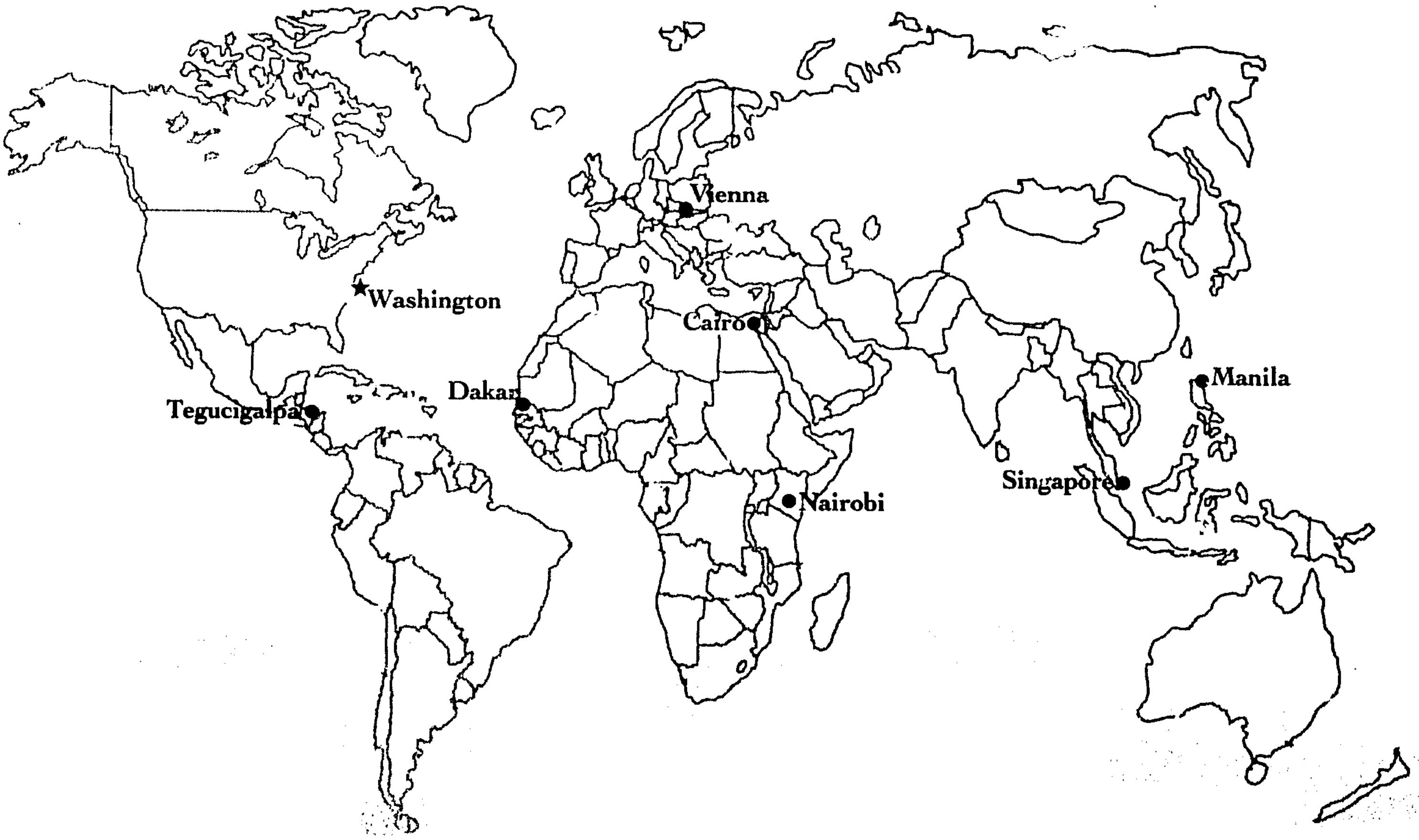
PD-ABD-707

Financial Audits

AUDIT OF LOUIS BERGER INTERNATIONAL, INC. USAID/Nepal Contract No. 367-0153-C-00-6048-00 August 1, 1986 to June 11, 1990

Report No. 0-000-92-02-N
February 12, 1992



"CONTRACTOR INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILIGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC."

