

**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of Overhead Rates Applicable to  
ROCAP Projects Managed by the Tropical  
Agronomic Center for Research and Education  
for Calendar Years 1986 through 1989**

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**Report No. 1-596-92-01-N  
October 23, 1991**



**INSPECTOR  
GENERAL**

**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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# AGENCY FOR INTERNATIONAL DEVELOPMENT

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October 23, 1991

## MEMORANDUM

TO: D/ROCAP, Irenemaree Castillo

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of Overhead Rates Applicable to ROCAP Projects, Managed by the Tropical Agronomic Center for Research and Education, for Calendar Years 1986 through 1989

This report presents the results of a financial audit of overhead rates applicable to Regional Office for Central American Programs (ROCAP) projects managed by the Tropical Agronomic Center for Research and Education (Center), for the calendar years 1986 through 1989. The audit firm of Price Waterhouse prepared the report which is dated September 13, 1991.

The Center, which is located in Costa Rica, is a nonprofit scientific and educational association whose purpose is to conduct, promote, and stimulate research, training and technical cooperation in agriculture and natural renewable resources throughout Central American and the Caribbean. The Center's core activities are financed primarily through annual allowances from member countries, the Interamerican Institute for Agricultural Cooperation, and earnings from the use of the Center's facilities and services. The Center's research and educational projects are generally financed through grants and contributions from international and national agencies, primarily ROCAP. During the four years included in the overhead audit, ROCAP provided grant funds totaling \$26.2 million to the Center.

The objectives of the audit were to: (1) determine overhead rates for ROCAP projects managed by the Center for the calendar years 1986 through 1989; (2) determine whether the Center's internal control structure was adequate to manage ROCAP's projects; and (3) determine whether the Center had complied with the terms of ROCAP's project agreements and applicable laws and regulations. The scope of the audit included an examination of the Center's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

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Price Waterhouse concluded that the appropriate methodology for calculating overhead rates applicable to the Center's ROCAP projects is the multiple allocation method, with a direct cost distribution base. However, because accounting records did not provide sufficient evidence to support the Center's agreed to counterpart funding of \$18.9 million, the auditors were unable to apply adequate auditing procedures to determine final overhead rates for ROCAP Projects managed by the Center for the calendar years 1986 through 1989.

With respect to the internal control structure of the Center, Price Waterhouse identified one material weakness concerning the lack of segregation of direct costs by major organizational function.

In its report on compliance with the terms of project agreements and applicable laws and regulations, the auditors identified three material instances of noncompliance concerning: (1) the aforementioned absence of accounting records sufficient to support the Center's required counterpart funding of \$18.9 million; (2) the Center's failure to implement certain ROCAP recommendations to improve financial management of its projects; and (3) questionable direct costs totaling \$204,424 billed to ROCAP projects by the Center.

In a written response to this report dated September 19, 1991, the Center expressed concerns about the process used for the audit and stated that they are preparing a detailed response to the points raised in the report as well as developing their own indirect cost proposal. Management's comments are included in Exhibit VII to the report.

We are including the following recommendations in the Inspector General's audit recommendation follow-up system:

**Recommendation No. 1**

**We recommend that the Regional Office for Central American Programs determine the amount of counterpart contributions which have been provided to its projects by the Tropical Agronomic Center for Research and Education and negotiate a settlement with the Center for the required amounts not yet contributed.**

**Recommendation No. 2**

**We recommend that the Regional Office for Central American Programs negotiate a recovery with the Tropical Agronomic Center for Research and Education for \$204,424 in questionable direct costs (\$161,686 unsupported and \$42,738 questioned) included in the Price Waterhouse report dated September 13, 1991.**

### **Recommendation No. 3**

**We recommend that the Regional Office for Central American Programs, in conjunction with the Tropical Agronomic Center for Research and Education, develop an action plan and timetable for the design and implementation of systems which permit: (1) the identification and accrual of direct costs by organizational function; (2) accountability for counterpart funds provided to ROCAP projects; and (3) implementation of recommendations made by ROCAP to improve financial management of its projects.**

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AUDIT OF THE OVERHEAD RATES OF THE  
TROPICAL AGRONOMIC CENTER FOR  
RESEARCH AND EDUCATION  
ROCAP/GUATEMALA PROJECTS  
FOR THE YEARS 1986, 1987, 1988 AND 1989



AUDIT OF THE OVERHEAD RATES OF THE  
TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION  
ROCAP/GUATEMALA PROJECTS  
FOR THE YEARS 1986, 1987, 1988 AND 1989

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*[Handwritten mark]*

*Price Waterhouse*



September 13, 1991

Mr. Reginald Howard  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard:

This report presents the results of our audit of the overhead rates of the Tropical Agronomic Center for Research and Education (Centro Agronómico Tropical de Investigación y Enseñanza - CATIE) related to the Regional Office for Central American Programs in Guatemala (ROCAP/Guatemala Projects), for the years ended December 31, 1986, 1987, 1988 and 1989.

#### BACKGROUND

CATIE is a Costa Rican civil, nonprofit, autonomous association, scientific and educational in nature. It conducts, promotes and stimulates research, training and technical cooperation in agriculture and natural renewable resources in benefit of the American tropics, particularly the countries of the Central American Isthmus and the Antilles. CATIE was founded in 1973 for a ten-year period by an agreement between the Government of Costa Rica and the Interamerican Institute for Agriculture Cooperation (Instituto Interamericano de Cooperación para la Agricultura-IICA). In addition, through Law No. 6873 of June 3, 1983, the Costa Rican National Assembly renewed this agreement for a twenty-year period. Accompanying Costa Rica as a founding member, the other Central American countries and the Dominican Republic became member countries of CATIE on different dates between 1975 and 1987.

CATIE is governed by the Interamerican Council of Agriculture (Junta Interamericana de Agricultura - JIA) which is the superior body of CATIE. CATIE's Board of Directors is responsible for the supervision and control of its activities and is composed of one representative from each member country, one representative from the Interamerican Council of Agriculture and three specialists in agricultural sciences and related fields. Additionally, CATIE's executive, technical and academic committees serve as advisors to

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the Board of Directors. The General Director and Deputy Director are responsible for overall direction and administration of the Center. The General Director is assisted by two general subdirectors who are in charge of the coordination of CATIE's research and educational activities.

CATIE's research activities are focused on programs for improvement of perennial cultivations and cultivations involving non-traditional products, programs for production and sustained agricultural development such as annual nourishing cultivations, tropical cattle raising, forestry and agroforestry production, production systems development, as well as programs for integral management of natural resources.

In the educational area, CATIE directs its efforts towards the Masters Degree Program in Agricultural Sciences and Natural Renewable Resources and also to its Continuing Education Program, which includes courses, in-service training and technical meetings, oriented to the training of persons involved in the different agricultural sectors and levels.

CATIE's core activities are financed primarily through annual allowances provided by IICA, member countries and earnings from the use of CATIE's facilities and services. Research and educational projects are generally financed through grants and contributions from international and national agencies, primarily ROCAP/Guatemala.

A summary of the projects financed by ROCAP/Guatemala during the audited period follows:

1. In July 1983, the Regional Tropical Watershed Management Project (No. 596-0106) was signed with an original budget of US\$6,000,000 and its completion date was scheduled to be December 31, 1990. The general goal of this project was to protect the environment and preserve the natural resources of the participating countries. To achieve this goal, the project's purpose was to improve the institutional capacity in Central America and Panama for managing the region's watershed resources. The project was to finance overhead costs not to exceed 15% of the total cost of all inputs except evaluations.

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2. In June 1984, the Regional Integrated Pest Management Project (No. 596-110) was signed with an original budget of US\$6,750,000 and its completion date was scheduled to be September 30, 1989. The general goal of this project was to increase agricultural productivity in Central America and Panama and to enhance the health and living standards of rural families in the region. The purpose of the project was to strengthen national and regional capabilities for development and implementation of effective integrated pest management in the Region. The Project was to finance an overhead cost equal to 22.2% of the total cost of all inputs.
3. In August 1985, the Tree Crop Production Project (No. 596-0117) was signed with an original budget of US\$9,000,000 and its completion date was scheduled for August 31, 1991. The general goal of this project was to increase the income and improve the social welfare of rural families, and to alleviate environment deterioration in Central America and Panama by introducing and increasing the planting of tree crops for multiple on-farm uses and for the sale of wood products. To achieve this goal the project's purpose was to strengthen the capabilities of CATIE and of public and private forestry services, educational institutions and extension organizations to promote and disseminate on-farm market oriented tree crop technologies for the use and economic benefit of small and medium-size farmers and rural industries. The project was to finance an overhead cost estimated at 30% of the cost of personnel, materials and some indirect costs incurred by CATIE. The overhead rate was to be reviewed annually by project funded audits, and adjusted accordingly. In addition, the overhead financing included funds to carry out two project evaluations by outside consultants over the life of the project.
4. In August 1985, the Regional Agricultural Higher Education Project (No. 596-0129) was signed with an original budget of US\$7,000,000 and its completion date was scheduled for August 19, 1991. The general goal of this project was to increase agricultural productivity in Central America and Panama, thereby enhancing rural economic growth and employment opportunities in the area. The purpose of the project was to produce a professional human resources base with practical and educational experience needed to address the agricultural production problems of the region. This project did not have an agreed upon provisional overhead rate.

