

Financial Audits

**AUDIT OF  
AGRICULTURAL COOPERATIVE  
DEVELOPMENT INTERNATIONAL**

Cooperative Agreement NO. ANE-0159-G-SS-6020-00  
October 1, 1987 to September 30, 1990

Report No. 0-000-93-03-N  
December 11, 1992



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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF  
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INFORMATION IS RELEASED TO THE PUBLIC."**

INSPECTOR  
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

December 11, 1992

MEMORANDUM FOR AA/NE, Reginald Brown

FROM: IG/A/FA, *Reginald Howard*  
Reginald Howard

SUBJECT: Audit of Agricultural Cooperative Development  
International

The accounting firm of Price Waterhouse performed a financial-related audit of a cooperative agreement with Agricultural Cooperative Development International (A.C.D.I.). Two copies of the report are enclosed for your action.

A.C.D.I. is a non-profit organization which works predominately with agricultural, farming, livestock, and marketing cooperatives. In the West Bank and Gaza territories, A.C.D.I. assists the development of new cooperatives and strengthens existing cooperatives by providing technical assistance, training, and commodities.

Price Waterhouse audited A.C.D.I.'s Schedule of Financial Assistance for the period October 1, 1987 to September 30, 1990. The schedule consists of letter of credit drawdowns of \$3.6 million and expenditures totalling \$3.3 million under cooperative agreement No. ANE-0159-G-SS-6020-00.

The audit, part of a larger audit of the A.I.D. West Bank/Gaza Program, was requested by the Agency's former Bureau for Asia, Near East, and Europe. This is the sixth of six financial-related audit reports issued on private voluntary organizations operating in the West Bank/Gaza territories. In addition to these reports, the Office of the Inspector General/Programs and Systems Audits published Audit Report No. 9-000-92-006 (March 18, 1992), which addressed the Near East Bureau's compliance with selected Agency policies and procedures in implementing a monitoring system for the West Bank and Gaza Program.

The objectives of the audit were to determine whether: the Schedule of Financial Assistance was presented fairly in accordance with generally accepted accounting principles; the internal control structure was adequate for expressing an opinion on the Schedule of Financial Assistance; and A.C.D.I. had complied with applicable laws, regulations and provisions of the cooperative agreement.

Price Waterhouse determined that A.C.D.I.'s Schedule of Financial Assistance was presented fairly in all material respects. However, the auditors questioned \$31,801 in costs of which \$5,714 appeared ineligible and \$26,087 were unsupported.

With respect to A.C.D.I.'s internal control structure and compliance with applicable laws, regulations and cooperative agreement provisions, the auditors identified no material weaknesses. However there were certain reportable conditions that require corrective actions. We will request that A.C.D.I.'s auditor follows up on these matters during the next OMB Circular A-133 audit.

The A.C.D.I. management comments are included as Appendix I, while the auditors provided additional comments to the management comments in Appendix II.

Recommendation No. 1: We recommend that the Agency's Office of Procurement (FA/OP) resolve the \$31,801 in questioned costs (\$5,714 ineligible and \$26,087 unsupported) identified in the audit report (page III-1).

The recommendation will be included in the Inspector General's audit recommendation follow up system. Until we are advised of FA/OP's determination regarding the questioned costs, recommendation No. 1 will be considered unresolved.

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

*Price Waterhouse*



**Audit of  
Agricultural Cooperative  
Development International**

**Cooperative Agreement No.  
ANE-0159-G-SS-6020-00  
October 1, 1987 to September 30, 1990**



**Audit of  
Agricultural Cooperative Development International**

A.I.D. Cooperative Agreement No. ANE-0159-G-SS-6020-00  
October 1, 1987 to September 30, 1990

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*This report is a financial related audit of the cooperative agreement activity reported under the Agency for International Development's West Bank/Gaza program.*

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**Audit of  
Agricultural Cooperative Development International**



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## EXECUTIVE SUMMARY

We audited the Agricultural Cooperative Development International (ACDI) cooperative agreement activity (ANE-0159-G-SS-6020-00) that is a part of the West Bank/Gaza (WB/G) program of the Agency for International Development's Bureau for Europe and Near East (ENE). The purpose of this cooperative agreement is to assist in developing new cooperatives in the WB/G and strengthening existing cooperatives by providing technical assistance, training, and commodities. This goal will be accomplished through the following activities: conducting accounting workshops; implementing accounting systems; expanding credit union clientele; and establishing a crop loan system for cooperative members. The cooperative agreement is operational from February 10, 1986 through February 28, 1992. Our audit of the cooperative agreement covers the period October 1, 1987 through September 30, 1990.

The field work was conducted in June through October 1991 in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the accounting records as we considered appropriate. As a part of our examination, we performed a study and evaluation of the internal control structure and performed an assessment of control risk as part of the financial related audit of the cooperative agreement activity. Further, we reviewed ACDI's compliance with applicable laws and regulations as contained in the cooperative agreement that would have a material effect on the schedule of financial assistance.

The objective of the engagement was to perform a financial related audit of ACDI's WB/G cooperative agreement activity. Specific engagement objectives were to determine whether:

- the schedule of financial assistance is presented fairly in accordance with generally accepted accounting principles
- ACDI's internal control structure provides reasonable assurance of compliance with federal regulations
- ACDI has complied with the applicable laws and regulations that have been included in the standard and special provisions of the cooperative agreement

The scope and methodology for the engagement can be found on page I-6 of the report.

As a result of the audit, we have identified and reported questioned costs, needed improvements to ACDI's internal control structure, and immaterial instances of noncompliance with the cooperative agreement.

### Questioned Costs

As identified and described in detail in Note 5 - Questioned Costs to the schedule of financial assistance, there were \$5,714 of ineligible costs and \$26,087 of unsupported costs. ACDI

will be following up the Questioned costs with the Contracting Officer in resolving this report.

### **Internal Control Structure**

We identified certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. These conditions are as follows:

- ACDI has drawn \$386,804 more on its letter of credit than it disbursed during the period under audit.
- The cooperative agreements' budget information is inadequate to allow for an effective review process.
- ACDI's allocation and billing of overhead costs is not in compliance with the requirements established by OMB Circular A-122.
- ACDI is not following the requirements of the cooperative agreement by maintaining documentation to support its West Bank/Gaza activity.
- ACDI had not obtained proper supporting documentation for subcontractor's expenses as it is required in its contracts with these entities.

### **Compliance Issues**

We performed tests to ensure that ACDI has complied with the cooperative agreement and applicable laws and regulations. Our tests of compliance disclosed the following instances of immaterial noncompliance:

- ACDI includes estimated sick leave in its fringe benefit rate for charging of Headquarter's employees.
- ACDI does not maintain complete A.I.D. - financed property listings.
- ACDI did not properly remit interest income in excess of \$100 to A.I.D.
- ACDI failed to include the mandatory provisions within various subgrant agreements as prescribed in its cooperative agreement with A.I.D.
- ACDI reimbursement of dependent travel is not consistent with OMB Circular A-122 guidelines.

We discussed the findings and recommendations in this report with ACDI management throughout the engagement both in Washington and Jerusalem. At the conclusion of the audit, we held a closeout meeting in September 1991 with members of ACDI's management team in Washington, D.C. Additionally, we discussed the report verbally with members of ENE Bureau, A.I.D.'s Office of the Inspector General, and members of the State Department's Israel Desk. All comments on the draft report have been considered in finalizing the report while ACDI's comments on the draft report have been provided in Appendix A.

## **I. Introduction**

The mission of the Agency for International Development (A.I.D.) is to administer social and economic assistance programs that combine an American tradition of international concern and generosity with the active promotion of America's national interests. A.I.D. assists developing countries to realize their full national potential through the development of open and democratic societies and the dynamism of free markets and individual initiative. A.I.D. assists nations throughout the world to improve the quality of human life and to expand the range of individual opportunities by reducing poverty, ignorance, and malnutrition.