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Agency for International Development
Washington, D.C. 20523

February 12, 1992

MEMORANDUM FOR USAID/Nepal, Kelly Kammerer, Director

FROM: IG/A/FA, Richard A. Barth, Acting Director

SUBJECT: Audit of Louis Berger International, Inc. (Nepal) USAID Contract No. 367-0153-C-00-6048-00 for the Period August 1, 1986 to June 11, 1990

The enclosed independent financial audit report was prepared by Deloitte & Touche, Certified Public Accountants, on Louis Berger International, Inc.'s Contract No. 367-0153-C-00-6048-00 for the period August 1, 1986 to June 11, 1990.

Louis Berger International, Inc. (LBI) provides engineering, economic and planning services worldwide on behalf of governmental entities. LBI signed the contract with USAID/Nepal in May 1986 for an amount of $3,705,000, as amended. The objective of the contract was to provide technical assistance to help the Government of Nepal implement the Irrigation Management Project.

The audit was initiated at the Mission's request. The objectives were to determine whether: the Statement of Termination Settlement presented fairly the direct cost expenditures from contract inception to termination settlement on June 11, 1990; internal controls were adequate; and there was compliance with laws, regulations, and contract terms. The scope of the audit included an examination of LBI's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Deloitte and Touche was unable to determine whether LBI maintained adequate accounting records and sufficient documentation to support the allowability of salary and allowance expenditures, and they were unable to satisfy themselves as to the allowability of these expenditures. Accordingly, they were unable to express an opinion on the Statement of Termination Settlement. Also, the audit disclosed questioned costs amounting to $339,443 as shown by the schedule on page 21, and noted certain compliance and internal control conditions that required reporting to management.

The questioned items comprise $29,340 of ineligible costs and $310,103 of unsupported costs. Ineligible costs are all those costs unallocable and or unallowable in accordance with the terms of the contract, applicable laws, and regulations. Unsupported costs are costs not properly supported by LBI because there was inadequate documentation to permit a determination of allowability, or documentation could not be located by LBI.

Deloitte & Touche reported four material instances of noncompliance: (1) controls over the monitoring and approval of subcontractor invoices were inadequate; (2) documentation was unavailable to support authorization of personnel charged to the contract; (3) amounts were billed in excess of costs incurred; and (4) documentation of local currency payments was unavailable for testing. No material weaknesses in internal controls were reported. In regard to other instances of noncompliance and weaknesses in internal controls, Deloitte & Touche found that documentation was sometimes: (1) inadequate to support compliance with U.S. flag carrier contract provisions and payments made for salaries and motor vehicle purchases; and (2) inaccurate to support charges for overhead and indirect labor.

Deloitte & Touche discussed the findings with LBI officials and gave due consideration to their oral and written comments. LBI verbally concurred with the factual accuracy of the findings.

The Deloitte & Touche report contains 14 recommendations pertaining to questioned costs and to improve compliance and internal controls. We have summarized these for inclusion in the Office of the Inspector General's audit recommendation follow-up system.

<u>Recommendation No. 1</u>

We recommend that USAID/Nepal:

a. resolve the ineligible contract costs of Louis Berger International, Inc. totaling $29,340; and

b. resolve the unsupported contract costs of Louis Berger International, Inc. totaling $310,103.

<u>Recommendation No. 2</u>

We recommend that USAID/Nepal require Louis Berger International, Inc. to improve compliance and internal controls by:

a. monitoring subcontractor activities over the allowability and accuracy of amounts billed to the U.S. Government;

b. requesting USAID approval of changes to key personnel assigned to USAID contracts; and

c. maintaining adequate documentation in support of compliance with U.S. flag carrier provisions and payments made for salaries and motor vehicle purchases.

Within 30 days, please provide this office with the status of actions planned or taken to resolve and close the recommendations.

LOUIS BERGER INTERNATIONAL, INC.

REPORT ON AUDIT OF
USAID CONTRACT NUMBER 367-0153-C-00-6048-00

FOR THE PERIOD FROM CONTRACT INCEPTION
TO TERMINATION SETTLEMENT ON JUNE 11, 1990

LOUIS BERGER INTERNATIONAL, INC.