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5. IICA and ROCAP/Guatemala signed a Regional Agricultural Technology Networks Project (No. 596-0127) scheduled to be completed on December 31, 1992 and whose partial execution was delegated to CATIE by agreement signed on April 1988 between CATIE and IICA with an original budget of US\$692,700. The goal of this project was to increase the production and earnings from cocoa plantations in small and medium-size farms in Central America and Panama through the improvement of the seeding materials and its cultivation systems. The approved provisional overhead rate for this project was 13%. This provisional rate was to be reviewed and audited by ROCAP to determine whether adjustments should be made.

#### AUDIT OBJECTIVES AND SCOPE

The specific objectives of our examination were to:

1. Determine overhead rates for ROCAP/Guatemala Projects managed by CATIE for the years ended December 31, 1986, 1987, 1988 and 1989.
2. Determine if CATIE's internal control structure was adequate to manage the projects.
3. Review CATIE's compliance with the terms of the agreements and applicable laws and regulations.

Our examination was performed in accordance with generally accepted auditing standards as well as with United States Comptroller General's "Government Auditing Standards" (1988 Revision), and included a review of CATIE's external auditor's work papers for their audits of CATIE for the years ended December 31, 1986, 1987, 1988 and 1989 to determine the level of reliance on their work as required by generally accepted auditing standards.

The scope of our work consisted of the following:

Reviewing CATIE's direct and indirect costs for the years ended December 31, 1986, 1987, 1988 and 1989.

Determining allowable direct costs for each year.

Determining allowable indirect costs for each year.

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Applying principles contained in OMB Circular A-122 to calculate overhead rates based on allowable direct and indirect costs, using the following methods for allocating overhead for each fiscal year:

1. Simplified allocation
2. Multiple allocation
3. Direct allocation

Reviewing CATIE's internal control structure with emphasis on those systems which are utilized in recording activities of the projects.

Reviewing CATIE's operations and projects transactions for compliance with the terms of the agreements and applicable laws and regulations.

#### RESULTS OF AUDIT

##### Overhead Rates

Based on the results of our work we believe that the multiple allocation method, with a direct cost (net of capital expenditures) distribution base, provides an appropriate methodology for calculating overhead rates applicable to CATIE's ROCAP/Guatemala projects.

Our work disclosed that direct costs incurred by CATIE related to its educational and training activities are not completely recorded in individual cost centers different from those related to research activities and therefore a significant portion of CATIE's direct costs related to educational activities are recorded within cost centers related to research activities. This condition affects determination of overhead rates for each major function of CATIE.

CATIE's accounting records do not provide sufficient evidence to support the contribution of the counterpart funds stipulated in the respective agreements. Under the terms of the respective agreements, CATIE agreed to provide counterpart funds totaling \$18,857,000. We were unable to determine the amount of such funds provided by CATIE or their classification as indirect and/or direct costs. The amount and classification of the counterpart funds has a material effect on the determination of final overhead rates of the Tropical Agronomic Center for Research and Education, ROCAP/Guatemala Projects.

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Because we were not able to apply adequate auditing procedures to satisfy ourselves regarding the contribution of counterpart funds, the scope of our work was not sufficient to enable us to determine final overhead rates of the Tropical Agronomic Center for Research and Education, ROCAP/Guatemala Projects for the years ended December 31, 1986, 1987, 1988 and 1989.

Our review also identified \$204,424 in questionable or suspended costs associated with ROCAP/Guatemala projects.

#### Internal Control Structure

The results of our tests disclosed the following condition, which we consider to be a material weakness in CATIE's internal control structure for purposes of determining overhead rates for ROCAP/Guatemala projects.

Lack of segregation of direct costs for each major function of CATIE.

#### Compliance with the Terms of the Agreements and Applicable Laws and Regulations

CATIE complied with agreement terms and applicable laws and regulations, except as follows:

1. CATIE did not provide the agreed-upon counterpart funds for ROCAP/Guatemala projects.
2. CATIE has not implemented certain recommendations for improvement of project financial management made by ROCAP/Guatemala:
  - a) Local currency expenditures should be charged to ROCAP/Guatemala projects using the actual rate of exchange at the time the local currency funds were purchased.
  - b) Expenditures related to CATIE's employees loan fund (FOCOPEN) should not be charged to ROCAP/Guatemala projects.
  - c) Value added taxes paid by CATIE in Guatemala should not be charged to ROCAP/Guatemala projects.
  - d) Severance payments and other payroll expenses related to CATIE's national personnel should be charged to ROCAP/Guatemala projects only after they have been paid out.

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3. CATIE charged questionable direct costs amounting to \$204,424 to ROCAP/Guatemala projects for the year ended December 31, 1986, 1987, 1988 and 1989.

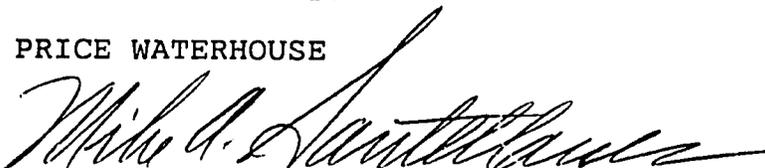
With respect to items not reviewed or tested, nothing came to our attention to indicate that CATIE had not complied with the terms of the agreements and applicable laws and regulations.

MANAGEMENT COMMENTS

We submitted a copy of this audit report to CATIE for their review and analysis. A copy of CATIE's comments is enclosed as Exhibit VII to this report.

Yours very truly,

PRICE WATERHOUSE



Mike A. Santellanes

*Price Waterhouse*



TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAF/GUATEMALA PROJECTS

CATIE'S OVERHEAD RATES

INDEPENDENT AUDITOR'S REPORT

We were engaged to perform a financial related audit of the overhead rates of the Tropical Agronomic Center for Research and Education (Centro Agronómico Tropical de Investigación y Enseñanza - CATIE) related to the Regional Office for Central American Programs in Guatemala (ROCAF/Guatemala Projects) for the years ended December 31, 1986, 1987, 1988 and 1989. The purpose of our examination was to determine overhead rates and related methodology for these projects. Our work was performed in accordance with applicable guidelines included in OMB Circular A-122 (Cost Principles for Nonprofit Organizations), OMB Circular A-110 (Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations), agreements between ROCAF/Guatemala and CATIE, Mandatory Standard Provisions and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Pursuant to the statement of work for this audit, we applied the principles and allocation methods contained in OMB Circular A-122 to calculate overhead rates based on allowable direct and indirect costs using the following selected distribution bases for allocating overhead costs: a) direct costs (net of capital expenditures) and b) total salaries.

Based on the results of our work we believe that the multiple allocation method, with a direct cost (net of capital expenditures) distribution base, provides an appropriate methodology for calculating overhead rates applicable to CATIE's ROCAF/Guatemala projects.

Our work disclosed that direct costs incurred by CATIE related to its educational and training activities are not completely recorded in individual cost centers different from those related to research activities and therefore a significant portion of CATIE's direct costs related to educational activities are recorded within cost centers related to research activities. This condition affects the determination of overhead rates for each major function of CATIE.

CATIE's accounting records do not provide sufficient evidence to support the contribution of the counterpart funds stipulated in the respective agreements. Under the terms of the respective

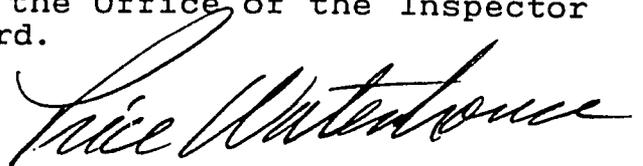
agreements, CATIE agreed to provide counterpart funds totaling \$18,857,000. We were unable to determine the amount of such funds provided by CATIE or their classification as indirect and/or direct costs. The amount and classification of the counterpart funds has a material effect on the determination of final overhead rates of the Tropical Agronomic Center for Research and Education, ROCAP/Guatemala Projects.

Because we were not able to apply adequate auditing procedures to satisfy ourselves regarding the contribution of counterpart funds, the scope of our work was not sufficient to enable us to determine final overhead rates of the Tropical Agronomic Center for Research and Education, ROCAP/Guatemala Projects for the years ended December 31, 1986, 1987, 1988 and 1989.

The following memorandum describes in detail the underlying assumptions used to determine the appropriate methodology for determining overhead rates applicable to CATIE's ROCAP/Guatemala projects.

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

  
Lic. Mike Santellanes Aguilera



April 22, 1991

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

REPORT ON OVERHEAD RATES

MEMORANDUM ON THE METHODOLOGY APPLIED  
TO DETERMINE OVERHEAD RATES

GENERAL

We used the methodology and related guidelines set forth in OMB Circular No. A-122 (Principles for nonprofit organizations) to determine overhead rates for ROCAP/Guatemala. Our scope of work also included a review of CATIE's direct costs and indirect costs of USAID's funded activities for years ended December 31, 1986, 1987, 1988 and 1989 and their classification into the categories of proposed, questionable, and allowable costs. Below we describe the methodology applied to determine overhead rates for CATIE.