A.I.D. meets these objectives through a worldwide network of country missions and offices which develop and implement programs guided by six principles:

- support for free markets and broad-based economic growth
- concern for individuals and the development of their economic and social well-being
- support for democracy
- responsible environmental policies and prudent management of natural resources
- support for lasting solutions to transnational problems
- humanitarian assistance to those who suffer from natural or man-made disasters

A.I.D.'s mission as a foreign affairs agency of the U.S. Government is to translate into action the conviction of our nation that continued American economic and moral leadership is vital to a peaceful and prosperous world.<sup>1</sup>

### **A. A.I.D.'s Activities in the West Bank and Gaza**

The West Bank and Gaza (WB/G) program was initiated by Congress in fiscal year 1975 to demonstrate American concern and to help meet the humanitarian and economic development needs of Palestinians in the occupied territories and to support U.S. efforts to peacefully resolve the Arab-Israeli conflict. The importance of the A.I.D. program has increased as a result of the depressed economy of the WB/G, growing unemployment, inflation, decreased funding from Arab states, the economic and social impact of the ongoing Palestinian *Intifada* (uprising) since late 1987, and the cancellation of Jordan's WB/G Development Program in July 1988.<sup>2</sup>

The WB/G program goals have been defined to:

- develop skills in training, agriculture, rural development and income-generating capabilities
- develop health services including public health
- encourage self-help projects that can build up the physical and social infrastructure

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<sup>1</sup> A.I.D. Four Major Initiatives for the 1990's and Mission Statement, December 1990

<sup>2</sup> Congressional Presentation, Fiscal Year 1990, Main Volume (i.e., Introduction)

- promote economic growth through facilitating market entry, market access, management and production in the agricultural and manufacturing sectors
- stimulate financial market development and community-based income generation
- create a more favorable policy environment for individuals and enterprises
- increase the capacity of public and non-public institutions to support economic activity
- improve social services such as health and education

The following chart illustrates the WB/G program for its 15 years of existence broken down by private voluntary organization, charitable organization, or program. The chart includes financial information through July 30, 1990.

Organization	Life of the Project	Percentage
Agricultural Cooperative Development International	\$9,187,000	6%
American-Mideast Educational and Training Services	32,766,000	21%
American Near East Refugee Aid	24,723,000	15%
Catholic Relief Services	17,822,000	11%
Holy Land Christian Mission	4,394,000	3%
International Executive Service	235,000	.1%
Management Development Program	375,000	.2%
Save the Children Federation	20,888,000	13%
Society for the Care of the Handicapped	3,873,000	2%
Small Projects Fund	592,000	.3%
Sector Studies in Health	412,000	.2%
Project Development and Support	983,000	1%
Food for Peace PL 480 Title II	25,000,000	15.2%
Jordan West Bank Development	18,500,000	12%
	\$159,750,000	100%

The Assistant Administrator, Bureau for Europe and Near East (AA/ENE), has the monitoring and management responsibilities for the program. However, the program has been implemented without the benefit of A.I.D. day-to-day field supervision and the absence of an A.I.D. office; this function being performed by the State Department staff in Jerusalem (West Bank) and Tel Aviv (Gaza). To assist AA/ENE, a Working Group was established in

1987 to manage the program. It was the Working Group's responsibility to review proposals submitted by the various PVOs, to determine the merit of each project submitted, and determine whether such a project would be consistent with the A.I.D. priorities and U.S. foreign policy concerns. Once approved, A.I.D. would budget funds for the project and the overall coordination of the program was managed from Washington by the Working Group in conjunction with the State Department. Field oversight and monitoring of the program was accomplished by staff at the U.S. Consulate General in Jerusalem and the U.S. Embassy in Tel Aviv, with occasional short-term site visits by Working Group staff and project evaluation teams. The Working Group was officially disbanded in 1989, but the need to meet informally and discuss the management of the program persisted and intensified. The field oversight responsibilities remained the same. In September 1991, with the growth and increased visibility of the program and increasing Congressional concern over the lack of A.I.D. representation at the country level, the State Department agreed to the establishment of an "A.I.D. Representative" in Jerusalem in order to monitor and manage the field operations of the programs more closely and effectively.

The "A.I.D. Representative" is responsible for the following:

- planning, designing and implementing the economic assistance in the West Bank; the geographical responsibility of the "A.I.D. Representative" is limited to the West Bank with the U.S. Embassy in Tel Aviv continuing to perform A.I.D. functions in Gaza
- monitoring, evaluating and reporting on the implementation of the economic assistance program
- acting as a liaison official to the U.S. Embassy in Tel Aviv, the PVOs and private sector representatives
- planning and preparing overall program budgets for A.I.D. and Congressional approval
- directing preparation of programmatic documents for A.I.D. review such as Country Strategy Statements
- providing analyses to the Consulate General in Jerusalem, U.S. Embassy in Tel Aviv, and A.I.D. on evolving economic and political conditions in the West Bank relevant to A.I.D.'s programs

As noted above, the "A.I.D. Representative" is to act as a liaison official to the U.S. Consulate in Jerusalem, and on an as requested basis by the U.S. Embassy in Tel Aviv. However, all official relations with the Government of Israel are handled by the U.S. Embassy in Tel Aviv.

## **B. The West Bank/Gaza Environment**

The West Bank is the size of an average U.S. county while Gaza is 28 miles long by 5 miles wide with a population density akin to Hong Kong. The population of the two territories was estimated in 1987 to be 1.7 million, with the West Bank at 1,068,000 residents and Gaza at

633,000. This represents an 83 percent increase in the West Bank and a 62 percent increase in Gaza over the previous census that was taken in 1967. Another important demographic factor is that 46 percent of the West Bank population and 48 percent of Gaza's population are children under the age of 14<sup>3</sup>. These numbers have increased even further due to the influx of displaced Palestinians returning home as a result of the Gulf War.

### **C. Agricultural Cooperative Development International**

Agricultural Cooperative Development International (ACDI) is headquartered in Washington, D.C. and has field offices in such countries as Egypt, Uganda, Tonga, Honduras, Guatemala, Jordan, and Israel. ACDI is a non-profit organization which works predominately with agricultural, farming, livestock, and marketing cooperatives. Cooperatives are groups of individuals lead by elected leaders that share common goals and objectives. ACDI's mission is to expand the development capabilities of cooperatives in the WB/G. Under the WB/G program, ACDI is accomplishing their mission by strengthening the cooperatives capability to operate as effective and efficient businesses, improving the ability of cooperatives to market agricultural products, and providing cooperatives with access to credit.

Since 1986, A.I.D. has provided approximately \$9,200,000 in economic assistance to ACDI under the WB/G program. While ACDI administers the program, the Cooperative League of the U.S.A. (CLUSA) (i.e., formally known as The National Cooperative Business Association), the National Rural Electric Cooperative Association (NRCEA), and Volunteers in Overseas Cooperatives Assistance (VOCA), participate as subcontractors. The subcontractors provide technical expertise to WB/G cooperatives on behalf of ACDI. For example, NRCEA assists in administering a program designed to strengthen electric cooperatives capacities to provide maintenance, repair, and network upgrading. Further, NRCEA provided representatives with short-term technical assistance on engineering and management problems.

ACDI's cooperative agreement objectives and goals are categorized into the following types of development activities:

#### **Training**

Training is the main function of ACDI's involvement in the WB/G program. ACDI's approach focuses on training the cooperative's board of directors and representatives so that they can further disseminate the knowledge to cooperative members. ACDI has provided several training workshops for cooperative representatives. The workshops will focus on upgrading cooperative skills in the areas of management, accounting, auditing, credit and

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<sup>3</sup> U.S. Economic Assistance to the West Bank and Gaza: A Positive Contribution to the Palestinian people from the American people, U.S. AID, March 1989.

financing. For example, recently cooperatives that own personal computers received training on tailor-made accounting software in Arabic. Other types of training include cooperative management, cooperative supply, value-added taxes, agricultural machines, animal husbandry, and agro-industry.

### **Marketing**

ACDI has assisted several agricultural cooperatives with introducing products into domestic and foreign markets. During the 1989/90 season, Jericho Marketing Cooperative exported 536 tons of eggplant and 21 tons of green peppers to France and Holland and shipped 12 tons of strawberries to England<sup>4</sup>. ACDI teaches cooperative representatives how to institute brand names, develop pricing models, and establish distribution channels.

### **Credit**

Currently, there are limited opportunities for Palestinian cooperatives and their members to obtain credit. Consequently, loans to support capital improvements or begin new business have been lacking. Under the WB/G program, ACDI employed a credit expert for providing financial training to cooperatives. The credit expert developed a program for establishing revolving funds for cooperative members that provides Palestinians with an opportunity to acquire necessary funding.