REPORT ON AUDIT OF
USAID CONTRACT NUMBER 367-0153-C-00-6048-00

FOR THE PERIOD FROM CONTRACT INCEPTION
TO TERMINATION SETTLEMENT ON JUNE 11, 1990

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August 16, 1991

Mr. William Spat
IG/A/FA SA-16 (RPE)
Room 514
Washington, D.C. 20523-1604

Dear Mr. Spat:

This report presents the results of our audit of Louis Berger International, Inc. (LBI), United States Agency for International Development contract number 367-0153-C-00-6048-00, for the period from contract inception to termination settlement on June 11, 1990, (the Contract).

BACKGROUND

Louis Berger International, Inc. of East Orange, N.J. provides engineering, economic and planning services worldwide, primarily on behalf of governmental entities.

LBI signed the Contract with USAID/Nepal in May, 1986 for an amount of $3,705,000, as amended. The objective of the Contract was to provide technical assistance to help the Government of Nepal implement the Irrigation Management Project. The contract was subsequently terminated for convenience by the government, and a termination settlement submitted on June 11, 1990 reports total expenditures of $2,242,724.

AUDIT OBJECTIVE AND SCOPE

The objective was to perform a cost and compliance audit of the Contract administered by LBI.

We were to perform our work in accordance with Generally Accepted Auditing Standards and the Comptroller General's Government Auditing Standards and, accordingly, include such tests of the accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The Statement of Termination Settlement presents fairly the direct cost expenditures from Contract inception to termination settlement on June 11, 1990, according to the terms of the Contract, identifying unsupported costs or those not considered appropriately allocable or allowable under the Contract.

2. LBI's internal control structure was sufficient to capture data under the Contract and was adequate for the Contract's purposes.

3. LBI complied with the terms of the Contract and applicable laws and regulations.

The audit was limited to direct U.S. dollar costs only. While the requested audit was to address only U.S. dollar costs, we were requested to audit transfers/conversions into local currency and the rate of exchange used. Audit procedures conducted during our work in order to meet the audit objectives included the testing of a sample of transactions incorporating the following:

Salaries

Examining selected employees' timesheets to determine the propriety of amounts charged to the contract.

Allowances

Analyzing selected allowances charged to the contract to verify employees' eligibility to receive the allowances and determine whether the allowances were in accordance with applicable laws and regulations.

Other Direct Costs

Examining supporting documentation for selected expenses to determine allowability of expenditures and compliance with the terms of the contract, applicable laws and regulations.

Internal Control Review

Studying and evaluating LBI's internal control structure relative to the Contract in order to assess control risks and as a basis for our auditing procedures.

RESULTS OF THE AUDIT

Statement of Termination Settlement

Our audit disclosed questioned costs amounting to $539,654 ($510,314 of which were unsupported). Based on the nature and extent of these questioned costs, we were unable to determine whether LBI maintained adequate controls, accounting records and sufficient evidential documents supporting the allowability of direct costs charged to the Contract.

Compliance with the Terms of the Contract and Applicable Laws and Regulations

As part of our audit, we performed tests of LBI's compliance with certain provisions of the contract and laws, regulations, grants, and binding policies and procedures. We performed those tests of compliance in conjunction with our procedures to obtain reasonable assurance about whether the Statement of Termination Settlement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our tests of compliance disclosed the following instances of non-compliance, the first four of which are considered to be material:

1. Controls over the monitoring and approval of subcontractor invoices are inadequate.

2. Documentation was unavailable to support authorization of personnel charged to the Contract.

3. Amounts were billed in excess of costs incurred.

4. Documentation of local currency payments was unavailable for testing.

5. Expenditures were not traceable to billings.

6. Computation of retroactive overhead adjustment was inaccurate.

7. A time report was not available for audit.

8. Motor vehicle purchases were made without required approvals.

9. Compliance with U.S. flag carrier contract provision was not documented.

10. Unsupported contract termination expenditure.

11. Indirect labor was incorrectly charged as direct labor.

The results of our tests of compliance indicate that with respect to the items tested, LBI had not complied, in all material respects, with the provisions of the contract and laws, regulations, grants, and binding policies and procedures. With respect to the items not tested, the extent of non-compliance noted in our testing indicates that there is more than a relatively low risk that LBI may have violated the terms of the contract or applicable laws and regulations.