DESCRIPTION OF CATIE'S MAJOR FUNCTIONS

Based on our understanding of CATIE's operations and discussions with its key officials and in accordance with the provisions of OMB Circular A-122, Section D-1 of Attachment A, the following activities were identified as CATIE's major functions:

1. Education and training: Post-graduate instruction rendered to individuals through CATIE's Masters Degree Program as well as CATIE's Continuing Education Program, sponsored and non-sponsored.
2. Improvement of tropical cultivations: Sponsored research activities toward the improvement of perennial cultivations such as coffee, cocoa, and banana cultivations, phyto-genesis resources of tropical crops and related transfer of technology.
3. Production and sustained agroindustry development: Sponsored research activities oriented to the development of components that assure sustained agriculture production and regional integral development of the resources of this production as well as transfer of technology and adoption of new technology by regional farmers. It should be noted that although this function is subdivided into the following sub-functions, we did not consider essential to determine overhead rates at this sub-level:
  - i. Tropical cattle raising
  - ii. Production systems
  - iii. Forestry and agroforestry

4. Integral management of natural resources: Sponsored research activities related primarily to watershed integral management and which includes the gathering of general socio-economic and bio-physic information in this area as well as providing technical assistance and information in preservation of regional natural resources and research on management of these resources.
5. Other activities: Miscellaneous activities performed by CATIE that do not fall within the functions described above, primarily a coffee and a sugar cane farm.

#### DETERMINATION OF TOTAL ALLOWABLE DIRECT AND INDIRECT COSTS

We were provided with CATIE's trial balances for years ended December 31, 1986, 1987, 1988 and 1989 detailing the names and amounts of each cost center of the Institution. In addition, we were provided with a letter from CATIE's Finance Director identifying those cost centers proposed by CATIE as indirect costs.

We selectively tested those transactions recorded in CATIE's cost centers, both direct and indirect costs, to determine their allowability for ROCAP/Guatemala purposes. Our findings are included in Exhibits I through V and in finding No. 1 in the compliance section of this report.

#### CLASSIFICATION OF INDIRECT COSTS INTO COST CATEGORIES

OMB Circular A-122 defines indirect costs as those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective (major function).

Based on our understanding of CATIE's operations, discussion with its key officials, review of the chart of accounts, and guidance set forth in OMB Circular A-122, we concur with the proposed identification by CATIE of its indirect costs and we classified them into the following cost categories:

1. Depreciation: includes depreciation on fixed assets.
2. Executive Offices: includes costs related to the following CATIE's directive bodies and their support departments:
  - Board of directors
  - General director
  - Deputy director
  - Human resources
  - Public relations
  - Internal and external audit
  - Regional offices

3. General and administrative: includes costs of the following general and administrative functions:
  - Office of the head of administration and finance
  - Controllership
  - Maintenance of machinery and vehicles
  - General services such as communications, security, procurement, medical services and others
4. Support activities: includes the cost of the following service centers that support CATIE's administrative and technical functions:
  - Computer center
  - International club (recreational facilities)
  - Lodging and wardenship
  - Research Station - Estación Experimental La Lola
  - Rental of vehicles
  - Reproduction of documents and media production
5. Department of Education: includes the cost of departmental administration responsible for overall coordination of educational and training activities of CATIE, including the Masters Degree Program.
6. Department of Research: includes the cost of departmental administration responsible for overall coordination of research activities of CATIE, including those financed through specific projects with international agencies. These indirect costs include costs of the Deputy Director of Research, laboratories operation and of the chief directors for the following CATIE's major research programs:
  - Improvement of tropical cultivations
  - Production and sustained agroindustry development
  - Integral management of natural resources

#### ALLOCATION OF INDIRECT COSTS TO MAJOR FUNCTIONS

The respective indirect costs categories were allocated to major functions of CATIE and within indirect cost categories when applicable, based on the following criteria and order:

1. Depreciation expenses -

Allowable depreciation expenses were allocated to those indirect and direct cost centers identified by CATIE based on current use of the assets.

2. Executive offices -

These costs were allocated based upon the estimated degree of efforts devoted by CATIE's upper management to the educational and research activities of the Center, as estimated by CATIE's Deputy Director.

3. General and administrative -

These costs were allocated based upon the estimated percentages by which these costs benefits major functions, as determined by CATIE's personnel.

4. Support activities -

These costs were allocated based upon total budgeted costs of each major function of CATIE.

5. Department of Education -

These costs were allocated based upon the estimated degree of efforts devoted to the educational activities and its relationship with research activities (institutional coordination), as determined by the Deputy Director of Education.

6. Department of Research -

These costs were allocated based upon the estimated degree of efforts devoted to the research activities and its relationship with educational activities (institutional coordination) as determined by the Deputy Director of Research. Furthermore, costs allocated to research activities were then distributed to CATIE's major research programs based again on percentages estimated by CATIE's personnel.

OVERHEAD ALLOCATION METHODS AND RESULTS

Our statement of work for this audit required that we distribute CATIE's overhead costs to major functions using the following allocation methods suggested by OMB Circular A-122.

1. Simplified allocation method - Under this method, the total costs of the organization are separated into direct and indirect costs and then total allowable indirect costs are allocated to direct costs using a selected distribution base. This method is appropriate whenever an organization's indirect costs benefits the major functions approximately in the same degree.

2. Multiple allocation method - This method is recommended when an organization's indirect costs benefits the major functions in different degrees. Under this method, indirect costs are accumulated into cost groupings and then allocated individually to benefiting function using a selected distribution base.
3. Direct allocation method - Under this method an organization's indirect costs consist exclusively of general and administrative expenses, which are prorated individually to each direct cost category using a base most appropriate to the particular cost being prorated.

Of the above mentioned allocation methods, we believe that the simplified allocation method and the direct allocation method are not applicable for purposes of allocating CATIE's overhead because of the following:

- CATIE's indirect costs benefits its major functions in different degrees and therefore the simplified allocation method is not appropriate for allocation of CATIE's overhead.
- Indirect costs of CATIE are not composed only of general and administrative costs. Rather, they include additional and different indirect costs categories related to CATIE's research and education activities. This condition impedes the application of the direct allocation method.

Accordingly, considering the nature of CATIE's major functions and its indirect costs, we concluded that the multiple allocation method, is the only method applicable for purposes of allocating CATIE's indirect costs.

In addition, as recommended by OMB Circular A-122 and for practical purposes we selected the following two distribution bases for allocation of indirect costs of CATIE for each ROCAP/Guatemala project as follows:

1. Total direct costs - Includes total direct costs for each major function, excluding capital expenditures and other distorting items.
2. Total personnel costs - Includes direct costs for salaries, wages, payroll taxes and benefits for each major functions.

We were engaged to perform a financial related audit of the overhead rates of the Tropical Agronomic Center for Research and Education (Centro Agronómico Tropical de Investigación y Enseñanza - CATIE) related to the Regional Office for Central American Programs in Guatemala (ROCAP/Guatemala Projects) for the years ended December 31, 1986, 1987, 1988 and 1989. The purpose of our examination was to determine overhead rates and related methodology for these projects.

Based on our analysis of the overhead rates and of their standard deviation resulting from the application of the above mentioned allocation method and distribution bases, we conclude that the "multiple allocation method" with a total direct costs (net of capital expenditures) distribution base, is the basis that produces a relatively stable and uncomplicated method for determining overhead.

On Exhibit VI we present an illustrative example of the application of this methodology for determination of CATIE's overhead rates for years ended December 31, 1986, 1987, 1988 and 1989, with respect to ROCAP/Guatemala projects and using CATIE's proposed direct and indirect costs less questionable costs. It should be noted that due to the scope limitations mentioned in the independent auditor's report, we do not express an opinion on the overhead rates shown in Exhibit VI.

\* \* \*

*Price Waterhouse*



TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We were engaged to perform a financial related audit of the overhead rates of the Tropical Agronomic Center for Research and Education (Centro Agronómico Tropical de Investigación y Enseñanza - CATIE) related to the Regional Office for Central American Programs in Guatemala (ROCAP/Guatemala Projects) for the years ended December 31, 1986, 1987, 1988 and 1989 and have issued our report thereon dated April 22, 1991, in which we do not express an opinion due to significant scope limitations.

In planning and performing our audit of CATIE'S overhead rates, we considered CATIE'S internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on its overhead rates and not to provide assurance on the internal control structure.

The management of CATIE is responsible for establishing and maintaining an internal control structure for ROCAP/Guatemala projects. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate. For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash disbursements
- Purchases
- Payroll
- Reporting

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

We noted a matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the calculation of overhead rates. The reportable condition noted is described in Finding No. 1.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the overhead rates being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the reportable condition described above is a material weakness.

We also noted certain conditions of lesser significance involving the internal control structure and its operations that we have reported to the management of CATIE in a separate letter dated April 22, 1991.

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

  
Lic. Mike Santellanes Aguilera



April 22, 1991

EXEMPT FROM STAMP TAX - LAW NO. 6663

TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

INTERNAL CONTROL STRUCTURE

AUDIT FINDING

1. LACK OF SEGREGATION OF DIRECT COST FOR EACH MAJOR FUNCTION OF CATIE.

Condition:

According to the current accounting practice, total direct costs incurred by CATIE on its educational and training activities are not entirely recorded through specific cost centers and therefore a significant portion of these costs remains accrued within cost centers related to research activities. Examples of this condition are the following:

- Total direct costs of CATIE's Masters Degree Program are not accrued and isolated in the accounting records of CATIE through a specific cost center. Instead these direct costs are recorded within several cost centers related to research activities sponsored by different donors, including the cost center related to the Regional Agricultural Higher Education Project, sponsored by ROCAP/ Guatemala. A major reason for this condition is that CATIE's professional staff engaged in sponsored research activities devote part of their working time to the Masters Degree Program as professors. However, no accounting re-allocation is made of the proportional direct costs related to such educational efforts and therefore these costs remain accrued in the sponsor's cost center.
- Direct costs of training activities are also not separately accrued in the accounting records of CATIE. These activities are generally financed by sponsored research projects and the key professional staff in charge of such training activities are primarily engaged in sponsored research activities.

