

Regional Inspector General for Audit  
Tegucigalpa, Honduras

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**Audit of Overhead Charges Made to  
USAID/Nicaragua's Urban Community Development Project  
Managed by the Cooperative for  
American Relief Everywhere-Nicaragua  
July 1, 1991 to June 30, 1992**

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**Audit Report No. 1-524-93-11-N  
January 26, 1993**



**INSPECTOR  
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

# AGENCY FOR INTERNATIONAL DEVELOPMENT

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January 26, 1993

## MEMORANDUM

TO: D/USAID/Nicaragua, Janet C. Ballantyne

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

SUBJECT: Audit of Overhead Charges Made to USAID/Nicaragua's Urban Community Development Project by the Cooperative for American Relief Everywhere-Nicaragua, July 1, 1991 to June 30, 1992

This report presents the results of a financial audit of the overhead charges made to the USAID/Nicaragua Urban Community Development Project (Project) by the Cooperative for American Relief Everywhere-Nicaragua (CARE) for the period July 1, 1991 to June 30, 1992. The audit firm of Price Waterhouse prepared the report dated December 15, 1992.

In June 1990, USAID/Nicaragua approved CARE's proposal to assist the newly elected government of Nicaragua by authorizing the Urban Community Development Project. The Project authorizes the monetization of 6,000 metric tons of vegetable oil provided by the U.S. Government under the Public Law 480, Title II Program. The Project is currently scheduled to terminate in March 1993.

In its negotiations with CARE, USAID/Nicaragua approved an overhead budget of \$200,000 for the life of the Project. In December 1991, in response to a request from CARE, USAID/Nicaragua authorized an increase in the Project's provisional overhead rate from 5.67 percent to 10.00 percent with the proviso that the final overhead rate be determined by a later audit of CARE's overhead charges.

The objectives of the audit were to determine whether: (1) CARE's overhead charges to the Project during the period under audit were fair and reasonable and in accordance with the criteria contained in Office of Management and Budget (OMB) Circular A-122, (2) CARE's internal control structure was adequate to manage Project operations, and (3) CARE had complied with agreement terms and applicable laws and regulations. The

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scope of the audit included an examination of CARE activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

The auditors found that CARE had used a locally-developed allocation formula to charge overhead to its projects, including the USAID/Nicaragua Project. The auditors concluded that this formula is not the most reasonable method of allocation as it is based on budgeted data and tends to duplicate the relative importance of procurement. Price Waterhouse also concluded that the CARE allocation formula does not follow the criteria contained in OMB Circular A-122. Price Waterhouse determined overhead charges to the Project based on actual data and through the application of the Standard Multi-Project Allocation Formula contained in CARE's International Manual. They determined that the use of the locally-developed formula resulted in excess charges of \$19,812 to the Project during the period audited.

Regarding CARE's internal control structure for Project operations, the auditors did not find any material internal control weaknesses.

With respect to CARE's compliance with agreement terms and applicable laws and regulations, the auditors found two material instances of noncompliance. Price Waterhouse found that: (1) CARE did not charge overhead costs to the USAID/Nicaragua Project in accordance with the criteria contained in OMB Circular A-122, and (2) CARE could not provide evidence of USAID/Nicaragua's approval of budget modifications.

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

**Recommendation No. 1**

**We recommend that USAID/Nicaragua resolve the \$19,812 of excess overhead charges to the Urban Community Development Project identified in the Price Waterhouse audit report dated December 15, 1992 and recover from the Cooperative for American Relief Everywhere all amounts determined to be unallowable.**

**Recommendation No.2**

**We recommend that USAID/Nicaragua obtain evidence that the Cooperative for American Relief Everywhere has established procedures to: (1) charge overhead costs to the Project in accordance with Office of Management and Budget Circular A-122, and (2) obtain USAID/Nicaragua approval of budget modifications to the Project.**

Recommendation No. 1 can be resolved when the Mission determines the amount of recovery and closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection. Recommendation No. 2 can be resolved when the Mission presents an acceptable firm plan of action to correct the reported deficiencies and can be closed when the Mission presents acceptable evidence that the recommended procedures have been established.

The report was discussed with CARE management officials who expressed general agreement with its contents but believed that since the formula they employed only resulted in excess costs of \$20,000 it was reasonable. Written comments provided by CARE are included as an annex to the Price Waterhouse report.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

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

**Audit of Overhead Charges Made to  
USAID/Nicaragua's Urban Community Development Project  
Managed by the Cooperative for  
American Relief Everywhere-Nicaragua  
July 1, 1991 to June 30, 1992**

**Audit Report No. 1-524-93-11-N  
January 26, 1993**

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FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

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FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

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FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

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# *Price Waterhouse*



December 15, 1992

Mr. Lou Mundy  
Regional Inspector General  
for Audit (RIG/A/T)  
Tegucigalpa, Honduras

Dear Mr. Mundy:

FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

This report presents the results of our audit of CARE-Nicaragua's charges against USAID funds through a local indirect cost recovery factor for the period July 1, 1991 to June 30, 1992.