Internal Control Structure

We studied and evaluated LBI's internal control structure relative to the Contract in order to assess the control risks and in order to determine our auditing procedures for the purpose of expressing an opinion on the Statement of Termination Settlement of LBI, and not to provide assurance on LBI's internal control structure taken as a whole.

We noted matters that we consider to be reportable conditions under Generally Accepted Auditing Standards and the United States Comptroller General's Government Auditing Standards. We believe that none of the matters identified represent a material weakness. Our findings are as follows:

1. Controls providing for the cancellation of invoices as paid or posted are not functioning.

2. Controls providing for the approval of invoices and time reports are not functioning.

3. Controls over project manager time reporting are inadequate.

Management Comments

The findings included in this report have been presented to management, and management has verbally concurred with the factual accuracy of these findings.

William E. Kuntz

William E. Kuntz, Partner
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LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

STATEMENT OF TERMINATION SETTLEMENT

Independent Auditors' Report

We were engaged to audit the accompanying Statement of Termination Settlement of Louis Berger International, Inc. (LBI), USAID contract number 367-0153-C-00-6048-00, for the period from contract inception to termination settlement on June 11, 1990. The Statement of Termination Settlement is the responsibility of LBI's management.

As described in the accompanying Schedules of Findings and Questioned Costs, the Statement of Termination Settlement includes expenditures of $539,654 considered questioned costs, of which $510,314 are unsupported costs. USAID will make a final determination as to whether the questioned costs are allowable under the terms of the contract.

Based on the nature and extent of the above questioned costs, we were unable to determine whether LBI maintained adequate accounting records and sufficient documentation to support the allowability of salary and allowance expenditures charged to the contract during the period described above and were unable to apply other auditing procedures to satisfy ourselves as to the allowability of these expenditures. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Termination Settlement.

This report is intended solely for the use of the U.S. Agency for International Development and LBI. 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.

Deloitte & Touche

August 16, 1991

LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

STATEMENT OF TERMINATION SETTLEMENT

FOR THE PERIOD FROM CONTRACT INCEPTION TO
TERMINATION SETTLEMENT ON JUNE 11, 1990

Expenditures	Budget	Total Billed
Salaries	$ 695,000	$ 410,653
Photogrammetry	150,000	133,975
Overhead	628,000	374,248
Travel & transportation	219,000	162,495
Allowances	125,000	107,836
Other direct costs	262,000	213,467
Commodities	965,000	245,582
Subcontractors	516,000	388,685
Fixed fee	145,000	82,786
Total expenditures	$3,705,000	$2,119,727

See accompanying independent auditors' report and note to the Statement of Termination Settlement.

LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

NOTE TO THE STATEMENT OF TERMINATION SETTLEMENT

Nature of Operations and Summary of Significant Accounting Policies

a) Louis Berger International, Inc. (LBI) provides engineering, economic and planning services worldwide, primarily on behalf of governmental entities.

The objective of the contract was to provide technical assistance to help the Government of Nepal implement the Irrigation Management Project. The Contract was terminated for convenience by the government, and a termination settlement was submitted on June 11, 1990.

b) Expenditures are related to the disbursing of funds provided by USAID to accomplish the objectives of the project discussed above. Expenditures are recognized as incurred, in accordance with generally accepted accounting principles.

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LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

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

Independent Auditors' Report

We were engaged to audit the Statement of Termination Settlement of Louis Berger International, Inc. (LBI), USAID contract number 367-0153-C-00-6048-00, for the period from contract inception to termination settlement on June 11, 1990, and have issued our report thereon dated August 16, 1991, on which we disclaimed an opinion due to limitations in the scope of our work.