### **Women in Cooperatives**

ACDI examined the role of women in cooperative organizations, including the nature and extent of their access to cooperatives, their role in the decision-making process, and the potential for enhancing the role of women in the society through the project. During the period of our audit, ACDI sponsored a workshop for women's cooperatives that identified the potential needs of the women in the WB/G.

## **D. Objectives**

The objective of the engagement was to perform a financial related audit of ACDI's WB/G program activity during the period of October 1, 1987 through September 30, 1990. A financial related audit includes determining (1) whether financial reports and related items, such as elements, accounts, or funds are fairly presented, (2) whether financial information is presented in accordance with established or stated criteria and (3) whether the entity has adhered to specific financial compliance requirements.<sup>5</sup> Specific engagement objectives were to determine whether:

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<sup>4</sup> ACDI's 1990 Annual Report, pg 16.

<sup>5</sup> Government Auditing Standards by the Comptroller General of the United States 1988 Revision.

- the schedule of financial assistance is presented fairly in accordance with generally accepted accounting principles
- ACDI's internal control structure provides reasonable assurance of compliance with federal regulations
- ACDI has complied with the applicable laws and regulations that have been included in the provisions of the cooperative agreement

### **E. Scope and Methodology**

The scope of the audit covered one cooperative agreement for the period of October 1, 1987 through September 30, 1990 (ANE-0159-G-SS-6020-00). The total disbursements for the cooperative agreement were approximately \$3,300,000 for the period under audit.

The audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the accounting records as we considered appropriate in the circumstances. As a part of our examination, we performed a study and evaluation of the internal control structure and performed an assessment of control risk as part of the financial related audit of the cooperative agreement activity for the period of our audit. Further, we reviewed ACDI's compliance with applicable laws and regulations as included in the cooperative agreement provisions that have a material effect on the schedule of financial assistance.

During the audit, we traced amounts from ACDI's general ledger and the independent accountants quarterly reports in the preparation of the schedule of financial assistance. From the schedule, we were able to test individual disbursement transactions by component. For example, we performed analytical review procedures for salaries and fringe benefits based on our detailed testing on a sample of months selected for each year. We examined ACDI's indirect cost pool to determine whether ineligible costs were properly excluded from the A.I.D. cooperative agreement by recalculating the indirect cost rate and applying it to direct costs to ensure that billed amounts were properly supported and accurate. Additionally, we used sampling techniques to test whether or not the disbursements were properly supported and in compliance with cooperative agreement provisions. Generally, we tested all significant individual disbursements and utilized a judgmental sampling technique for smaller disbursements; therefore, maximizing the dollar coverage of the total cooperative agreement activity.

The following illustrates the audit coverage we obtained for the cooperative agreement:

COVERAGE	
<u>Cooperative Agreement Number</u>	<u>Disbursements</u>
ANE-0159-G-SS-6020-00	\$3,256,796
Audit Coverage	\$1,418,068
Percentage	44%

Selected audit procedures performed throughout the engagement included:

- review of the cooperative agreement, A.I.D. Handbook 13, OMB Circulars A-110 and A-122
- review of prior reports covering ACDI's activity
- detail tests of transaction activity for allowability, reasonableness, and allocability
- tests of ACDI's internal control structure in monitoring, managing, and reporting the cooperative agreement activity
- detail tests for specific compliance with the cooperative agreement provisions

Throughout the engagement we have held meetings and had discussions with members of ACDI's management, A.I.D. Office of the Inspector General in Washington, members of the Europe and Near East Bureau, and members of the State department to provide the status of the audit and additional other concerns. ACDI's comments on the draft report are provided in Appendix A.

## F. Organization of the Report

Section II presents the Report of Independent Accountants and Section III presents the Schedule of Financial Assistance. In Section IV is the Report on Internal Controls that describes the work performed as a result of this financial related audit. Section V of this report presents the Report on Compliance. Appendix A presents ACDI's comments that have been considered and incorporated, to the extent we consider appropriate, in the final report.

*Price Waterhouse*



## Report of Independent Accountants

We have audited the accompanying "Schedule of Financial Assistance" of the Agricultural Cooperative Development International (ACDI) for the period October 1, 1987 through September 30, 1990. This schedule is the responsibility of ACDI's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of financial assistance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule of financial assistance. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly in all material respects, ACDI's letter of credit drawdowns and expenditures for cooperative agreement number ANE-0159-G-SS-6020-00 for the period October 1, 1987 through September 30, 1990 in conformity with the requirements of the cooperative agreement.

As described in Note 2, Basis of Presentation, the accompanying schedule includes only letter of credit drawdowns and expenditures and are not intended to present ACDI's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting principles.

*Price Waterhouse*

January 27, 1992

Agricultural Cooperative Development International  
 Schedule of Financial Assistance  
 ANE-0159-G-SS-6020-00  
 October 1, 1987 through September 30, 1990

	ACTUAL	QUESTIONED COSTS (NOTE 5)	
		INELIGIBLE	UNSUPPORTED
<b>REVENUE:</b>			
LOC Drawdowns	\$3,643,600		\$386,804 <sup>1</sup> (c)
<b>EXPENDITURES:</b>			
Subcontractors	\$406,770		
Salaries & Fringe	622,785		
Travel	132,601		(d)
Equipment	99,848		
Consultants	105,324	\$739 (a)	2,511 (e)
Training	291,841		21,973 (f)
Other Direct Costs	818,749	4,975 (b)	1,603 (g)
Overhead	778,878		
	<u>\$3,256,796</u>	<u>\$5,714</u>	<u>\$26,087</u>

See accompanying notes to the schedule.

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<sup>1</sup>IG/A/FA Note: This amount is not a questioned cost, but an inadequately supported withdrawal of funds from the A.C.D.I. letter of credit. The total questioned costs are therefore \$31,807 (\$5,714 ineligible and \$26,087 unsupported).

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**Agency for International Development  
Agricultural Cooperative Development International  
Notes to the Schedule**

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**Note 1 - The Organization**

Agricultural Cooperative Development International (ACDI) is a program of the U.S. cooperative development organizations established to assist Palestinian cooperatives, to strengthen economic development, and improve the standard of living of the Palestinians. ACDI is headquartered in Washington, D.C. and has two field offices located in Jerusalem and in Gaza.

The following program components enable ACDI to achieve its objectives:

**Training:** Selected senior managers and supervisors received on-site "training of trainers" courses on detailed management and financial analysis. These officials, in return, train additional employees in order to provide training for Palestinians in cooperative marketing, cooperative supply, value-added taxes, agricultural machines, animal production, and agro-industry. Workshops also focus on upgrading cooperative skills in the fields of management, extension, accounting, auditing, credit and finance.

**Technical Assistance:** The focus of technical assistance is towards increasing the capability of agricultural cooperatives to function more efficiently and market their produce in domestic and international markets.

**Credit:** The focus of the credit program is to modify current or establish new revolving funds for the three regional marketing cooperatives. The revolving funds are to serve as models for similar funds where sound management can be developed.

**Extension:** The extension program focuses on training and hiring up to a dozen extension agents to improve agricultural practices throughout the territories.

**Analysis:** The analysis program focuses on obtaining objective data about cooperatives operating in the West Bank. The analysis will address the critical issues facing the cooperatives.

**Note 2 - Basis of Presentation**

The schedule is not intended to be a presentation of ACDI's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting

**Agency for International Development  
Agricultural Cooperative Development International  
Notes to the Schedule**

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principles. Rather, the schedule presents the letter of credit drawdowns and expenditures reported during the audit period and was prepared in accordance with the financial reporting provisions of the cooperative agreement.

**Note 3 - Purpose of the Cooperative Agreement**

The purpose of this cooperative agreement is to provide technical assistance, training, and commodities; to strengthen the capability of existing cooperatives; and to assist in the development of new Palestinian cooperatives in the WB/G.

**Note 4 - Objectives of the Cooperative Agreement**

The objectives of the cooperative agreement were to:

- arrange and conduct regional management and accounting workshops to train cooperative managers and senior staff
- design and install a standard, simple accounting system for cooperative accounting in all "regional" marketing cooperatives
- strengthen capability of cooperatives to use "disciplined" credit
- establish or expand clientele of credit unions
- complete analysis and make initial decisions on establishment of a cooperative training institute

**Note 5 - Questioned Costs**

Under the Inspector General Act Amendments of 1988, the questioned costs definition is an all-inclusive term that includes many types of questionable costs claimed under Federal contracts and cooperative agreements.