Criteria:

Application of the methodology prescribed by OMB Circular A-122 requires an accurate segregation of direct costs incurred for each major function.

Cause:

The accounting system of CATIE was not designed to accrue total direct costs for each major function and accordingly the system is oriented to accumulating costs according to the financing source. In addition, CATIE informed us of the following:

- CATIE's educational programs require that students conduct research as a requisite of their Master's Degree. Therefore, educational and research activities are integrated.
- The lack of a centralized sponsored project administration system makes it difficult to control sponsored projects activities with constitute approximately 80% of the Center's annual budget.

Effect:

Individual overhead rates for each major function of CATIE are materially affected by the commingling of direct costs related to educational activities and to research activities.

Recommendation:

For purposes of applying the methodology prescribed in OMB Circular A-122 for allocation of overhead costs, CATIE should properly identify and accrue its direct costs for each major function. In addition, for proper monitoring and recording of direct and indirect costs, CATIE should implement a comprehensive, centralized sponsored projects administration system and functions for the financial and administrative management of contracts and grants supporting research and educational activities.

*Price Waterhouse*



TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS  
AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We were engaged to perform a financial related audit of the overhead rates of the Tropical Agronomic Center for Research and Education (Centro Agronómico Tropical de Investigación y Enseñanza - CATIE) related to the Regional Office for Central American Programs in Guatemala (ROCAP/Guatemala Projects) for the years ended December 31, 1986, 1987, 1988 and 1989 and have issued our report thereon dated April 22, 1991, in which we do not express an opinion due to significant scope limitations.

Compliance with the terms of the agreements and applicable laws and regulations related to ROCAP/Guatemala projects is the responsibility of CATIE's management. In connection with our audit referred to above, we performed tests of CATIE's compliance with certain provisions of agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, CATIE complied, in all material respects, with the provisions referred to in the preceding paragraph, except as described in findings No. 1 to 3. With respect to items not tested, nothing came to our attention that caused us to believe that CATIE had not complied, in all material respects, with those provisions.

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

  
Lic. Mike Santellanes Aguilera



April 22, 1991

EXEMPT FROM STAMP TAX - LAW NO. 6663

TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS  
AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

1. CATIE DID NOT PROVIDE THE AGREED UPON COUNTERPART FUNDS FOR  
ROCAP/GUATEMALA PROJECTS.

Condition:

CATIE's accounting records do not provide sufficient evidence to support the contributions of the counterpart funds stipulated in the respective agreements of the ROCAP/Guatemala projects.

Criteria:

Under the terms of the above mentioned projects, CATIE agreed to provide the following counterpart funds to project activities:

<u>Project</u>	<u>Budgeted counterpart</u>
Tree Crop Production (Section 5.4)	\$ 723,300
Regional Integrated Pest Management (Section 5.7)	750,000
Regional Tropical Watershed Management (Section 5.8)	1,460,000
Regional Agriculture Technology Networks (Clause 13)	790,000
Regional Agriculture Higher Education (Section 5.10), including \$6,481,000 of forecasted earnings from a Trust Fund established by USAID	<u>15,134,000</u>
Total	\$18,857,300 =====

USAID standard provisions and sound financial and accounting practices requires separate accounting records and identification of counterpart funds provided.

Cause:

We were informed by CATIE that its own financial resources for those years were not sufficient to provide the agreed-upon counterparts funds.

**Effect:**

Existing records did not demonstrate whether or not ROCAP/Guatemala projects benefited from the use of such counterpart funds. Also CATIE's indirect costs during years ended December 31, 1986, 1987, 1988 and 1989 may include expenditures that could be classified as project's counterpart and therefore CATIE's overhead rates, may be overstated.

**Recommendation:**

CATIE should provide evidence supporting that the agreed-upon counterpart funds were provided to its projects. In addition, the accounting system of CATIE should be properly modified to permit separate accountability of counterpart funds. Moreover, CATIE should implement a centralized sponsored project system and function that monitors institutional commitments of resources as counterpart funds and records benefits that flow to sponsored projects.

TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS  
AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

2. CATIE HAS NOT IMPLEMENTED CERTAIN RECOMMENDATIONS FOR IMPROVEMENT OF PROJECT FINANCIAL MANAGEMENT MADE BY ROCAP/GUATEMALA.

Condition:

In June 1987, ROCAP/Guatemala issued project implementation letters Nos. 27, 29, 28 and 25 related to the Regional Tropical Watershed Management, Regional Integrated Pest Management, Tree Crop Production and Regional Agricultural Higher Education Projects, respectively requiring adoption by CATIE of the following measures:

- a) Local currency expenditures should be charged to ROCAP/Guatemala projects using the actual rate of exchange at the time the local currency funds were purchased.
- b) Expenditures related to CATIE's employees loan fund (FOCOPEN) should not be charged to ROCAP/Guatemala projects.
- c) Value added taxes paid by CATIE in Guatemala should not be charged to ROCAP/Guatemala projects.
- d) Severance payments and other payroll expenses related to CATIE's national personnel should be charged to ROCAP/Guatemala projects only after they have been paid out.

Furthermore, the mentioned project implementation letters require that CATIE determine the effect on prior billings to ROCAP/Guatemala of the above noncompliance with ROCAP's financial practices.

However, at the completion of our field work CATIE had not yet implemented the above mentioned actions nor had it determined the effects of such departures on its prior billing made to ROCAP/Guatemala under the aforementioned projects.

Criteria:

Project implementation letters are mandatory to the grantee, unless otherwise approved in writing by USAID.

Cause:

CATIE has reported in writing to ROCAP/Guatemala its reasons for not being in agreement with the proposed recommendations. We were informed by CATIE that it received oral authorization from ROCAP/Guatemala officials to disregard the application of these implementation letters.

Effect:

Since CATIE has not changed its accounting practices on the mentioned matters, certain costs billed to ROCAP/Guatemala projects may be questionable.

Recommendation:

CATIE should again request from ROCAP/Guatemala the ratification in writing as to whether or not the terms of these project implementation letters should be complied with. Additionally CATIE should implement a centralized sponsored project administration system and function that monitors institutional compliance with contracts and grant terms and conditions.

TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

ROCAP/GUATEMALA PROJECTS

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS  
AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

3. CATIE CHARGED QUESTIONABLE DIRECT COSTS AMOUNTING TO \$204,424 TO ROCAP/GUATEMALA PROJECTS FOR THE YEARS ENDED DECEMBER 31, 1986, 1987, 1988 AND 1989.

Condition:

Our review of ROCAP/Guatemala projects identified \$204,424 in questionable direct costs billed to ROCAP/Guatemala for years ended December 31, 1986, 1987, 1988 and 1989.

Criteria:

The criteria for questioning these costs are specifically identified in Exhibits I and II.

Cause:

CATIE was not aware that it was billing cost to ROCAP/Guatemala which were questionable.

Effect:

CATIE billed to ROCAP/Guatemala up to \$204,424 of costs which are considered questionable costs in this report.

Recommendation:

CATIE should review the \$204,424 of questionable costs billed to ROCAP/Guatemala that are identified in this report and agree with ROCAP/Guatemala as to a disposition of these costs.

TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

REPORT ON OVERHEAD RATES

SUMMARY OF ROCAP/GUATEMALA PROJECT'S DIRECT COSTS CLASSIFIED AS PROPOSED, ALLOWABLE AND QUESTIONABLE FOR THE YEARS ENDED DECEMBER 31, 1986, 1987, 1988 AND 1989

AGREEMENT NUMBER	NAME OF PROJECT	YEAR ENDED DECEMBER 31, 1986			YEAR ENDED DECEMBER 31, 1987			YEAR ENDED DECEMBER 31, 1988			YEAR ENDED DECEMBER 31, 1989			TOTAL			NOTES (Exhibit II)
		PROPOSED	ALLOWABLE	QUESTIONABLE	PROPOSED	ALLOWABLE	QUESTIONABLE	PROPOSED	ALLOWABLE	QUESTIONABLE	PROPOSED	ALLOWABLE	QUESTIONABLE	PROPOSED	ALLOWABLE	QUESTIONABLE	
596-0117	Tree Crop Production	\$1,162,851	\$1,162,851		\$1,669,169	\$1,669,169		\$2,016,654	\$2,016,654		\$1,869,760	\$1,856,540	\$ 13,220	\$ 6,718,434	\$ 6,705,214	\$ 13,220	1
596-0110	Regional Integrated Pest Management	1,317,440	1,317,440		1,471,434	1,471,434		1,564,154	1,564,154		1,207,423	1,182,420	25,003	5,560,451	5,535,448	25,003	2
596-0106	Regional Tropical Watershed Management	1,029,349	1,029,349		1,645,849	1,645,849		1,298,564	1,298,564		1,119,161	970,157	149,004	5,092,923	4,943,919	149,004	3
596-0129	Regional Agricultural Higher Education	1,088,236	1,088,236		2,612,574	2,610,448	\$2,126	2,126,891	2,111,820	\$15,071	2,751,178	2,751,178		8,578,879	8,561,682	17,197	4
576-0127	Regional Agricultural Technology Networks							9,899	9,899		189,504	189,504		199,403	199,403		
		<u>\$4,597,876</u>	<u>\$4,597,876</u>	<u>-</u>	<u>\$7,399,026</u>	<u>\$7,396,900</u>	<u>\$2,126</u>	<u>\$7,016,162</u>	<u>\$7,001,091</u>	<u>\$15,071</u>	<u>\$7,137,026</u>	<u>\$6,949,799</u>	<u>\$187,227</u>	<u>\$26,150,090</u>	<u>\$25,945,666</u>	<u>\$204,424</u>	