Compliance with the terms of the contract and the laws, regulations, grants, and binding policies and procedures applicable to LBI is the responsibility of LBI's management. As part of our audit, we performed tests of LBI's compliance with certain provisions of the contract and laws, regulations, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of our procedures designed to obtain reasonable assurance about whether the financial statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of non-compliance are violations of the contract, laws, regulations, grants, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from these violations is material to the Statement of Termination Settlement. The results of our tests of compliance disclosed the material instances of non-compliance described as findings 1 through 4 in the accompanying Schedule of Findings.

We considered these material instances of non-compliance in preparing our report on LBI's Statement of Termination Settlement.

Our testing of transactions and records selected disclosed instances of non-compliance with the terms of the contract and applicable laws and regulations. All instances of non-compliance that we found are identified in the accompanying Schedule of Findings. All questioned costs relating to these findings are summarized in the accompanying Schedule of Questioned Costs.

The results of our tests of compliance indicate that with respect to the items tested LBI had not complied, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to the items not tested, the extent of non-compliance noted in our testing indicates that there is more than a relatively low risk that LBI may have violated the terms of the contract or applicable laws and regulations.

This report is intended solely for the use of the U.S. Agency for International Development and LBI. 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.

Deloitte & Touche

August 16, 1991

LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

SCHEDULE OF FINDINGS

MATERIAL FINDINGS

1. Controls over the Monitoring and Approval of Subcontractor Invoices are Inadequate

CONDITION:

Documentation supporting subcontractor expenditures was not adequate enough to determine if such costs were allowable under the contract. Specifically, there was no documentation supporting many of the Cornell University invoices. Our sample included 3 invoices from Cornell totalling $146,302 which had inadequate documentation.

CRITERIA:

The contract requires that adequate documentation supporting all costs must be maintained by LBI.

CAUSE:

Cornell University was apparently either unable or unwilling to supply detailed supporting documentation.

EFFECT:

The lack of adequate supporting documentation increases the risk that unallowable costs could be billed to USAID. Total subcontractor costs billed to USAID were $388,685.

RECOMMENDATION:

LBI should establish procedures to more closely monitor subcontractor activities and to ensure amounts billed are allowable under the contract. Such procedures should also provide for adequate documentation and approval of amounts paid to subcontractors.

SCHEDULE OF FINDINGS
(Continued)

2. Documentation was Unavailable to Support Authorization of Personnel Charged to the Contract

CONDITION:

In 5 of 10 direct labor expenditures tested, totaling $21,297, no documentation was available for the individual selected to indicate inclusion in the contract or authorization by USAID. The individuals were as follows:

David Mulligan - Project coordinator
William Bell - Project Manager
Frederick Schantz - Irrigation Training and Research Specialist
Frederick Berger - Vice President
Ron Kornell - Vice President

CRITERIA:

Section H3A(4) and section H6 of the contract require that all consultants and professional staff be subject to AID approval.

CAUSE:

Failure to obtain or document approval of contract personnel.

EFFECT:

At least five individuals that were involved with the project had not been approved by USAID per review of available documentation.

RECOMMENDATION:

LBI should establish procedures to ensure USAID approval is obtained for all changes in key personnel assigned to a contract.

SCHEDULE OF FINDINGS
(Continued)

3. Amounts were Billed in excess of Costs Incurred

CONDITION:

The direct cost amounts from detailed cost reports (2A and 6) did not agree to the amounts billed to USAID. The following cost categories contained the largest discrepancies.

	Cost Report	Aid Billing	Difference
Salaries - U.S.	$332,616	$302,302	$(30,314)
Salaries - COOP Country	127,786	56,647	(71,139)
Photogrammetry	0	133,975	133,975
Travel	203,843	162,495	(41,348)
Allowances	98,881	107,836	8,955
Other Direct Costs	220,633	213,467	(7,166)
Commodities	221,778	245,582	23,804
Subcontractors	438,929	388,685	(50,244)

CRITERIA:

Section 11 of the contract specifies that individual cost categories may not be exceeded by more than 15% without prior approval from USAID. Actual cost categories from internal cost reports must correspond to amounts billed to USAID in order to determine if costs are being properly billed.

CAUSE:

Unknown

EFFECT:

Amounts billed to USAID in excess of amounts per detailed records of $166,734 represent unsupported billings. Further, the disparity between the billings and the underlying detailed records call into question the adequacy of controls over billing.