- **Ineligible** - costs that the auditor considers to be potentially unallowable. This category includes amounts for:
  - (1) items that are in violation of a provision of a law, regulation, cooperative agreement, or document governing the expenditure of funds
  - (2) items which, although not specifically unallowable, are determined to be unreasonable or unnecessary for the intended purpose (waste or abuse)
- **Unsupported** - costs for which the auditor is unable to gather sufficient, competent, or relevant evidence to determine their allowability.

**Agency for International Development  
Agricultural Cooperative Development International  
Notes to the Schedule**

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**(a) Consultants**

ACDI inadvertently recorded a subcontractor costs as a consultant fee. The subcontract agreement between ACDI and the subcontractor included a provision that the costs would include overhead, and therefore, would be excluded from ACDI's overhead pool. However, the expenditure was recorded as a consultant fee and it was also included in the overhead base, which resulted in overhead expenditures of \$739 being incorrectly charged to A.I.D.

**(b) Other Direct Costs**

ACDI paid for the following personal items for its employees. These items are considered to be ineligible under the terms of the cooperative agreement

Description	Amount
Insurance on employee's personal car	\$1,500
Curtains for employee's home	3,475
	\$4,975

because of the personal nature of the items. ACDI has supplied additional information, with respect to the car insurance of \$1,500 to support the allowability of these costs due to the unique operating environment in the West Bank and Gaza. We believe that ACDI should have obtained prior approval from A.I.D.

The documentation supporting the curtains of \$3,475, does not correspond to the information we reviewed. We suggest ACDI submit support to A.I.D.

- (c)** Letter of credit drawdowns exceeded expenditures by \$386,804 as of September 30, 1990. A recommendation has been made to have ACDI revise its A.I.D. reporting procedures to reflect the fact that ACDI accounts for WB/G activity on an accrual basis. See recommendation #1 on IV-3 and IV-4.

**Agency for International Development  
Agricultural Cooperative Development International  
Notes to the Schedule**

**(d) Salaries and Fringe**

Supporting documentation for \$30,300 of costs questioned during our audit fieldwork and reported in the draft report was supplied by ACDI and these amounts were satisfactorily resolved.

**(e) Consultants**

Supporting documentation could not be located for the following disbursements:

Date	Description	Reference	Amount
1/88	Payroll - no invoice	SP 814	*
11/89	Payroll - missing timesheet	A. Arafah	\$2,065
3/90	Payroll - missing timesheet	A. Shawa	*
9/88	Travel - missing support	SP 1290	446**
			\$2,511

\* ACDI was able to supply support of \$11,750 and \$1,960, respectively, thereby resolving the questionability of the 1/88 and 3/90 costs.

\*\* The unsupported consultant cost of \$445.75 are included in the check for \$4,188.35. The \$445.75 is the amount that is questioned as we were not supplied support to determine its allowability.

**Agency for International Development  
Agricultural Cooperative Development International  
Notes to the Schedule**

**(f) Training**

Supporting documentation could not be located for the following disbursements:

Date	Description	Reference	Amount
2/88	Missing support	SP 873	\$6,973
5/88	Missing support	N/A	*
11/88	Missing support	N/A	15,000
4/90	Missing support	N/A	*
			\$21,973

\* ACDI was able to provide subsequent to our fieldwork the necessary support to resolve \$6,1884 and \$24,708 questioned cost for the 5/88 and 4/90 charges.

**(g) Other Direct Costs**

Supporting documentation could not be located for the following disbursement:

Date	Description	Reference	Amount
6/90	Vehicle maintenance - missing support	N/A	\$1,603
			\$1,603

*Price Waterhouse*



## Report on Internal Controls

We have audited the accompanying "Schedule of Financial Assistance" of the Agricultural Cooperative Development International (ACDI) for the period October 1, 1987 through September 30, 1990 and have issued our report thereon dated January 27, 1992.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of financial assistance is free of material misstatement and about whether ACDI complied with laws and regulations noncompliance with which would be material to the cooperative agreement.

In planning and performing our audit of the schedule of financial assistance of ACDI for the audit period, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule of financial assistance and not to provide assurance on the internal control structure.

The management of ACDI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 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 the schedule of financial assistance in accordance with the requirements of the Agency for International Development's cooperative agreement number ANE-0159-G-SS-6020-00, and that the agreement is managed in compliance with applicable laws and regulations. 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 into the categories of letter of credit drawdowns,



disbursement and procurement operations and financial reporting. For all 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 certain matters involving the internal control structure and its operation that 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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the schedule of financial assistance or to administer the cooperative agreement in accordance with applicable laws and regulations. Our audit disclosed five reportable conditions found on pages IV-3 through IV-10.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 schedule of financial assistance being audited or that noncompliance with laws and regulations that would be material to the cooperative agreement 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. However, we believe none of the reportable conditions described are material weaknesses.

This report is intended for the information of the Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

*Price Waterhouse*

January 27, 1992

**Finding 1 - ACDI has failed to record its cash disbursements in the proper period and may be prematurely drawing-down advances on its letter of credit for this cooperative agreement.**

Untimely Reporting:

During the audit period of October 1, 1987 through September 30, 1990, ACDI failed to record its overseas cash disbursements in the proper period. During our audit, we initially noted that at September 30, 1990, ACDI appeared to have drawn down \$386,804 more on its letter of credit (LOC) than it had disbursed, as reported on its SF 272 "Federal Cash Transactions Report". This is approximately four months of cash disbursements. As noted later in this finding, \$313,670 of this apparent excess drawdown resulted from the untimely recording of overseas disbursements. We note, however, that these cutoff errors occurred at other dates in the period audited. While selecting our sample of overseas disbursements to test, we noted that ACDI:

- Did not report at September 30, 1990, Jerusalem disbursements for the months of July, August, and September 1990 totalling approximately \$225,670. These expenses and the related overhead of approximately \$88,000 were not reported to A.I.D. timely.
- Did report at December 31, 1987, as current period disbursements rather than as adjustments of a prior period, Jerusalem disbursements for the month of September 1987. The amount of September 1987 expenses were indeterminable since September's activity was commingled with October and November 1987 disbursements by the West Bank/Gaza accountants.
- Did make similar cutoff errors as of September 1988 and 1989.

Thus, reported disbursements and other Form 272 data for several reporting periods were misstated.

The above exceptions and the one noted immediately below also result in incorrect reporting in the quarterly "Financial Status Reports," which are required by A.I.D. to be prepared on an accrual basis.

OMB Circular A-110, Attachment G, gives A.I.D. the option of requiring accrual or cash basis reporting on the SF 269s. A.I.D. Handbook 13, which is specifically referenced in ACDI's cooperative agreement, requires A.I.D. grantees to report on an accrual basis.

During our audit, we noted that ACDI did not accrue and report Headquarter's subcontracting expenses of \$60,243 on its September 30, 1987 SF 269. The subcontract services were completed in fiscal year 1986, but were not billed until fiscal year 1987. An accrual should have been established in fiscal year 1986, however, the expenses were not reported to A.I.D. until fiscal year 1987.

### Premature drawdowns:

Although a substantial portion of the apparent excess drawdown at September 30, 1990 was mitigated as noted above by the unreported local disbursements and associated overhead, the amount of the adjusted cash balance at September 30, 1990 still suggests that ACDI may be drawing down cash in excess of A.I.D.'s "immediate three day cash requirements" policy.

ACDI estimates the drawdown amount needed for each of its grants at least once a month, and summarizes these estimates on a manual work sheet to obtain the total amount of the drawdown to request for all grants combined. While we believe that ACDI's methodology used to draw down funds is correct, there are inconsistencies in ACDI's reporting of this information to A.I.D. and excess drawdowns may be occurring, therefore; ACDI's drawdown calculations, including adjustments for differences between projected and actual needs, may need closer attention.

ACDI has been reporting the difference between drawdowns and reported disbursements as advances on its SF 272s. Since A.I.D. has not objected to the large cash on-hand amounts reported, ACDI's management believes that there is no problem with its letter of credit drawdown practices. However, the guidelines established in A.I.D. Handbook 1, Supplement B "Procurement Policies", state:

"it is management's [ACDI's] responsibility to request drawdowns on the letter of credit only for "immediate cash needs"... it is A.I.D.'s responsibility to "monitor the cash management practices of these institutions [ACDI] to ensure that federal cash is not maintained in excess of that required for its immediate disbursement needs."