I. BACKGROUND

On June 1990, USAID approved CARE's proposal to assist, through opportune utilization of P.L. 480 Title II resources, the newly elected democratic government in Nicaragua.

The above mentioned authorization, for the Urban Community Development Project, was for a total of 6,000 Metric Tons of vegetable oil to be monetized in accordance with the rules and regulations specified in the USAID's Monetization Guidelines. CARE's proposal covered the program to be developed during FY 1990 (2,500 MTs), and FY 1991 (3,500 MTs). In August 1991 the implementation period was extended up to September, 1992, subsequently extended up to March 1993.

In its negotiations with CARE, USAID initially approved an overhead budget of US\$200,000 for the project. In late 1991, CARE formally requested an increase to its overhead budget in view that the project period had been extended and that the USAID funded project was paying only 5.67% of its total budget as indirect costs. On December 12, 1991, USAID/Nicaragua

authorized a provisional adjustment to increase the indirect project cost rate from 5.67% to a round 10%, with the proviso that an audit of these costs would be conducted by non-federal auditors at a future date.

## II. OBJECTIVES AND SCOPE OF WORK

The general objectives of our work were to review CARE-Nicaragua's costs charged against the USAID funded Urban Community Development Project and to determine whether the overhead rate charged to USAID funds was fair and reasonable and in accordance with the criteria contained in OMB Circular A-122. Our tests were performed on the basis of the pertinent data reported by CARE-Nicaragua for its FY 1992, which goes from July 1, 1991 to June 30, 1992.

## III. RESULTS OF WORK

### Overhead Rates:

For the purpose of evaluating the fairness of the overhead rate applied by CARE-Nicaragua, we examined the indirect cost items in an attempt to determine their contribution or support to the Urban Community Development Project. Our audit tests and procedures applied disclosed the following situations:

1. CARE-Nicaragua applied a locally developed allocation formula to distribute its indirect costs to projects, including that funded by USAID.
2. In our opinion, the overhead allocation resulting from the application of the locally developed formula, which for the USAID funded project amounted to US\$ 215,177 for the period July 1, 1991 to June 30, 1992, is not the most reasonable alternative as the formula is based on budget figures and tends to duplicate the relative importance of procurement, as it is included in two of the four factors of the formula. Also, the allocation method applied by CARE-Nicaragua differs from the criteria contained in OMB A-122.
3. A more reasonable determination of overhead charges to projects, in our opinion, would result from the application of the Standard Multi-Project Allocation Formula contained in CARE's International Manual, further

explained in Note 3, based on actual data. Had this been done, overhead charges to the USAID funded Urban Community Development Project for the period July 1, 1991 to June 30, 1992, after taking into consideration the non-allowable costs mentioned in Note 2, would have amounted to US\$195,365.

4. Although we are of the opinion that the Standard Multi-Project Allocation Formula contained in CARE's International Manual provides a more reasonable allocation of indirect costs than the locally developed formula, it may still need refinement and/or adjustment to comply in full with the criteria contained in OMB Circular A-122. For example, actual data should be used for the allocation of indirect costs, rather than budget figures. In this regard, we believe that CARE-Nicaragua should (a) consult with CARE International and develop for future fiscal periods an overhead cost proposal based on a methodology that conforms with OMB Circular A-122, and (b) obtain approval from USAID/Nicaragua of the proposed methodology.

#### Internal Control Structure:

The internal control structure of CARE-Nicaragua is generally adequate for USAID purposes. Our work, however, disclosed the following reportable conditions:

1. CARE-Nicaragua did not use the option available through its computerized financial information system which would have generated financial data on the civil works and projects undertaken.
2. The accounts receivable balances resulting from the sale of vegetable oil have not been entered into the accounting system and, therefore, are not reflected in the balance sheet.

#### Compliance With Agreement Terms and Applicable Laws and Regulations:

Except for the two conditions summarized below, the results of our testing indicate that, with respect to the items tested, CARE-Nicaragua complied, in all material respects, with agreement terms and applicable laws and regulations. With respect to items not tested, nothing came to our attention



that caused us to believe that it had not complied, in all material respects, with applicable requirements.