EXHIBIT I

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

EXHIBIT II

EXPLANATION OF ROCAP/GUATEMALA PROJECT'S QUESTIONABLE DIRECT COSTS  
FOR THE YEARS ENDED DECEMBER 31, 1986, 1987, 1988 AND 1989  
(expressed in U.S. dollars)

<u>Reference to Exhibit I</u>	<u>Agreement number</u>	<u>Detail</u>	<u>Amount</u>
1.	596-117	Salary of Mr. Carlos Reeche, Project's Technician, corresponding to a four-month period during which he was working for another project (Design of Multiple Use Trees Reforestation Project)	\$ 13,220
2.	596-110	Budget overrun lacking written approval from ROCAP/Guatemala	25,003
3.	596-106	Budget overrun, primarily in personnel expenses, lacking written approval from ROCAP/Guatemala	\$128,844
		Monthly maintenance allowance for students of the Master of Science Program (Colorado State University) paid in excess of the ceiling amounts stipulated in project's Implementation Letters No. 28 and 34	<u>20,160</u>
			149,004
4.	596-129	Budget overrun in capital expenditures lacking written approval from ROCAP/Guatemala	7,839
		Moving expenses for Mr. Eduardo Casas and his family, charged to this project. However, this person did not work on this project since he became part of CATIE's regular staff	7,232
		Professional fees paid to Mr. Gerardo Budowsky for training courses given in CATIE's Master Program. However, this expenditures did not have written approval from ROCAP/Guatemala	<u>2,126</u>
			<u>17,197</u>
		Total	\$204,424 =====

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TROPICAL AGRONOMIC CENTER OF RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S DIRECT COSTS CLASSIFIED  
AS PROPOSED AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1986  
(expressed in U.S. dollars)

<u>Direct costs centers</u>	<u>Proposed direct cost</u>	<u>Questionable costs</u>
Investigation cocoa-MAG	\$ 103,350	
Investigation coffeeculture - PROMECAFE	115,220	
Resistant cultivation dryness - Costa Rica	27,075	
Resistant cultivation dryness - Honduras	63,331	
Coffee investigation-cocoa mida SPRTP Phase 2 CIID	160,641	
Soil Investigation phosphorus	66,965	
Phytogenetic resources-GTZ	58,887	
Nutritious species collect IBPGR	283,051	
Cocoa investigation-IDIAP	29,369	
Seeds production Cocoa-MAG	20,605	
Evaluation Capsicum-IBPGR	96,340	
Plague Integrate handling ROCAP/AID	9,425	
Operational support FIDA	1,317,440	
Cocoa capacitation-MAG	119,014	
Platanus Tissue cultivation laboratory	18,195	
Coffee tissue cultivation laboratory PROMECAFE	19,010	
Guaymi-FIDA	22,065	
Silvopastoriles systems-CIID	13,592	
SPFP Phase 2 - ROCAP/AID	119,534	
Nitrogen fixed trees CIID	157,616	
Agroforestry Investigation UNU	146,482	
Agroforestry cooperation Phase 2-GTZ	87,403	
Region San Blas Handling, FIA/AEK Turrialba	58,700	
Region San Blas Handling, FIA/AEK Panama	6,178	
Agroforestry Cooperation Phase 3-GTZ	37,330	
Forestry ecosystems - PNUMA	42,239	
International Friendship Park CATIE/FPN	2,032	
WWF-Projects Coordination	71,800	
Watershed project ROCAP/AID	44	
Multiple use trees ROCAP/AID	1,029,349	
Forestry farm Phase IV	1,162,851	
Natural woods silviculture	10,288	
Economical value trees - DDA	25,888	
Wooden species improvement	67,355	
Watershed handling-DDA	27,216	
	9,591	
Carried forward	<u>\$5,605,471</u>	<u>-</u>

<u>Direct costs centers</u>	<u>Proposed direct cost</u>	<u>Questionable costs</u>
Brought forward	\$5,605,471	\$ -
Wild areas WWF	5,938	
"United Kingdom" scholarships	59,731	
Agropecuary capacitation-Kellogg	308,857	
Scholarship-DSE	40,166	
Higher education AID	1,088,236	
"Paises bajos" scholarships	165,480	
Cultivation system Honduras-CIID Comayagua	68,905	
Cultivation system Honduras-CIID Costera	21,793	
Cultivation system Honduras-CIID Choluteca	19,785	
Wageningen	104,874	
Coffee farm	159,513	
Sugar-cane farm	77,860	
Lacteous industry	18,017	
Capacitation	1,028	
Rotatory fund	1,740	
Demonstrative dairy	15,763	
Double purpose	5,345	
Production system development	9,183	
Total direct costs	<u>\$7,777,685</u> =====	<u>-</u> =====

TROPICAL AGRONOMIC CENTER OF RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S DIRECT COSTS CLASSIFIED  
AS PROPOSED AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1987  
(expressed in U.S. dollars)

<u>Direct costs centers</u>	<u>Proposed direct cost</u>	<u>Questionable costs</u>
Investigation cocoa-MAG	\$ 113,751	
Investigation coffeeculture - PROMECAFE	113,678	
Coffee investigation cocoa mida	53,109	
SPRTP Phase 2 CIID	57,533	
Somaclonal mutation plants/bananas	6,652	
Soil Investigation phosphorus	52,479	
Phytogenetic resources-GTZ	54,588	
Nutritious species collect IBPGR	28,155	
Evaluation capsicum-IBPGR	8,750	
Evaluation cucurbita-IBPGR	14,501	
Integral pest management-ROCAP/AID	1,471,434	
Cocoa training-mag	2,887	
Silvopastroils systems-CIID	131,589	
Rispal-CIID	46,370	
Nitrogen fixed trees CIID	115,987	
Agroforestry investigation UNU	50,122	
Agroforestry training I, JICA	35,384	
Agroforestry training II, JICA	53,923	
Agrometereology regional project	14,765	
Agroforestry Cooperation Phase 3-G	92,511	
Forestry ecosystems - PNUMA	47,021	
WWF-Projects Coordination	19,886	
Comarca kunas-AEK	7,987	
Watershed project ROCAP/AID	1,645,849	
Multiple use trees ROCAP/AID	1,669,169	
Forestry farm Phase IV	20,116	
Natural woods silviculture	103,350	
Wooden species improvement	40,282	
Higher education AID	2,612,574	\$2,126
Cultivation system Honduras-CIID Comayagua	61,841	
Cultivation system Honduras-CIID Costera	18,088	
Cultivation system Honduras-CIID Choluteca	17,381	
Wageningen	37,834	
Pronort-BCIE	88,961	
Guaymi-FIDA	2,532	
Coffee farm	155,322	
Sugar-cane farm	57,245	
Lacteous industry	22,083	
Total direct costs	\$9,145,689	\$2,126
	=====	=====

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TROPICAL AGRONOMIC CENTER OF RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S DIRECT COSTS CLASSIFIED  
AS PROPOSED AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1988  
(expressed in U.S. dollars)

<u>Direct costs centers</u>	<u>Proposed direct cost</u>	<u>Questionable costs</u>
Banana plants crio conservation	\$ 25,089	
Coffeeculture investigation- PROMECAFE	141,693	
Cocoa Investigation-MAG-Pipa	55,888	
Somaclonal mutation Plants/ banano-coffee	19,802	
Phytogenetic resources - IBPGR	65,317	
Capsicum evaluation - IBPGR	7,840	
Cucurbita evaluation - IBPGR	10,183	
Species collect	3,961	
Procacao ROCAP/AID	9,899	
Phosphurus investigation in soils	139,700	
Silvopastoriles Systems - CIID	82,736	
SPRTP phase 2/CIID	55,125	
Rispal - CIID	132,504	
Nitrogen fixed trees	71,748	
Agroforestry training - JICA	135,222	
Agroforestry cooperation phase 3/GT	20,818	
Guaymi - FIDA	41,352	
Wageningen	85,211	
Pronorte - BCIE	26,110	
Inga CIID	26,342	
Silviculture - DDA/COSUDE	105,985	
Multiple use trees ROCAP/AID	2,016,654	
Integral pest management ROCAP/AID	1,564,154	
Forestry farm Phase IV	23,476	
Wooden species improvement	10,534	
Agrometeorology - PRAI	49,199	
Projects coordinations WWF	36,294	
PNUMA forestry ecosystems	1,382	
Region kunas/AEK	7,374	
Watershed ROCAP/AID	1,298,564	
Cultivation system Honduras-CIID Comayagua	55,121	
Cultivation system Honduras-CIID Costera	12,196	
Cultivation system Honduras-CIID Choluteca	14,217	
Higher education	2,126,891	\$15,071
Coffee farm	126,288	
Sugar - Cane farm	54,009	
Lacteous industry	34,786	
Phytogenetic production	11,386	
Total direct costs	\$8,705,051	\$15,071
	=====	=====