The Form 272 instructions specify actions to be taken when cash balances in excess of three (3) days occur or are needed.

## **Recommendation 1**

**We recommend ACDI:**

- 1.1 Revise its accounting procedures to include steps requiring timely submission by its Jerusalem office of all expenses incurred and of amounts disbursed but not yet recorded in the project ledgers. Accruals of these amounts should be recorded in ACDI's general ledger so that the amounts are included in reports to A.I.D. in a timely manner.**
- 1.2 Revise its letter of credit drawdown procedures to ensure compliance with the three day limit or formally negotiate a higher days goal with A.I.D. if management believes a longer period is necessary.**

**Finding 2 - The cooperative agreements' budget information is inadequate to allow for an effective review process.**

ACDI's proposals do not provide sufficient detail with respect to ACDI's cooperative agreement budget as approved by A.I.D. Issues involving the budget are:

- There is no annual budget for the cooperative agreement, only "Life of Project" budgets.
- Salaries paid to individual members of the overseas team appear to exceed the amounts proposed for those individuals for the three years under audit. Total salaries paid also exceed the prorated budgeted amount for the three years under audit.
- Salaries paid to local employees in West Bank/Gaza could not be reconciled to the amounts proposed for such individuals in the proposal.
- ACDI uses employees, consultants, and subcontractors interchangeably, making these three budget categories subject to misstatement. Due to lack of documentation, we could not ascertain the status of certain persons as either consultants, employees, or both.
- The contract budget amounts for subcontractor and consultant could not be reconciled to the amounts billed for the subcontractor and consultant.
- ACDI pays retirement benefits directly to employees in WB/G instead of establishing a formal pension plan with the funds. The use of this mechanism makes the benefits more accurately classified as "compensation" (salaries) rather than "pension expense" (a fringe benefit).

The cooperative agreement does not strictly require proper classification of expenses between budget line items. Furthermore, the agreement does not break down budgeted amounts by year.

OMB Circular A-110, Attachment J, gives A.I.D. the option of requiring approval of transfers of funds between direct cost categories. This option is also included in A.I.D. Handbook 13 and referenced in the cooperative agreement. However, the cooperative agreement specifies that ACDI may adjust line items within the grant budget "as may be reasonably necessary to further program objectives".

The lack of A.I.D. requirements for adhering to budget line item amounts and the lack of yearly budgeting by A.I.D. combine to weaken the controls A.I.D. has over the types and timing of expenditures under the cooperative agreements. Lack of

yearly budget requirements also deprives A.I.D. of a useful early warning tool for determining when the program is over budget.

## Recommendation 2

We recommend that A.I.D. revise the cooperative agreement to insert the following provisions:

- 2.1 ACDI must allocate the "Life of Project" budget into amounts for each year of the project, taking into account prior activity. Hereafter, ACDI must report its progress, with respect to each yearly budget to A.I.D., instead of its progress with respect to the "Life of Project" budget.
- 2.2 ACDI must reconcile the detailed amounts submitted in each proposal to the budget revisions approved by A.I.D. Hereafter, ACDI must obtain prior A.I.D. approval to exceed any budget line item by more than 5%.

**Finding 3 - ACDI's allocation and billing of overhead costs is not in compliance with the requirements established by OMB Circular A-122.**

ACDI's allocation and billing of overhead costs is not in compliance with the requirements established by OMB Circular A-122 as outlined below:

- ACDI does not allocate overhead to the non-Federal cost objectives that exist within the organization.
- ACDI uses inconsistent methods to allocate the overhead pool to each of its three classes of grants.
- ACDI treats office costs inconsistently, charging them to the grant both as direct costs and indirect costs.
- ACDI improperly carries forward unbilled overhead costs for recovery in future years on grants where this method is not allowable.

Each of these issues are addressed in greater detail below.

*ACDI does not allocate overhead to the non-Federal cost objectives that exist within the organization.*

ACDI's published annual reports of yearly activities outline the fact that ACDI has two other cost objectives besides Federal grants -- the Corporate Fund and the Development Fund.

The Corporate Fund was considered to be properly excluded from the indirect cost pool allocation process in accordance with the requirements of OMB Circular A-122. We believe, however, the Development Fund meets the A-122 criteria for inclusion in the overhead allocation process as a "cost objective" for the following reasons:

- The Development Fund carries on activities that benefit both the general public and ACDI's cooperative members (not the Federal government). Activities documented as supported by the Development Fund in ACDI's annual reports include "project identification and development, training and information activities, exchange visits by Cooperative leaders, project internships ... and improved member information on overseas projects." Specific examples of activities supported in calendar year 1987 excerpted from the 1987 annual report include:
  - a "Books for the World" project (1987)
  - training in agribusiness conducted by another entity (1987)
  - establishment of the ACDI Middle East Office (1987)

These activities, combined with the fact that a portion of ACDI's overhead may reasonably be expected to benefit the Development Fund (particularly administrative salaries), qualify the Fund as a cost objective under OMB Circular A-122.

- The Development Fund benefits from volunteer services provided by ACDI's cooperative members. The actual value of such services for the purpose of counting them as direct costs of the Fund and allocating overhead to them as required by OMB Circular A-122 could not be determined although ACDI estimates in its annual reports for calendar years 1988, 1989 and 1990 that the value of these services "amounts to more than \$300,000 annually."

*ACDI uses inconsistent methods to allocate the overhead pool to each of its three classes of grants.*

In the overhead rate calculation, ACDI includes its activity with contracts, grants, and cooperative agreements with A.I.D. and other organizations. Further, in the overhead rate calculations submitted for fiscal years 1987 through 1990, ACDI had not calculated an organization-wide overhead rate which could be applied equally to each contract instrument. Instead, ACDI subtracted overhead related to (a) fixed price contracts and (b) predetermined rate grants from the total indirect cost pool in order to ascertain the indirect costs applicable to the remaining grants (the provisional rates).

ACDI's methodology is flawed because the amounts allocated to fixed price contracts and predetermined rate grants are calculated at different rates (lower) than the rate that is then calculated for the costs allocated to the provisional rate grants. Essentially, this methodology inflates the rate that is used on grants using a provisional rate. The different rates used are presented below:

Contract/Grant Type	Calendar Year 1987	Calendar Year 1988	Calendar Year 1989
Fixed Price	39%	39%	39%
Predetermined Rate	13.5% & 36%	13.5% & 36%	13.5% & 36%
Provisional Rate	45%	52%	44%

Specifically:

- Overhead related to fixed price contracts is calculated at a flat 39% of direct costs, and this amount is deducted from the indirect cost pool as discussed above. The 39% does not relate to the actual percentage to be recovered on these contracts (billing rate), but is used because it is the billing rate for the fixed overhead rate contracts.
- Overhead related to predetermined rate contracts is calculated at the billable rate for such contracts (generally 13.5% and 36%), and the amount is deducted from the indirect cost pool as discussed above.

In summary, it does not appear that there is a basis for allocating overhead cost at different percentages for different classes of contracts or grants. We understand that the overhead rates used for prior years were negotiated and finalized some time ago, however, we suggest that A.I.D. review thoroughly ACDI's practices in connection with future A.I.D. cooperative agreements.

*ACDI treats office costs inconsistently, charging them to the grant both as direct costs and indirect costs.*

Included in ACDI's overhead pools for calendar years 1987, 1988, and 1989, are costs relating to ACDI's three overseas offices in the Middle East, Latin America, and Asia not related to this agreement..

The cooperative agreement under audit, treats office occupancy expenses as a direct cost of the grant. In fact, the grant provides for the establishment and maintenance

costs should be charged to the grant as direct expenses e.g. other overseas office costs should not be charged to this cooperative agreement in the overhead allocation. The recommended practice is consistent with OMB Circular A-122 which prohibits charging "costs incurred for the same purpose, in like circumstances" both directly and indirectly.

### **Recommendation 3**

We recommend that:

**3.1 ACDI re-evaluate its overhead methodology to ensure that it is consistently applied and in compliance with provisions outlined in the cooperative agreement and related reporting standards.**

**Finding 4 - ACDI is not following the requirements of the cooperative agreement by maintaining documentation to support its West Bank/Gaza activity.**

During our examination of ACDI's supporting documentation for its program expenses, we identified approximately \$155,000 of the expenses that were inadequately supported. These costs were all charged to the cooperative agreement during the three years under audit and consisted of local payroll, travel advances, consultants and participant travel. At the conclusion of the audit, ACDI personnel in Washington were unable to obtain supporting documentation to resolve approximately \$26,100 of these expenses.