RECOMMENDATION:

LBI should study and evaluate controls over billing and related supervisory review, identify weaknesses and improve these controls.

SCHEDULE OF FINDINGS
(Continued)

4. Documentation of Local Currency Payments was Unavailable for Testing

CONDITION:

LBI could not locate support for the following local currency payments:

Account	Payroll/GL Date	Selection Amount
Field Supply	6-87	$ 1,028
Field Equipment	6-87	278
Transportation	6-88	655
Per Diem	6-88	24,780
Short Term Consultants	6-88	2,673
Vehicle Operation	6-88	353
Field Equipment	2-88	4,795
Direct Labor - Local	6-89	1,204
Transportation	6-89	2,488
Schooling Allowance	6-89	27,316
Housing Furniture & Equipment	6-89	425
Office Equipment	6-89	8,683
Media Advertisement	6-89	207
Telephone, Telegraph	6-89	1,295
Rent - Buildings	6-89	687
Subcontractor	6-89	4,539
Subcontractor	6-89	5,153
Subcontractor	6-89	11,239
Subcontractor	6-89	10,471
Subcontractor	6-89	3,997
Total		$112,266

CRITERIA:

The contract with USAID stipulates that adequate documentation supporting all costs must be maintained by LBI; specific detail is listed in Section 11 of the contract.

CAUSE:

Inadequate local office document retention procedures.

EFFECT:

Without appropriate support, the validity of costs cannot be verified.

RECOMMENDATION:

LBI should standardize local office document retention policies to ensure that appropriate documentation is available for audit.

SCHEDULE OF FINDINGS
(Continued)

OTHER FINDINGS

5. Expenditures were not Traceable to Billings

CONDITION:

In 2 of 31 direct cost expenditures tested, representing $2,230, costs recorded in the detailed cost ledger (report 2A) were not traceable to a billing to USAID.

CRITERIA:

The contract requires that adequate documentation supporting all costs must be maintained by LBI. Section 11 of the contract indicates that supporting cost data may be requested by USAID.

CAUSE:

Inadequate documentation.

EFFECT:

It is not determinable that certain direct costs have been billed in the correct amounts to USAID.

RECOMMENDATION:

LBI should establish procedures to ensure proper audit trails are in place and maintained.

SCHEDULE OF FINDINGS
(Continued)

6. Computation of Retroactive Overhead Adjustment was Inaccurate

CONDITION:

In January 1988, the overhead rate was retroactively adjusted from 128.2% to 131.7% effective July 1986. The retroactive adjustment computed by LBI was overstated by $667. The adjustment should have been computed as follows:

As computed by LBI	$5,361
Direct labor $134,115 x 3.5%	4,694
Difference	$ 667

This difference has been included as an ineligible cost in the Schedule of Questioned Costs.

CRITERIA:

The overhead rate should have been applied to direct salaries including consultants. Total direct labor through December 1987 when the adjustment was computed totalled only $134,115. There were no consultant charges.

CAUSE:

Inaccurate computation.

EFFECT:

USAID has been over billed for overhead by $667.

RECOMMENDATION:

The occurrence of an error which is undetected by the system of internal controls indicates that supervisory and review controls need to be strengthened. We recommend that LBI establish procedures to ensure similar errors are detected during supervisory review.

SCHEDULE OF FINDINGS
(Continued)

7. A Time Report was not Available for Audit

CONDITION:

One time report was not available for audit. The time report, for $3,125, was for the period of October 1986.

CRITERIA:

The contract indicates that LBI is required to maintain records necessary for the audit of the project.

CAUSE:

Inadequate controls over the retention and filing of accounting documentation.

EFFECT:

Time charges related to the missing report were not able to be substantiated.

RECOMMENDATION:

LBI should establish standardized procedures over the retention and filing of documentation supporting contract expenditures. Duplication of documents or microfilm storage should be considered.

SCHEDULE OF FINDINGS
(Continued)

8. Motor Vehicle Purchases were Made Without Required Approvals

CONDITION:

USAID approval was not documented for four motor vehicles purchased from a Japanese company. USAID approval was not available for shipment of the vehicles on a non-U.S. flag carrier. The vehicles total cost was $53,050.