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TROPICAL AGRONOMIC CENTER OF RESEARCH AND EDUCACION (CATIE)

SUMMARY OF CATIE'S DIRECT COSTS CLASSIFIED  
AS PROPOSED AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1989  
(expressed in U.S. dollars)

<u>Direct costs centers</u>	<u>Proposed direct cost</u>	<u>Questionable costs</u>
Coffeculture investigation - PROMECAFE	\$ 173,853	
Cocoa investigation - MAG - PIPA	6,768	
Somaclonal mutation plants/banano- CIID	23,576	
Phytogenetic resources - IBPGR	52,202	
Black sigatoka investigation	12,795	
Capsicum evaluation - IBPGR	1,572	
Cucurbita evaluation - IBPGR	5,389	
Species collect	95	
Banana plants crioconservation	496	
Investigation yan bean - CEE	9,094	
Investigation MIP/NORAD - Nicaragua	243,306	
Procacao ROCAP/AID	189,504	
MIP - RENARM	210,436	
Silvopastoriles Systems - CIID	114,995	
SPRTP phase 2/CIID	6	
RISPAL - CIID	30,628	
Wageningen	86,113	
Pronorte - BCIE	110,643	
Economical component CIID	25,409	
Genetical improvement - NORAD	91,617	
Productives miniprojects	270,499	
Subways waters - MAGA	912,274	
Cultivation system Comayagua	16,402	
Canada - ACDI	68,591	
Dairy Cattle - AID/SCIE	3,870	
Dairy study - BCIE	11,597	
Goats Agroforestry - GTZ	29,249	
Erythrina - CIID	125,837	
Inga CIID	56,218	
Agroforestry systems - GTZ	237,937	
Silviculture - DDA/COSUDE	196,000	
Inforat - ONG/Italy	46,561	
Project design AUM - AID	81,767	
AFN N'3-P.89-0113	4,245	
AFN Sarec	91,063	
Multiple use trees ROCAP/AID	1,869,760	\$13,220
Integral pest management ROCAP/AID	1,207,423	25,003
Forestry farm phase IV-DDA/Cosude	26,667	
Carried forward	<u>\$6,644,449</u>	<u>\$38,223</u>

<u>Direct costs centers</u>	<u>Proposed direct cost</u>	<u>Questionable costs</u>
Brought forward	\$6,644,449	\$ 38,223
Agroforestry capacitation	60,074	
Soils - Sarec	10,838	
Nutrition - Sarec	445	
Humed tropic - Sarec	26,346	
Dry tropic - Sarec	3,129	
Component SAF - S	9,504	
Systems SAF - SAR	916	
Agrometeorology - PRAI	46,075	
Projects coordinations WWF	49,647	
PNUMA forestry ecosystems	114	
Comarca Kunas/AEK	7,840	
Sustained development NORAD/NORU	103,069	
Sustained development ASDI/Suecia	422,256	
Watershed ROCAP/AID	1,119,161	149,004
ROCAP/AID asistence	57,935	
Higher education	2,751,178	
Coffee farm	129,310	
Sugar - Cane farm	52,240	
Lacteous industry	37,147	
Phytogenetic production	17,977	
Total direct costs	<u>\$11,549,650</u> =====	<u>\$187,227</u> =====

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S INDIRECT COSTS CLASSIFIED  
AS PROPOSED, ALLOWABLE AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1986  
(expressed in U.S. dollars)

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
1101	Board of Directors	\$ 21,801			\$ 21,801
1201	General Director	180,101	\$ 1,889		181,990
1202	Deputy Director	61,840			61,840
1203	Public Relations	57,016			57,016
2101	Human Resources	34,238			34,238
2102	Internal and External Audit	24,379			24,379
2103	External Cooperation	86,684			86,684
2201	Countries Operations: Honduras	26,537	63		26,600
2202	Countries Operations: Guatemala	41,701			41,701
2203	Countries Operations: Nicaragua	39,536			39,536
2204	Countries Operations: Panama	88,905	356		89,261
2206	Countries Operations: Dominican Republic	61,361			61,361
3101	Administrative and Financial Office	122,358			122,358
3202	General Services	22,832	4,630		27,462
	Diverse Services	12,850			12,850
3203	Communications and Files	25,178			25,178
3204	Security	44,842			44,842
3205	Medical Services	9,721			9,721
	Official Travels	9,698			9,698
3206	Maintenance of Machinery and Equipment	468,020	3,903		471,923
3207	Commercial Relations	61,063	523		61,586
3301	Comptrollership	169,374	1,029	\$ (55,003)	115,400
4281	Computer Center	170,767	43,850	(80,237)	134,380
8181	Media Production	4,671		(1,010)	3,661
3286	International Club	84,323	(1,830)	(56,709)	25,784
3280	Car Rental	54,660	15,150	(54,660)	15,150
3281	Lodging and Wardenship	118,305	129	(118,305)	129
3282	Document Reproduction	31,013		(25,423)	5,590
5281	Research Station La Lola	112,961		(112,961)	0
5202	Phytogenetic Resources	0	649		649
5203	Physiology Laboratory	7,291	1,850		9,141
5204	Phytophatology Laboratory	3,540	15		3,555
5205	Tissue Cultivation Laboratory	53,394	2,478		55,872
5201	Basic cocoa	138,015	445		138,460
6401	Chief of Tropical Cattle	81,860	230		82,090
	Carried forward	<u>\$2,530,835</u>	<u>\$75,359</u>	<u>\$(504,308)</u>	<u>\$2,101,886</u>

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
	Brought forward	\$2,530,835	\$ 75,359	\$(504,308)	\$2,101,886
6403	Intensive Prototype	6,429			6,429
6404	Nutrition and Forage	120,241			120,241
6405	Tropical Cattle Technical Support	51,085			51,085
6402	Administrative Technical Support	27,832			27,832
6406	Animal Production Laboratory	46,583	1,187		47,770
6501	Chief of Agroforestry	54,372			54,372
6502	Chief of Forestry	51,478			51,478
6301	Chief of Annual Nourishing Crops	292,125		(2,000)	290,125
6303	Soil Laboratory	53,323	939		54,262
7101	Chief of Natural Resources Integral Management Program	78,553			78,553
7201	Wild Areas Management	72,258	546		72,804
8101	Deputy Director of Education (SDGAE)	106,945			106,945
8201	Postgrade	57,231	1,493		58,724
8102	Technical Administrative Support (SDGAE)	12,784			12,784
8103	Library	4,453			4,453
	Support Watershed Management	16,453			16,453
	Forestry Farm	43,754			43,754
	Latin American Bank of Seeds	12,716			12,716
	Cattle Herds	27,883			27,883
	Dairy Farm	22,841			22,841
	Inforat -DDA	52,507	(4,463)		48,044
	Inforat - DDA Phase IV	32,797			32,797
	Technical Administrative Support	24,096			24,096
N/A	Depreciation expenses	217,471	(217,471)		0
	Total	\$4,017,045	\$(142,410)	\$(506,308)	\$3,368,327
		=====	=====	=====	=====

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S INDIRECT COSTS CLASSIFIED  
AS PROPOSED, ALLOWABLE AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1987  
(expressed in U.S. dollars)

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
1101	Board of Directors	\$ 25,251			\$ 25,251
1201	General Director	138,883	\$ 1,969		140,852
1202	Deputy Director	68,626			68,626
1203	Public Relations	37,289			37,289
2101	Human Resources	18,019			18,019
2102	Internal and External Audit	33,356			33,356
2103	External Cooperation	44,828			44,828
2201	Countries Operations: Honduras	25,557	62	\$ (1,333)	24,286
2202	Countries Operations: Guatemala	48,141		(1,333)	46,808
2203	Countries Operations: Nicaragua	60,648		(1,333)	59,315
2204	Countries Operations: Panama	69,990	413	(1,333)	69,070
2206	Countries Operations: Dominican Republic	66,952			66,952
3101	Administrative and Financial Office	55,932			55,932
3202	General Services	25,973	5,796		31,769
	Diverse Services	7,493			7,493
3203	Communications and Files	21,447			21,447
3204	Security	65,408			65,408
3205	Medical Services	10,324			10,324
3206	Maintenance of Machinery and Equipment	304,638	3,931		308,569
3207	Commercial Relations	48,205	1,679		49,884
3301	Comptrollership	247,276	1,029	(53,658)	194,647
4281	Computer Center	128,081	13,282	(108,970)	32,393
8181	Media Production	124,751	(2,675)	(49,976)	72,100
3286	International Club	130,795		(94,106)	36,689
3280	Car Rental	115,392	22,866	(115,392)	22,866
3281	Lodging and Wardenship	156,651	134	(156,651)	134
3282	Document Reproduction	26,665		(26,665)	0
5281	Research Station La Lola	240,490		(240,490)	0
5202	Phytogenetic Resources	41,642	925		42,567
5203	Physiology Laboratory	43,591	1,849		45,440
5204	Phytophatology Laboratory	11,179	15		11,194
5205	Tissue Cultivation Laboratory	70,063	4,360		74,423
5201	Basic Cocoa	124,905	518		125,423
6401	Chief of Tropical Cattle	77,910	285	(3,000)	75,195
6403	Intensive Prototype	6,411			6,411
	Carried forward	<u>\$2,722,762</u>	<u>\$56,438</u>	<u>\$(854,240)</u>	<u>\$1,924,960</u>