ACDI's management stated that most of the documentation missing is due to the onset of the Palestinian uprisings which began in late 1987. Because of the uncertainty of the region, ACDI's management made the decision to have all of its Jerusalem Office's accounting records shipped to Washington for safekeeping. It is during this period of transition, that ACDI's management believes that many of the missing documents were either lost in transit, never sent, or later lost by its external auditors.

OMB Circular A-122, requires that for costs to be allowable under an award (cooperative agreement) they must be adequately documented.

In general, without adequate documentation to review, it cannot be determined whether a specific payment is allowable under the terms of the cooperative agreement, is recorded at the proper amount and for the proper cooperative agreement, or is a valid payment to outside parties for bona-fide goods delivered or services rendered.

## Recommendation 4

We recommend that ACDI:

- 4.1 Institute a procedure whereby documentation sent from its Jerusalem Office each month is reviewed for completeness upon receipt.
- 4.2 Ensure that a complete set of documentation be maintained as required by the cooperative agreement.

**Finding 5 - ACDI had not obtained proper supporting documentation for subcontractor's expenses as is required in its contracts with these entities.**

ACDI had not obtained supporting documentation for subcontractor's expenses as is required in its contracts with the respective entities and by OMB Circular A-122.

In the Subgrant Agreement with the Cooperative League of the U.S.A. (CLUSA), formally known as the National Cooperative Business Association, the contractor will supply "monthly financial reports and supporting documentation." In addition, OMB Circular A-122, Attachment A, "Basic Considerations", states that expenses must "be adequately documented."

Further, contained within the cooperative agreement between A.I.D. and ACDI is a standard provision for Subagreements which states that, "all subagreements shall as a minimum contain...provisions that are specifically required by any other provision. From this, the cooperative agreement includes a provision for Accounting, Audit, and Records that states, "the grantee shall maintain books, records, documents, and other evidence in accordance the grantee's usual accounting procedures to sufficiently substantiate charges to the grant... Examinations in the form of audits or internal audits shall be made by qualified individuals that are sufficiently independent of those that authorized the expenditure of A.I.D. funds, to produce unbiased opinions, conclusions, or judgments."

ACDI's management stated that they only request detailed support from CLUSA on an exception basis where ACDI believes it necessary (i.e., when there is reason to believe that subcontractor charges have been overstated). Additionally, we found no evidence to support that these subcontractors have been audited.

ACDI is not in compliance with the requirements in the guidance above.

## **Recommendation 5**

**We recommend that;**

- 5.1 ACDI request that all expenses submitted for reimbursement by its respective subcontractors be accompanied by proper supporting documentation. All such documentation should be reviewed and approved by ACDI personnel before remittance is made.**
- 5.2 ACDI should ensure that periodic audits are performed on its sub-grantee expenditures in accordance with the cooperative agreement.**

*Price Waterhouse*



## Report on Compliance

We have audited the accompanying "Schedule of Financial Assistance" of the Agricultural Cooperative Development International (ACDI) for the period October 1, 1987 through September 30, 1990 and have issued our report thereon dated January 27, 1992.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of financial assistance is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to ACDI is the responsibility of ACDI's management. As part of obtaining reasonable assurance about whether the schedule of financial assistance is free of material misstatement, we performed tests of ACDI's compliance with certain provisions of laws, regulations, contracts, and grants. These tests were of compliance with the special and standard provisions as included in the cooperative agreement (Number ANE-0159-G-SS-6020-00), the applicable sections of A.I.D. Handbook 13 - Grants, and OMB A-122 - Cost Principles for Non-profit Institutions. However, the objective of our audit of the schedule of financial assistance was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, ACDI complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that ACDI had not complied, in all material respects, with those provisions. We noted certain immaterial instances of noncompliance which are in Attachment A to this report.

This report is intended for the information of the Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

*Price Waterhouse*

January 27, 1992

**Finding 1 - ACDI includes *estimated* sick leave in its fringe benefit rate for charging of Headquarter's employees.**

ACDI's management realizes that the practice of charging estimated sick leave is not in compliance with OMB Circular A-122, but stated that ACDI had concluded (when writing its fringe benefit rate calculation policy) that the difference between actual and estimated would be immaterial and not cost effective considering the administrative effort required to adjust estimated to actual (e.g. researching each employee's sick leave charges).

OMB Circular A-122, Attachment B, "Fringe Benefits" states that sick leave is allowable "provided such costs are absorbed by all organization activities in proportion to the relative amount of time and effort *actually* [emphasis added] devoted to each." Estimation of sick leave taken does not fulfill the "actual" proportion requirement.

**1.1 We recommend that ACDI perform an analysis of the potential impact of the difference between the estimates used and the actual and present it to A.I.D.**

**Finding 2 - ACDI does not maintain complete A.I.D. - financed property listings.**

ACDI's A.I.D.- financed nonexpendable property listings are not in compliance with the provisions of the cooperative agreement. Specifically, the listing is incomplete with regards to the requirements set forth in A.I.D. Handbook 13, that require the grantee to maintain a property listing for A.I.D.- financed property with sufficient detail to provide the following information. ACDI's property listings did not properly include the purchase price, the grant source and the date of disposition. In discussing this finding with field staff we were told that they were not aware of this requirement. The provisions require the records to contain the following items:

- description
- serial number
- source of property (grant)
- title to property
- acquisition date
- unit acquisition cost
- disposition data: date, sales price
- percentage of Federal participation
- location, use and condition

**Agency for International Development      Attachment A**  
**Agricultural Cooperative Development International**  
**Immaterial Instances of Noncompliance**

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**We recommend that ACDI:**

- 2.1 Educate the field office employees of the property management requirements set forth in the provisions of the cooperative agreement and Handbook 13 section 1T, entitled *Property Management Standards*.**
- 2.2 Maintain the inventory listing in accordance with the requirements.**
- 2.3 Develop a standard form that is completed each time A.I.D. - financed property is acquired. The form should contain all required information as outlined in A.I.D. Handbook 13.**
- 2.4 Perform annual physical inventories of A.I.D. - financed property and reconcile the property listing to the physical inventories. Report to A.I.D. all deficiencies.**

**Finding 3 - ACDI did not properly remit interest income in excess of \$100 to A.I.D.**

ACDI improperly netted bank service charges against interest earnings before remitting the difference to A.I.D.

OMB Circular A-110, Attachment I, states

"Recipients shall maintain advances of Federal funds [under Letters of Credit] in interest bearing accounts. Interest earned on Federal advances deposited in such accounts shall be remitted promptly, but at least quarterly, to the Federal agencies that provided the funds. Interest amounts up to \$100 per year may be retained by the recipient for administrative expense."

This requirement is also incorporated into A.I.D. Handbook 13 and the cooperative agreement (in Standard Provision 3 "Refunds").

ACDI is not in compliance with the requirements of A.I.D. Handbook 13 referenced above and its cooperative agreement with A.I.D. For example, in fiscal year 1988, ACDI improperly retained \$807.52 in interest to offset administrative expenses (bank service charges). ACDI management concurred with this finding, but noted that if ACDI were to properly charge such service charges to the

cooperative agreement as *direct* costs, then ACDI would be entitled to overhead on these costs. Thus, A.I.D. would pay 39% more for these charges.

We recommend that ACDI:

- 3.1 Comply with existing OMB Circular A-110 requirements as to the earning, netting, and the timely remission of interest in the future.
- 3.2 Calculate the amount of interest not properly remitted in the last three years and remit such funds to A.I.D..
- 3.3 Determine the eligibility of service charges previously netted against interest earned for reimbursement by A.I.D. through inclusion in the overhead pool for fiscal year 1992.

**Finding 4 - ACDI failed to include the mandatory provisions within various subgrant agreements as prescribed in its cooperative agreement with A.I.D.**

ACDI's subgrant to the Strawberry Cooperative in Gaza does not contain the mandatory provision for reserving ACDI's and A.I.D.'s rights to access to the accounting records of the cooperative for audit purposes.

Additionally, ACDI's subcontract with the Cooperative League of the U.S.A. (CLUSA) does not contain the mandatory provision requiring CLUSA to adhere to Executive Order 11246 "Equal Employment Opportunity".

