Kunze of IG/W. Mr. Kunze stated that he could not release the diskette to the Mission directly but that he would send it on April 2nd to the Regional IG Office in Tegucigalpa, to the attention of Coinage Gothard. We assume that you have now received the diskette and would appreciate your sending us a copy.

Information from the Legal Proceedings Required by the Mission:

As noted earlier, we need to be fully informed of the strengths and weaknesses of the case. The Mission does not want to compromise in settling costs except in areas in which it does not have a strong position. Accordingly, please let us know the following: What specific findings in the draft report were affected by or at issue in the trial. What proof of wrongdoing was offered? What is the perceived reason for the acquittals, true innocence of the charges or insufficient evidence? We

41

assume that that the four acquitted defendants are included in the list of ten employees shown in Exhibit 4 of the draft report. Why were the remaining six not charged? How does the acquittal affect the substance of the recommendations to settle these costs and the Mission's right to require a repayment of these costs? Also please comment on the responsibilities of STC in verifying salary history versus the obligation of the employees; in other words, do we have a separate basis for asking STC to repay independent of the employees' guilt or innocence. Has the RIG looked at the relevant contracts to determine whether AID has a basis to proceed seven to eight years after an audit and after the Inspector General elected the criminal proceeding over an administrative negotiation of questioned costs in a timely manner?

Servicios Tecnicos del Caribe:

On March 21, 1990 the Mission's Contracts Officer (CO) sent a copy of the draft report to STC along with the cover letter shown as Exhibit I. To our surprise STC had not been given a copy of this draft report by your office and, therefore, would have insufficient time to draft a response to it (See telcon with Luis Rivera - Santos of STC as Exhibit II). The Mission's ALO informs me that not providing the auditee (STC) an opportunity to comment on draft findings is contrary to IG policy.

In addition, we cannot ensure that STC has retained adequate records relating to this period (1982 and 1983). The records retention period required by their contracts may have expired and Mr. Vere of your office stated that he had not formally informed STC that this audit was being conducted.

The Draft Report:

The Mission's ALO believes that this draft report may fail to meet three important reporting standards. Since the report does not mention that this financial related audit is under AICPA reporting standards we assume that you are using the reporting standards for performance audits as is recommended in section 5.27 of the GAO Auditing Standards, 1988 revised.

1. Timeliness (Standard No. 2):

"Reports are to be issued promptly so as to make the information available for timely use by management and legislative officials, and by other interested parties".

- 4 -

A report on 1982-83 activities not only could not be used to improve the management of the STC contracts, which have expired, but is so untimely that the required records retention periods may also have expired. The draft report states that RIG reviewed STC's records but we understand that this was several years ago. This lack of documentation may leave the Mission's CO in a difficult position in negotiating the costs questioned in the draft report.

2. Report Contents (Standard No. 3, Section 43):

"The report should include the pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditors' findings, conclusions, and recommendations, and what corrective action is planned".

The current views of the auditee (STC) will not be reflected in the report because (i) they were not informed that they were under audit and (ii) they were not given a copy of the draft report by RIG. We understand from the draft report that these issues may have been discussed with STC several years ago in conjunction with the court cases previously mentioned.

3. Report Presentation (Standard No. 4):

"The report should be complete, accurate, objective, and convincing, and be as clear and concise as the subject matter permits.

Being complete requires that the report contain all pertinent information needed to satisfy the audit objectives, promote an adequate and correct understanding of the matters reported, and meet the applicable report content requirements. It also means including appropriate background information".

This report is not complete because it omits the content, conclusions and decisions of the legal proceedings in Puerto Rico. If you wish to "promote an adequate and correct understanding of the matters reported" this information is considered essential.

4/3

Conclusion:

STC requests additional time to review the draft report and to provide you with their comments to it. The Mission supports this request. In addition, the Mission requests that the RIG provide to our CO the above mentioned diskette and other documentation covering (i) the content of the four trials, (ii) the decision not to pursue the remaining six employees and (iii) the rationale behind pursuing the three employees who have already been acquitted. The Mission also requests that RIG recognize the difficulties that a report issued seven to eight years after the audited activities may pose to the timely resolution of questioned costs.

RO:of

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY.
SAN SALVADOR, EL SALVADOR, C. A.

APPENDIX 1
Page 6 of 7

21 March 1990

Mr. Luis Rivera-Santos
President
Servicios Tecnicos del Caribe
Cond. San Martin, Oficinas 101-104
Ave. Ponce de Leon No. 1605, Pda. 23
Santurce, Puerto Rico 00909

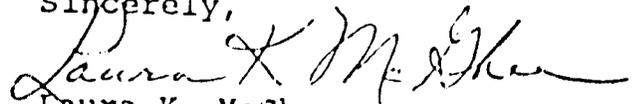
Subject: Draft Audit Report for Fiscal Years 1982 and 1983

Dear Mr. Rivera-Santos:

The subject draft audit report was received in the USAID/El Salvador Contracts Office on March 14, 1990. Both USAID and STC are afforded an opportunity at this point to provide comments for consideration by the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) prior to issuance in final. Any comments we may wish to make must be received by RIG/A/T no later than April 9, 1990. In the event STC has not yet received a copy of this report from RIG/A/T, I am enclosing a copy for your review and comment.