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
	Brought forward	\$2,722,762	\$ 56,438	\$(854,240)	\$1,924,960
6404	Nutrition and Forage	42,790			42,790
6405	Tropical Cattle Technical Support	47,682			47,682
6402	Administrative Technical Support	22,476			22,476
6406	Animal Production Laboratory	15,324	1,145		16,469
6501	Chief of Agroforestry	54,889			54,889
6502	Chief of Forestry	68,403			68,403
6301	Chief of Annual Nourishing Crops	159,111			159,111
6303	Soil Laboratory	64,001	939		64,940
7101	Chief of Natural Resources Integral Management Program	46,003			46,003
7201	Wild Areas Management	66,682	602		67,284
8101	Deputy Director of Education (SDGAE)	69,413			69,413
8201	Postgrade	16,403	1,536		17,939
8102	Technical Administrative Support	7,200			7,200
8103	Library	3,754			3,754
	Latin American Bank of Seeds	11,436			11,436
	Counterpart Coffee	1,702			1,702
	Support MIP (Integral Pest Management)	31			31
	Cattle Herds	24,448			24,448
	Dairy Farm	42,380			42,380
	Inforat DDA Phase IV	37,747	(1,194)		36,553
	Support to Forestry Farm	24,248			24,248
	Technical Administrative Support	1,069			1,069
	Reventazon Room	14,910			14,910
	Support to Watershed Management	3,223			3,223
N/A	Depreciation expenses	199,257	(199,257)		0
	Total	\$3,767,344	\$(139,791)	\$(854,240)	\$2,773,313
		=====	=====	=====	=====

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S INDIRECT COSTS CLASSIFIED  
AS PROPOSED, ALLOWABLE AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1988  
(expressed in U.S. dollars)

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
1101	Board of Directors	\$ 23,848			\$ 23,848
1201	General Director	144,482	\$ 2,072		146,554
1202	Deputy Director	66,922			66,922
1203	Public Relations	31,543			31,543
2101	Human Resources	51,488			51,488
2102	Internal and External Audit	23,034			23,034
2103	External Cooperation	4,426			4,426
2201	Countries Operations: Honduras	69,885	(562)		69,323
2202	Countries Operations: Guatemala	50,774			50,774
2203	Countries Operations: Nicaragua	67,305			67,305
2204	Countries Operations: Panama	77,525	436		77,961
2206	Countries Operations: Dominican Republic	70,459	(3,015)		67,444
3101	Administrative and Financial Office	111,353	(206)		111,147
3202	General Services	43,089	5,656		48,745
3203	Communications and Files	21,309			21,309
3204	Security	74,056			74,056
3205	Medical Services	11,008			11,008
3206	Maintenance of Machinery and Equipment	259,711	3,267		262,978
3207	Commercial Relations	66,849	1,731		68,580
3301	Comptrollership	120,033	701		120,734
3302	Treasury	113,673	(74)	\$ (58,758)	54,841
4281	Computer Center	145,329	(2,715)	(91,361)	51,253
8181	Media Production	130,926		(26,083)	104,843
3286	International Club	108,031		(80,005)	28,026
3280	Car Rental	129,160	30,757	(129,160)	30,756
3281	Lodging and Wardenship	184,683	337	(184,683)	337
3282	Document Reproduction	29,152		(29,152)	0
5281	Research Station La Lola	209,582		(132,480)	77,102
3285	Coffee Mill	182			182
5202	Phytogenetic Resources	112,026	930		112,956
5203	Physiology Laboratory	22,355	1,850		24,205
5204	Phytophatology Laboratory	17,747	15		17,762
5205	Tissue Cultivation Laboratory	25,788	4,348		30,136
5101	Chief of Tropical Cultivations Program	1,039			1,039
	Carried forward	<u>\$2,618,772</u>	<u>\$45,528</u>	<u>\$ (731,682)</u>	<u>\$1,932,618</u>

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
	Brought forward	\$2,618,772	\$ 45,528	\$(731,682)	\$1,932,618
5201	Basic Cocoa	65,389	518		65,907
6101	Chief of Sustained Agroindustry Development Program	55,631			55,631
6201	Chief of Integral Development of Production Systems	53,237			53,237
6401	Chief of Tropical Cattle	101,456	336		101,792
6403	Intensive Prototype	6,018			6,018
6404	Nutrition and Forage	46,440			46,440
6405	Tropical Cattle Technical Support	43,517			43,517
6402	Technical Administrative Support	23,011			23,011
6406	Animal Production Laboratory	17,000	1,133		18,133
6501	Chief of Agroforestry	40,255			40,255
6502	Chief of Forestry	68,588			68,588
6301	Chief of Annual Nourishing Crops	144,097			144,097
6303	Soil Laboratory	32,114	939		33,053
7101	Chief of Natural Resources Integral Management Program	96,726			96,726
7201	Wild Areas Management	22,392	601		22,993
7203	Agrometeorology	16,757			16,757
8101	Deputy Director of Education (SDGAE)	140,366			140,366
8201	Postgrade	10,723	1,561		12,284
8102	Technical Administrative Support	5,317			5,317
8103	Library	4,445			4,445
	Latin American Bank of Seeds Support to MIP (Integral Pest Management)	20,681			20,681
	Cattle Herds	59,374			59,374
	Dairy Farm	37,399			37,399
	Inforat DDA - Phase IV	44,239			44,239
	Forestry Farm	13,490			13,490
	Support to Watershed Management	65,236			65,236
	Depreciation expenses	43,532			43,532
N/A		203,269	(203,269)		0
	Total	\$4,099,472	\$(152,653)	\$(731,682)	\$3,215,135
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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION (CATIE)

SUMMARY OF CATIE'S INDIRECT COSTS CLASSIFIED  
AS PROPOSED, ALLOWABLE AND QUESTIONABLE  
FOR THE YEAR ENDED DECEMBER 31, 1989  
(expressed in U.S. dollars)

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit v)	Others	
1101	Board of Directors	\$ 42,543			\$ 42,543
1201	General Director	140,279	\$ 2,618		142,897
1202	Deputy Director	73,296			73,296
1203	Public Relations	31,367			31,367
2101	Human Resources	54,856			54,856
2102	Internal and External Audit	43,582			43,582
2103	External Cooperation	2,192			2,192
2201	Countries Operations: Honduras	80,170	198		80,368
2202	Countries Operations: Guatemala	62,665			62,665
2203	Countries Operations: Nicaragua	60,010			60,010
2204	Countries Operations: Panama	76,196	436		76,632
2205	Countries Operations: El Salvador	5,076			5,076
2206	Countries Operations: Dominican Republic	79,227	(110)		79,117
3101	Administrative and Financial Office	97,804			97,804
3202	General services	59,656	1,131		60,787
3203	Communications and files	25,567			25,567
3204	Security	90,375			90,375
3205	Medical Services	11,716			11,716
3206	Maintenance of Machinery and Equipment	213,483	750		214,233
3207	Commercial Relations	81,235	1,741		82,976
3301	Comptrollership	104,747	2,005		106,752
3302	Treasury	139,523		\$(61,161)	78,362
4281	Computer Center	147,895	9,736	(71,709)	85,922
8181	Media Production	185,320		(55,806)	129,514
3286	International Club	112,633	(761)	(84,204)	27,668
3280	Car Rental	121,274	37,324	(121,274)	37,324
3281	Lodging and Wardenship	192,944	752	(192,944)	752
3282	Document Reproduction	30,366		(30,366)	0
5281	Research Station La Lola	165,961		(56,319)	109,642
4101	Cattle Subdirection	24,081			24,081
5202	Phytogenetic Resources	76,224	930		77,154
5203	Physiology Laboratory	22,060	1,849		23,909
5204	Phytopathology Laboratory	19,764	15		19,779
5205	Tissue Cultivation Laboratory	27,123	4,347		31,470
5101	Chief of Tropical Cultivations Program	53,193			53,193
5201	Basic cocoa	73,161	518		73,679
	Carried forward	<u>\$2,827,564</u>	<u>\$63,479</u>	<u>\$(673,783)</u>	<u>\$2,217,260</u>

Number of cost center	Name of cost center	Proposed costs	Questionable costs		Allowable costs
			Depreciation and capital expenditures (Exhibit V)	Others	
	Brought forward	\$2,827,564	\$63,479	\$(673,783)	\$2,217,260
6101	Chief of Sustained Agroindustry Development Program	65,078			65,078
6201	Chief of Integral Development of Production Systems	129,933			129,933
6401	Chief of Tropical Cattle	50,828	407		51,235
6403	Intensive Prototype	8,220			8,220
6404	Nutrition and Forage	10,511			10,511
6405	Tropical Cattle Technical Support	54,445			54,445
6402	Technical Administrative Support	19,821			19,821
6406	Animal Production Laboratory	19,058	1,111		20,169
6501	Chief of Agroforestry	2,170			2,170
6502	Chief of Forestry	66,379			66,379
6301	Chief of Annual Nourishing Crops	74,619			74,619
6304	"La Montaña" Farm	1,757			1,757
6303	Soil Laboratory	27,404	939		28,343
7101	Natural Resources Integral Management Program	93,052			93,052
7201	Wild Areas Management	54,537	698		55,235
7203	Agrcmeteorology	15,639			15,639
8101	Deputy Director of Education (SDGAE)	169,202		(7,232)	161,970
8201	Postgrade	13,303	1,597		14,900
8102	Technical Administrative Support (SDGAE)	8,536			8,536
8103	Library	4,849			4,849
	Reventazon Room	10,526			10,526
	Latin American Bank of Seeds	37,728			37,728
	Support to MIP (Integral Pest Management)	55,290			55,290
	Cattle Herds	38,376			38,376
	Dairy Farm	45,297			45,297
	Forestry Farm	71,938			71,938
	Support to Watershed Management	50,703			50,703
N/A	Depreciation Expenses	211,749	(211,749)		0
	Total	\$4,238,512	\$(143,518)	\$(681,015)	\$3,413,979
		=====	=====	=====	=====