Per OMB A-110, "Procurement Standards", and A.I.D. Handbook 13, "Accounting, Audit, and Records", as incorporated in the cooperative agreement:

"All subagreements over \$10,000 issued by recipients shall include a provision to the effect that the recipient, A.I.D., the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any book, documents, papers and records of the subrecipient which are directly pertinent for the purpose of making audits."

Also, per OMB A-110, "Procurement Standards"

" All contracts awarded by the recipient and their contractors or subgrantees having a value more than \$10,000, shall contain a provision requiring

**Agency for International Development      Attachment A**  
**Agricultural Cooperative Development International**  
**Immaterial Instances of Noncompliance**

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compliance with Executive Order 11246 entitled Equal Employment Opportunity."

**We recommend that ACDI:**

- 4.1 Review all of its subgrant agreements to ensure that they contain all the mandatory provisions as prescribed by its cooperative agreement with A.I.D.**
- 4.2 Modify all active subgrant agreements that do not currently contain all the mandatory provisions as prescribed by its cooperative agreement with A.I.D.**

**Finding 5 - ACDI's reimbursement of dependent travel is not consistent with OMB Circular A-122 guidelines.**

ACDI's 1991 Policies and Procedures manual allows reimbursement for the relocation costs of employees' dependents when the dependents remain on post for "9 months or one-half the duration of the assignment, whichever is longer". Note, ACDI's 1987 version is silent altogether about the required duration of stay. These policies do not conform with the duration of stay required by OMB Circular A-122.

OMB Circular A-122, Attachment B, states that "Necessary and reasonable costs of family movements are allowable pursuant to paragraph 41." Paragraph 41.a. states that "Relocation costs are costs incurred incident to the permanent change of duty assignment (for an indefinite period or for a *stated period of not less than 12 months* [emphasis added]) of an existing employee."

ACDI is not in compliance with the requirements of OMB A-122 and the deficient policy could lead to reimbursement of unallowable expenses if followed as written (note that our testing of travel expenses did not disclose any actual instances of unallowable costs).

- 5.1 We recommend that ACDI make the appropriate changes to its Policies and Procedures manual so as to clearly state that relocation reimbursement is only allowable when those persons being relocated (employee and dependents) stay at least twelve months.**



# Agricultural Cooperative Development International

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Ron Gollehon  
*President*

Donald Crane  
*Sr. Vice President*

June 12, 1992

Price Waterhouse  
Office of Government Services  
1801 L Street, N.W.  
Washington, DC 20006

Reference is made to your letter dated May 12, 1992 with which you forwarded to us your draft audit report relating to AID Cooperative Agreement # ANE-0159-G-SS-6020-00.

Given below are our comments on your findings and recommendations listed in the aforesaid draft report:

I. Questioned Costs

A. Ineligible Costs:

1. Consultants: \$739. We have requested a copy of the subcontract in question from our Jerusalem Office. We hope to give you our formal comments on this matter prior to the issuance of your final report.

2. Other Direct Costs:

a. \$1,500.: ACDI conditions of employment required the employee to possess a personal car for the performance of his official duties (mainly for field travel). This condition was to save to the project the acquisition and operating costs of vehicles which would have been needed for the performance of the project's activities. However, it was found necessary to pay only for the insurance of the personal cars to overcome the reluctance of the employee to travel for field work during the uprisings and/or ongoing demonstrations. As known, these disturbances included heavy

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Growmark, Inc.

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"stoning" of vehicles. The insurance of the personal cars for possible damage encouraged the field staff to continue the performance of their duties.

- b. \$3,475.: The curtains were not for an employee's home. They were purchased for use in an additional office-apartment rented in May 1989 for project's activities.

B. Unsupported Costs:

1. Salaries: \$30,000. The related time sheets were always available. Copies of same are forwarded herewith.
2. Consultants:
  - a. \$11,750.: Attached are copies of time sheets for the concerned consultant, Len Wooton, indicating a total of 75 days worked at \$250, per day. The total amount due to Mr. Wooton was \$18,750. He received a partial payment of \$7,000 after his consultancy and the balance of \$11,750 was paid to him in 1/88. Attached also is a copy of check #814 evidencing the payment of the questioned amount.
  - b. \$1,960.: Copy of related time sheet attached herewith.
  - c. \$2,065.: Copy of this time sheet will be forwarded to you very soon.
  - d. \$446.: Check #1290, given as reference in your draft report for the questioned sum of \$466, is for \$4,188.35. We believe that you have already been satisfied with the documents attached to this check. Could the sum of \$446 relate to another document number? Please review your working papers and advise.
3. Participant Training (\$52,865):
  - a. \$6,184.: Attached is copy of the invoice for this amount.
  - b. \$24,708.: Attached is copy of the invoice concerning this amount. This invoice is for a total of French Francs (F.F.) 203,517.40, the details of which are listed under 3 totals on pages 2, 3, & 4 of the invoice (namely total #1 of F.F. 59,028, total #2 of F.F. 127,460 and total #3 of F.F. 17,029.40). The equivalent in U.S. Dollars of the grand total of the invoice (i.e., F.F. 203,517.40) is

\$33,751. The questioned amount of \$24,708 represents the equivalent of the advance payment required per item 4 of the invoice. The equivalent of \$24,708 is I. Shekels 53,396.42 circled on the copy of the Bank Debit Note (supporting document), also attached herewith. The other amount of F.F.148,965.80, also circled on the Debit Note, is the equivalent in F.F. of the down payment.

- c. \$15,000.: Of this amount, advanced in November '88 for project's participants travel to Cyprus for training and observation, a sum equivalent to \$3,442 was returned in December '88 and credited to the project's training expenses. The net charge to the project was \$11,558 which was disbursed for participants travel maintenance allowance and other training related expenses. Supporting receipts for these disbursements are attached herewith.
- d. \$6,973.: Attached is a photocopy of check #873 for this amount. This copy also reflects the endorsement of the payee namely Carlyle Suites Hotel. We have asked the hotel to provide us with a copy of their invoice and were informed that their records for 1988 and other years were totally damaged by a flood that occurred 2 or 3 years ago. We trust that you will be satisfied with the attached copies of the check and it's endorsement by the said hotel.

4. Other Direct Costs:

\$1,603.: Attached are copies of 2 bills totalling I. Shekels 6,032, equivalent to \$3,016. You have questioned earlier the latter the sum of I. Shekels 6,032. We feel the attached bills will clear the questioned sum of \$1,603. For your information, these bills cover the replacement of the manufacturer's windshields of the personal cars of our two employees with special "stone-proof" windshields. This replacement was necessary for the safety of our employees, considering the continuing violent demonstrations.

II. Internal Controls:

- A. Finding #1.: Under this finding, the following is stated: "ACDI is drawing funds correctly as needed for this particular cooperative agreement, but is inconsistent in reporting this information to A.I.D. (i.e., SF-272 is accrual basis while the SF-269 is cash basis)"

- B. Under the same finding (#1) the following is also stated "ACDI had drawn \$387,947 more on its Letter of Credit than it had disbursed, as reported on its SF-272 (Federal Cash Transaction Report).
- C. Also under the same findings (#1), the following is mentioned "ACDI did not accrue or report on its September 30, 1990 SF-269, Jerusalem disbursements for the months of July, August, and September 1990 totalling approx. \$313,670. These expenses were not reported to A.I.D in the correct fiscal year.

We feel the statements made in paragraphs II(A) and (B) above are contradicting: on one hand the funds are stated to be correctly drawn as needed; on the other hand, funds drawn were in excess from what was disbursed. During the audit, we explained to you that what you consider as excess represented the amounts provided to the project for its estimated local expenditures for three months. As such, the funds should be considered as disbursed for the intended purpose of withdrawal. In our opinion, we could not include on the 272 and 269 prior to the verification of the amounts disbursed by the project. Meanwhile, we were reporting such funds as advances. We trust that you will agree with us that we could not report these funds as disbursements and as advances at the same time on the 272. Regarding the parenthetical phrase at the end of paragraph (A) above, we wish to state that the SF-269 and 272 reports are prepared on the same basis and not on different basis as stated in your draft report. As to paragraph II(c), please note that our books are maintained on a calendar year basis and the concerned amounts were duly reported to AID in the reports for C.Y. 1990.

Certain statements made under findings #1 imply that we should have maintained our records on a fiscal year basis: from October 1st to September 30th. We are not aware of any A.I.D. regulations requiring such basis.