We understand that there was an action before the U.S. Courts which delayed the issuance of this report. We are in the process of requesting official court transcripts dealing with that action. If STC has copies of these transcripts, and if you feel that the information contained therein will add clarity to STC's response, you may wish to consider providing copies to RIG/A/T and USAID/El Salvador.

Sincerely,


Laura K. McGhee
Contracting Officer

cc: ALO, R. O'Leary
MS/PPE, J. Murphy

RECEIVED
INFORMATION
OFFICE OF
CLERK

43

M E M O R A N D U M

DATE : 03 April 1990
FROM : *Laura K. McGhee*
Laura K. McGhee, Contracts Office

RECEIVED OFFICE OF
THE CONTROLLER
SECTION 4
APR 11 1990

SUBJECT: Draft Audit Report on Servicios Tecnicos del Caribe

TO : Controller
Attn: Armand Lanier, ALO

I received a telephone call today from Mr. Luis Rivera-Santos, President of Servicios Tecnicos del Caribe (STC) in which he advised me that he had just today received my letter and a copy of the subject report. He had not received a copy of the report from RIG/A/T. Since the letter stated that the deadline for response to RIG was 9 April, he asked if he might have an extension in order to prepare a comprehensive response. I told him that USAID/El Salvador could not grant such a extension but suggested that he might wish to address his request to RIG/A/T. He indicated that he would do so with an information copy to me.

Mr. Santos expressed surprise that the 1982-1983 period was still at issue since, according to him, the court action against the STC employees had been completed in 1986. He told me that RIG had recently completed another audit of STC covering a subsequent period and he wondered whether issues addressed or resolved during the subsequent period might be relevant to the subject report. I told him that I could not respond to that since I had no way of knowing exactly what was audited for the subsequent period or when we might expect to see a report for that period.

cc: Controller, Frank Breen
DDIR, Richard K. Archi

**OFFICE OF THE REGIONAL INSPECTOR GENERAL
FOR AUDIT/TEGUCIGALPA RESPONSE TO
MANAGEMENT COMMENTS**

USAID/El Salvador's reply dealt mainly with the difficulty of settling the questioned costs as well as criticizing and discrediting the audit report because it did not follow the reporting standards as set forth in the GAO Auditing Standards for performance audits. We believe that these statements would not have been made if the report had been read more closely. The audit scope clearly states that this was a financial related audit; as such, none of the standards which the Mission accused RIG/A/T of not following apply to this audit. The Mission apparently does not understand that CPA firms use the AICPA standards but that the IG uses the GAO auditing standards which incorporates AICPA standards of reporting and does not restate but rather prescribes supplemental standards to satisfy unique needs of governmental financial audits.

Another fact USAID/El Salvador failed to comprehend is the relationship between the Contracting Officer and the auditor. Under procurement regulations the auditor has no legal authority to furnish a copy of the audit report to the contractor. This is the sole responsibility of the contracting officer since he is responsible for settling disputed costs. In addition GAO standards for financial related audits do not require that a copy of the report be furnished to the auditee.

STC was aware that the audit report for fiscal year 1982 and 1983 was in process. The STC president inquired several times about when this report was scheduled to be issued and was informed that it was being reviewed and it would be issued as soon as the review process was finished.

The information contained in the report was developed prior to the establishment of the grand jury and therefore, does not contain any information developed by the grand jury. However, USAID/El Salvador requests RIG/A/T to provide information developed under the grand jury such as the computer diskettes which does not have any relationship whatsoever to the contents of this audit report. Such information can be released only to an agent of the grand jury and thus can only be released to USAID/El Salvador when it becomes an agent of the grand jury.

We do not understand why the USAID/Regional Legal Officer spent "considerable time" learning the name of the Assistant United State's

Attorney in Puerto Rico since we had furnished his name to the USAID/El Salvador audit liaison officer (ALO). Also, we told the ALO that contract general provisions state that "that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of 3 years after final payment under this contract...have access to and the right to examine any directly pertinent books, documents, papers and records of the Contractor involving transactions related to this contract". No final billing has been submitted by STC since no final overhead rate has been determined, thus we cannot understand the USAID's concern regarding whether STC has retained adequate records relating to the audit period.

USAID/El Salvador requests RIG/A/T to consider certain circumstances regarding the overpayment of salaries and make a decision whether these costs are valid or not. This is a decision that must be made by the contracting officer. The auditor has reported the fact that some salary payment are not in accordance with contract provisions; however, RIG/A/T has no authority to accept or reject these costs. As stated in Handbook 14 "Pursuant to the Contract Dispute Act of 1978...contracting officers have the authority to negotiate and enter into settlements with contractors of cost questioned under audit reports".

√

APPENDIX 3

REPORT DISTRIBUTION

	<u>No. of Copies</u>
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USAID/El Salvador Director	5
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LAC/CAP/ES	1
LAC/CONT	1
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XA/PR	1
AA/LEG	1
GC	1
AA/MS	2
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