CAUSE:

Unknown

CRITERIA:

Article 4C2a(4) of the USAID procurement handbook requires USAID approval prior to the purchase of motor vehicles from other than a U.S. company. The handbook also requires USAID approval to use a non-US flag carrier.

EFFECT:

A potentially unauthorized purchase of motor vehicles totalling $53,050 was charged to the project.

RECOMMENDATION:

LBI should establish procedures to ascertain and maintain documentation of compliance with contract provisions in East Orange.

SCHEDULE OF FINDINGS
(Continued)

9. Compliance with U.S. Flag Carrier Contract Provision was not Documented

CONDITION:

A purchase of telescopic equipment for $4,211 was shipped from Japan but no documentation was available indicating how these items were shipped (i.e. U.S. flag).

CRITERIA:

USAID general provisions (AID 1420-41C) require shipment on U.S. flag carriers.

CAUSE:

Unknown

EFFECT:

Due to the lack of documentation, it was not determinable if the shipment of telescopic equipment was on a U.S. flag carriers.

RECOMMENDATION:

LBI should establish procedures to document compliance with the U.S. flag carrier contract provision.

SCHEDULE OF FINDINGS
(Continued)

10. Unsupported Contract Termination Expenditure

CONDITION:

LBI could not locate supporting documentation for the following contract termination expenditure for which reimbursement from USAID was requested.

Description	Amount
. Equipment from 47th St. Photo	$1,099

CRITERIA:

The contract with USAID stipulates that adequate documentation supporting all costs must be maintained by LBI; specific documentation is listed in Section 11 of the contract.

CAUSE:

Unknown

EFFECT:

Without appropriate support, the validity of the cost cannot be verified.

RECOMMENDATION:

LBI should develop record maintenance procedures which insure that support for contract costs is available for scrutiny.

11. Indirect Labor was Incorrectly Charged as Direct Labor

CONDITION:

During the testing performed of the Nepal termination claim, it was noted that two of the individuals billed as direct labor should have been billed as indirect labor; Frederick Berger and Ron Kornell.

CRITERIA:

The recovery of indirect labor costs is provided for through overhead.

CAUSE:

Coding error.

EFFECT:

USAID has effectively been charged twice for these costs, once as direct costs and again as overhead. The amount overcharged to USAID over the life of the contract for this error was $28,673. This amount has been included in the Schedule of Questioned Costs as an ineligible cost.

RECOMMENDATION:

Such errors should be detected during supervisory review procedures. We recommend that LBI establish stronger supervisory review controls.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

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

SCHEDULE OF QUESTIONED COSTS

FOR THE PERIOD FROM CONTRACT INCEPTION TO
TERMINATION SETTLEMENT ON JUNE 11, 1990

According to A.I.D. applicable regulations, costs charged to a project must meet the following general criteria:

a) Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.

b) Be allocable to the project. A cost is allocable in accordance with the relative benefits received.

c) Conform to any limitations or exclusions set forth in the agreement in which the project is based.

d) Be adequately documented.

Ineligible costs are all those costs unallocable and or unallowable in accordance with the terms of the contract, applicable laws and regulations. Unsupported costs are costs not properly supported by the recipient, in excess of the budgeted amount per line item including allowable variances, and costs considered unreasonable under the circumstances.

The following costs which were previously described in the Schedule of Findings, were questioned because they were not adequately supported or were not in compliance with the contract, applicable laws or regulations:

Budget Category	Ineligible Costs	Unsupported Costs	Total
Salaries		$ 25,626	$ 25,626
Photogrammetry		133,975	133,975
Overhead	$ 9,340	2,530	31,870
Travel & Transportation		3,496	3,496
Allowances		61,051	61,051
Other direct costs		78,131	78,131
Commodities		23,804	23,804
Subcontractors	-	181,701	181,701
Total unsupported and ineligible costs	9,340	510,314	539,654
Excess of LBI's costs over amounts billed to USAID (from Finding No. 3)	-	(200,211)	(200,211)
Total costs described in Schedule of Findings	$ 9,340	$310,103	$339,443

Note: Subsequent to our fieldwork, LBI indicated that the Photogrammetry costs charged to the Contract in the amount of $133,975 were classified in LBI's cost reports as Subcontractors ($40,357) and Local Labor, Equipment and Stationery ($93,618). We were unable to verify the accuracy of these classifications.