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

EXPLANATION OF CATIE'S QUESTIONABLE INDIRECT COSTS  
FOR THE YEARS ENDED DECEMBER 31, 1986, 1987, 1988 AND 1989  
 (expressed in U.S. dollars)

<u>Cost center</u>	<u>Name of cost center</u>	<u>Description</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Total</u>
3301	Controllership	Interest accrued on amounts owed to the "Retirement fund" of CATIE's international employees. These interest charges are not allowable as indirect costs pursuant to the provisions set forth in Annex B, point 19.A of OMB Circular A-122	\$ 55.003	\$ 53.658	\$ 58.758	\$ 61.161	\$ 228.580
8181	Media Production	Income earned by the following CATIE's support activities and which are considered as a recovery of indirect cost pursuant to the provisions set forth in Annex A, point 5.A of OMB Circular A-122	1.010	49.976	26.083	55.806	132.875
3286	International Club		56.079	94.106	80.005	84.204	314.394
3280	Vehicles rental		54.660	115.392	129.160	121.274	420.486
3281	Lodging and wardenship		118.305	156.651	184.683	192.944	652.583
3282	Reproduction of documents		25.423	26.665	29.152	30.366	111.606
5281	Research station La Lola		112.961	240.490	132.480	56.319	542.250
4281	Computer center		80.237	108.970	91.361	71.709	352.277
6301	Chief of Annual Nourishing Crops	Termination payments of employees engaged in project activities which should be considered as direct costs of such activities in accordance with Annex A, section B of OMB Circular A-122	2.000				2.000
	Not applicable since CATIE does not record any depreciation expense in its accounting records	Depreciation expenses related to buildings and machinery and equipment, considered unallowable because they are based on appraisal values made <u>after</u> the respective fixed assets were donated to CATIE. Pursuant to the provision set forth in OMB Circular A-122, depreciation expenses are allowable as long as the cost of the assets are based on the acquisition cost or fair market value <u>at the time</u> of the donation	133.252	133.252	132.953	132.478	531.935
		Depreciation expenses attributable to direct costs centers	3.495	3.630	1.893	9.127	18.145
		Capital expenditures related primarily to purchase of equipment, which are considered unallowable pursuant to the provisions set forth in Annex B, point B.E of OMB Circular A-122	6.293	11.241	17.807	9.142	44.483
	Total		\$648.718 =====	\$994.031 =====	\$884.335 =====	\$824.530 =====	\$3.351.614 =====

EXHIBIT V

44.

TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATIONILLUSTRATIVE EXAMPLE OF THE  
DETERMINATION OF OVERHEAD RATES FOR CATIE

<u>Major function</u>	<u>Overhead rates</u>				<u>Weighted average rate</u>
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	
A. <u>Multiple allocation method:</u>					
- Integral management of natural resources	58.8	60.1	43.7	76.7	59.8
- Improvement of tropical cultivations	36.6	33.7	35.0	36.0	35.3
- Production and sustained agroindustry development	45.7	36.6	43.6	29.6	38.9
- Education and training	98.8	54.0	67.6	62.6	70.7
- Other activities	36.6	29.1	35.1	36.0	34.2
B. <u>Simplified allocation method:</u>					
- Overall rate for the year	57.9	44.4	48.5	44.2	48.8

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TROPICAL AGRONOMIC CENTER FOR RESEARCH AND EDUCATION

EXHIBIT VI - CATIE'S MANAGEMENT COMMENTS



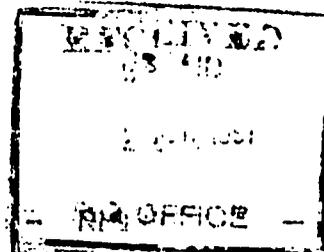


## CENTRO AGRONÓMICO TROPICAL DE INVESTIGACION Y ENSEÑANZA

Turrialba · Costa Rica · Teléfonos: 56-64-31 · 56-01-69 · Telex: 8005 CATIE C.R. · Fax 56-1533 · Cable: CATIE Turrialba

D/818  
September 19, 1991

Mr. Reginald Howard  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras



Dear Mr. Howard:

This letter is our initial response to the report entitled, "Audit of the Overhead Rates of the Tropical Agronomic Center for Research and Education, ROCAP/Guatemala Projects for the years 1986, 1987, 1988 and 1989." We received this report on 27 July 1991, after the auditors completed their considerable effort on the near-eighteen-month audit. The field work and analysis consumed the time allotted under their contract for the work, so our response was ordered by 13 September 1991. These time constraints precluded the development of an adequate response. It will follow and will include information not contained in this report which is needed to develop an indirect cost rate pursuant to office of Management and Budget Circulares A-122 and A-110, as mandated in the auditor's scope of work. Unfortunately, the reader must, therefore, look to another document for factual and interpretative information that normally would be included to round out the other half of this process; we invite the reader to inquire if this additional information is wanted. Inquiries can be made to the undersigned at the letterhead address.

While we understand the desirability of concluding the initial phase of the endeavor, that short-term administrative objective has profound implications on the long-term financial operations of the Center. We are appreciative, therefore, that the Regional Inspector General granted us adequate time to respond fully to each of the findings in the recognition that more time is needed to respond fully after we have made a thorough review of the work completed by Price Waterhouse. For sake of efficiency, Price Waterhouse, management has graciously agreed to make their workpapers and auditors available to avoid redundancy as we complete our own study; we will be judicious in the use of their resources.

During the exit interview on 13 September, the auditors agreed to include several items which were not in their final report. It is our understanding that the changes we offered, to which there was agreement during the meeting, will be incorporated into their final report. We offer a summary of the items agreed to be included. Paramount among the changes is the affirmation of the fundamental soundness of CATIE's accounting system to manage professionally and to safeguard the funds and assets donors and sponsors have entrusted to our care for use on projects that support research and training

activities--the activities referenced herein as sponsored projects. We recognize that the books of account do not directly connect the benefits that flow as counterpart contributions from the Center's other resources to the USAID-funded projects, but the ability of the system to account for costs on individual projects is unquestioned. We acknowledge that connection should be made to satisfy the terms of USAID's grants. The proof that the accounting system and practices meet professional standards, however, is amply demonstrated in the fact that the auditors indicate that they reviewed the details of over \$26,945,666.00 in project expenses and questioned only .8%-- less than one percent--of those costs (refer to the totals shown in Exhibit I for specifics). Those questions will be resolved as part of our response after studying the specific transactions.

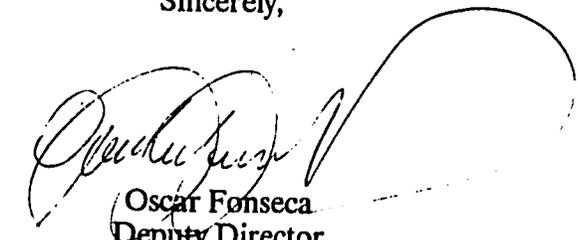
We have only two observations to offer at this time; first, we have concerns about the process used for the audit; and second, it is commonly accepted that one must go beyond raw data in the books of account to arrive at conclusions and derive an institutional indirect cost rate.

First, the process usually followed in arriving at an indirect cost rate was not observed in this audit. The process usually begins with the development and submission of an indirect cost proposal by the grantee. In this case Price Waterhouse audited without a proposal from CATIE and thereby supplanted much of CATIE's input.

Second, an indirect cost proposal developed through the standard method includes three elements: data from the books of account; reconstructions and cost studies that organize information as needed to render that analysis prescribed in the OME Circulares mandated in the scope of work; and judgements by management about the short- and long-term management needs of the Center. It was brought out in the exit conference that the field auditors inquired about the transactional data, but did not interact with management as is usually done in the development of an indirect cost proposal. The report could have benefited from the more intense interaction that is usually a part of the process. We find that, in the absence of our proposal, the auditors were forced to supplant management's judgements with their own in a way that permeates the findings. Using the data verified by the auditors, we will complete the cost studies and incorporate management's judgements into the indirect cost rate calculations included in our final response.

In summary, we are appreciative of the efforts by Price Waterhouse in attempting to develop an institutional indirect cost rate. Further, we appreciate the Regional Inspector General's granting of sufficient time to respond adequately, notwithstanding their desire to have their audit firm conclude its work pursuant to the time limits of their contract. We are eager to respond completely to the points raised in the report and look forward to developing our indirect cost proposal and discussing with the interested parties. Finally, because this report was published prior to the completion of our work, we invite the reader to inquire about information that may be of use in understanding the Center's indirect cost rate.

Sincerely,



Oscar Fonseca  
Deputy Director

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