We wish to quote here an excerpt from Paragraph 2(a)-1 from "Mandatory Standard Provisions for U.S. non-governmental grantees" in the report of accruals "... while A.I.D. requires reporting on accrual basis, the grantee shall not be required to establish an accrual accounting system but shall develop such accrual data for its reports on the basis of an analysis of the documentation on hand" This language is unclear and can lead to inadequate reporting. Since the reporting on form 269 is optional i.e., cash or Accrual basis, we opted for the sake of accuracy, cash basis. With this option, the balance of cash on hand, line 10, was always reported accurately, and unaffected by the deduction of undisbursed amounts i.e., the accruals.

In view of the foregoing, we cannot but disagree with your comments outlined for Finding #1 "Internal Controls".

Finding 2 and Recommendation 2. We have no comments on these items as they are addressed for the consideration of A.I.D.

Finding 3 and Recommendation 3. ACDI adheres very strictly to the Negotiated Indirect Cost Rate Agreements entered yearly with A.I.D. The audit of our Indirect Cost Pool and Final

Overhead Rate is performed yearly by our external auditors, Ernest & Young. The reports are yearly submitted to A.I.D. offices of (1) the Inspector General and (2) Overhead and Special Costs Branch. None of these audit reports indicated any negative findings in our calculation.

We suggest that you contact our Auditors Ernest & Young, (Mr. R. Palmer, 703-903-5240) and/or any of the aforesaid A.I.D. offices, particularly the Overhead and Special Costs Branch, and discuss your finding with them before the submission of your draft or final report to A.I.D.

Finding 4 and Recommendation 4. With the exception of one isolated case, for which we submitted to you satisfactory evidence and explanation, all supporting documents were either submitted to you in October 1991 or are attached herewith. Moreover, we have already taken the necessary steps to ensure that all supporting documents are duly received with the expenditure reports submitted monthly by the Jerusalem Office.

Finding Recommendation #5. All subcontractors are now required to submit supporting documentation with their invoices. Concerned project officers will review and approve these invoices before payment.

### III. Immaterial Instances of Non-compliance

#### A. Finding/Recommendation #1:

We have already initiate corrective action as from 1/1/91 with regard to the reported finding. We are presently calculating the actual impact of the finding during the audited period and will communicate to you the result of our calculations hopefully before your issuance of the final report.

#### B. Finding/Recommendation #2:

Our AID-Financed non-expendable property records were adequately maintained but not very strictly in accordance with the requirements set forth in A.I.D. Handbook 13. We will not fail to improve the maintenance of our records in this report by adopting the steps outlined in you recommendations.

#### C. Finding/Recommendation #3:

We are presently complying with you Recommendation #3.1. We will seek the opinion of A.I.D. contracting officer and/or Inspector General Office regarding your recommendation #3.2 and 3.3.

#### D. Finding/Recommendation #4:

1. We will implement, where required, your recommendation #4.1

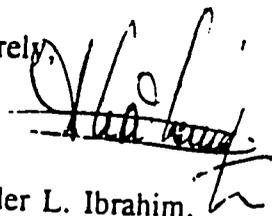
2. Your recommendation #4.2 is unclear as none of the related findings justify this particular recommendation. Please clarify.

E. Findings and Recommendation #5:

ACDI is currently revising its Personnel Policies & Procedure Manual and will recommend this change to our Board of Directors.

In view of the foregoing, we trust that you will effect the appropriate changes in your final report, particularly in the Schedule of Financial Statements, before submitting the report to A.I.D.

Sincerely,



Iskander L. Ibrahim,  
Vice-President, Finance

P.S. Two members of our Senior Management staff, required to co-sign the letter of representation (LOR) are out of town until 6/18/92. The signed LOR will be mailed to you as soon as they return.

# Price Waterhouse



November 5, 1992

Mr. Leo Deege  
Project Manager  
Agency for International Development  
SA-16, Room 537  
Washington, D.C. 20523-1604

Dear Mr. Deege,

We have reviewed Agricultural Cooperative Development International's (ACDI) comments regarding our audit report and, at your request, we have provided below our responses to ACDI's comments.

Questioned Cost Finding #	PW Comment
I.A.1.	We noted in our finding that we examined the subcontracting agreement in question during our audit fieldwork, and accordingly, we continue to believe that ACDI should not have been reimbursed for the \$739 (i.e., ineligible cost). Additionally, to date, we have not received ACDI's "formal comments" regarding this issue.
I.A.2a.	We have questioned the reimbursement of insurance costs for an employee's personal vehicle because of its personal nature. Further, A.I.D. Handbook 14, <u>Insurance on private automobiles</u> , states that "the premium costs for insurance on privately owned automobiles shall not be a reimbursable cost..." Additionally, in the event ACDI believed that such costs were reasonable, and therefore reimbursable, it should have sought prior approval from A.I.D. by following the procedures outlined in A.I.D. Handbook 13, section 1E, Deviations.
I.A.2b.	We were unable to satisfy ourselves through review of the documentation provided by ACDI that the curtains were for business use, therefore, the cost was classified as ineligible.
I.B.1.	Although we were eventually satisfied that these costs were properly supported, we object to the statement that the support was "always available". We had made several attempts to resolve this matter with ACDI prior to its inclusion in our draft report, but were unable to do so. In fact, we discussed this issue along with of the all other issues with ACDI personnel throughout our fieldwork and during our close-out meeting in October 1991. It was not until after the issuance of our draft report that ACDI was able to provide us with proper supporting documentation (i.e., time sheets) with which we then could determine properly supported the previously questioned costs.



Questioned Cost Finding #	PW Comment
I.B.2a and 2b	ACDI was able to supply proper supporting documentation of \$11,750 and \$1,960, respectively, thereby, resolving the questionability of the 1/88 and 3/90 costs.
I.B.2c	We have not received any further documentation regarding these costs, therefore, these costs remain unsupported.
I.B.2d	We have discussed this issue and all other issues with ACDI personnel throughout our fieldwork, during our close-out meeting in October 1991, and in connection with preparing our draft report. Additionally, we have reviewed our workpapers to ensure that the check number was correct. The check for \$4,188.35 is made up of many invoices. All of these disbursements appeared to be properly supported with the exception of those totalling \$466 which remain unsupported.
I.B.3a and 3b	ACDI was able to supply support of \$6,184 and \$24,708, respectively, thereby, resolving the questionability of the 5/88 and 4/90 costs.
I.B.3c	We were unable to match the documentation provided by ACDI with the questioned cost, and therefore, the cost remains unsupported.
I.B.3d	Based on our review of the documentation (i.e., copy of check) provided by ACDI, we were unable to determine the purpose of the trip, the persons involved, the detail of the balance (i.e., no invoice), and therefore, the cost continues to be classified as unsupported.
I.B.4	We were unable to match the documentation provided by ACDI with the questioned cost, and therefore, the cost is determined to be unsupported.



Internal Controls Finding #	PW Comment
II.1A, 1B and 1C	We are confident that our finding has been properly researched and supported. We disagree with ACDI's response, however, we have rewritten the finding and recommendation #1 in order to more clearly indicate the issues and findings.
II.2	Self explanatory.
II.3	We are confident that are finding has been properly researched and supported. We suggest that ACDI contact its external auditors for their review and comment of our finding.
II.4	We disagree with ACDI's response. We have worked with all documentation provided to us throughout our fieldwork and reporting process. Any items which remain outstanding either as ineligible or unsupported have been given our full attention in conjunction with our examination of all supporting documentation provided.
II.5	No comment is necessary since it appears ACDI concurs with our finding and has agreed to or has begun to implement our recommendation.

Non-Compliance Issues Finding #	PW Comment
III.A	No comment is necessary since it appears ACDI concurs with our finding and has agreed to or has begun to implement our recommendation.
III.B	No comment is necessary since it appears ACDI concurs with our finding and has agreed to or has begun to implement our recommendation.
III.C	No comment is necessary since it appears ACDI concurs with our finding and has agreed to or has begun to implement our recommendation.
III.D.1	No comment is necessary since it appears ACDI concurs with our finding and has agreed to or has begun to implement our recommendation.
III.D.2	We disagree with ACDI's comment and believe that our recommendation is fully supported and should be implemented.
III.E	No comment is necessary since it appears ACDI concurs with our finding and has agreed to or has begun to implement our recommendation.

Sincerely,

*Price Waterhouse*

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