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LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

INTERNAL CONTROLS

Independent Auditors' Report

We were engaged to audit the Statement of Termination Settlement of Louis Berger International, Inc. (LBI), USAID contract number 367-0153-C-00-6048-00, for the period from contract inception to termination settlement on June 11, 1990, and have issued our report thereon dated August 16, 1991.

We conducted our audit in accordance with generally accepted auditing standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

In planning and performing our audit of Louis Berger International, Inc. we considered its internal control structure as a basis for our auditing procedures for the purpose of attempting to express our opinion on the Statement of Contract Expenditures of LBI and not to provide assurance on the internal control structure.

The management of LBI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs or internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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 policies and procedures may deteriorate.

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

- Accounting processes
- Payroll procedures
- Allowance and differential procedures
- Travel and transport procedures
- Procurement system

We noted the matters described in the Internal Controls Schedule of Findings which we consider to be reportable conditions 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 date consistent with the assertions of management in the Statement of Termination Settlement.

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 financial statements 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 none of the matters described on the Internal Controls Schedule of Findings represents a material weakness.

This report is intended solely for the use of LBI and the U.S. 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.

Deloitte + Touche

August 16, 1991

LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

SCHEDULE OF INTERNAL CONTROL FINDINGS

REPORTABLE CONDITIONS

1. Controls Providing for the Cancellation of Invoices as Paid or Posted are not Functioning

CONDITION:

In 4 of 31 items tested, documentation supporting expenses did not contain the proper cancellation marking indicating the item had been input into the payment system.

CAUSE:

Inadequate monitoring of existing controls.

CRITERIA:

Effective internal control procedures call for the cancellation of documentation after payment and inputting in order to reduce the risk of duplicate payments or recording.

EFFECT:

While there were no duplicate payments apparent in our test selections, the failure to mark invoices once they have been paid and input into the payment system can result in the duplicate payment of the invoices.

RECOMMENDATION:

LBI should reinforce existing controls which provide for the cancellation of invoices and monitor those controls to ensure compliance.

LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

SCHEDULE OF INTERNAL CONTROL FINDINGS
(Continued)

2. Controls Providing for the Approval of Invoices and Time Reports are not Functioning

CONDITION:

In several cases, documentation supporting costs did not contain the appropriate authorization signature of the project manager. In 4 of 39 items tested, the project manager had not approved the invoice for payment.

CRITERIA:

Effective internal controls call for proper approval of invoices and time reports prior to payment in order to ensure that payments are made at the correct amounts and only for goods or services actually received and within contract guidelines.

CAUSE:

Controls are not functioning.

EFFECT:

While no specific instances or error or non-compliance were apparent from our testing, an increased risk exists that payments could be made in incorrect amounts or for goods or services not actually received or authorized in the contract.

RECOMMENDATION:

We recommend that LBI reinforce controls providing for the documentation of approval of contract expenditures.

LOUIS BERGER INTERNATIONAL, INC.

USAID CONTRACT NUMBER 367-0153-C-00-6048-00

SCHEDULE OF INTERNAL CONTROL FINDINGS
(Continued)

3. Controls over Project Manager Time Reporting are Inadequate

CONDITION:

Time reports of the project manager of the Nepal project for the months of April 1987 and December 1987 were not signed by a supervisor or other authorized individual. In each of these cases, the project manager signed his own time report as approval.

CRITERIA:

Standard internal control policies for payroll require some form of supervisory or independent review and approval. An employee generally should never approve his/her own time report.

CAUSE:

LBI does not require approval signatures on time reports of project managers.

EFFECT:

Time reports of project managers are being processed without review for mistakes, errors, and appropriateness of time charged. Although specific errors were not apparent in our test selections, there are no controls in place to prevent errors.

RECOMMENDATION:

LBI should establish procedures for the independent review of all time reports.

APPENDIX I

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