1. CARE-Nicaragua did not prepare its overhead costs proposal to USAID on the basis of the criteria and cost principles of OMB A-122.
2. CARE-Nicaragua lacks written evidence regarding USAID approval of the budget currently in force for project activities. The only approval on hand is that of the original budget which has since undergone reductions and other modifications.

#### IV. MANAGEMENT COMMENTS

On December 2, 1992, an exit conference was held to discuss the details of our draft report with representatives of CARE International, CARE/Nicaragua, USAID/Nicaragua and RIG/A/T. At this conference additional information and explanations relevant to our audit were provided by CARE representatives and these additional data were duly considered by us. When necessary, the contents of our draft report have been adjusted and/or modified to reflect the understandings reached at that exit conference. Written confirmation on CARE's points of view regarding the issues discussed and the general agreement with the findings and report recommendations included in this final report has been furnished to USAID/Nicaragua.

*Price Waterhouse*

# *Price Waterhouse*



FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

INDEPENDENT AUDITORS' REPORT

We have performed a financial related audit of the overhead costs charged by CARE-Nicaragua against the USAID funded Urban Community Development Project through a local indirect cost recovery factor, and to evaluate whether such charges are fair and reasonable in accordance with the criteria and the cost principles contained in OMB Circular A-122. Preparation of an overhead costs proposal and proper identification and documentation of both direct and indirect costs are the responsibility of CARE-Nicaragua's management. Our responsibility is to express an opinion on the reasonableness of the overhead allocation to the USAID financed project based on our audit.

Our audit was made in accordance with generally accepted auditing standards and the 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 determination of overhead charges to projects is free of material misstatement. An audit of this nature includes examining, on a test basis, evidence supporting the amounts disclosed as direct and indirect costs. It also includes assessing the method and basis used by CARE-Nicaragua to allocate its overhead to the different projects it manages. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 1, CARE-Nicaragua allocates its locally incurred indirect costs in accordance with a local Mission developed formula, and to our knowledge has not attempted to determine an overhead rate in accordance with the criteria and cost principles included in OMB A-122.



In our opinion the overhead determination based on CARE-Nicaragua's formula, which for the year ended June 30, 1992 resulted in overhead charges of US\$ 215,177 to the USAID funded project, is not entirely reasonable as it is based on budgeted data and tends to duplicate, to some extent, the relative importance of procurement, as it is included in two of the four factors in the formula.

A more reasonable determination of overhead charges to projects, in our opinion, would result from the application of the Standard Multi-Project Allocation Formula contained in CARE's International Manual, further explained in Note 3, adjusted to reflect actual data. Had this been done, overhead charges to the USAID funded Urban Community Development Project for the period July 1, 1991 to June 30, 1992, after taking into consideration the non-allowable costs mentioned in Note 2, would have amounted to US\$195,365 (see accompanying schedules), instead of US\$ 215,177, as reported by CARE-Nicaragua.

This report is intended solely for the use of CARE and the United States Agency for International Development. Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

*Pricewaterhouse*

November 6, 1992

DETERMINATION OF OVERHEAD  
CHARGED TO THE URBAN COMMUNITY  
DEVELOPMENT PROGRAM DURING THE PERIOD  
JULY 1991, TO JUNE 30, 1992

(expressed in US Dollars)

ACCOUNT No.	DESCRIPTION	DIRECT COSTS	OVERHEAD	ADJUSTMENTS	ADJUSTED BALANCES
4540.00	Gros Sal U.S. international staff	\$ 133,207	\$ 138,647		\$ 138,647
4541.00	Gros Sal Misc local staff	657,199	169,593		169,593
4542.00	Fringe benefits - Int'l staff	49,018	30,212		30,212
4243.00	Fringe benefits - Domestic staff	262,473	68,171		68,171
4544.00	Allowance for housing and moving	46,420	76,968		76,968
4545.00	Allowance for annual leaves	10,827	7,100		7,100
4546.00	Subsequent adjustments	14,279	11,383		11,383
4247.00	Allowance for education - Int'l staff	4,448	14,229		14,229
4248.00	Allowances for domestic staff	105,280	(516)		(516)
4249.00	Moving costs for new employees	29,241	5,058		5,058
4555.00	Office supplies	22,641	10,305		10,805
4556.00	Office furniture and equipment	26,214	34,271	\$ (34,271)	0
4557.00	Communications	12,452	14,619		14,619
4558.00	Facilities rent	19,757			0
4559.00	Maintenance and repairs	26,215	23,913		23,913
4560.00	Vehicles maintenance and repairs	154,978	53,519	(28,355)	25,164
4565.00	Travel and lodging	22,899	2,682		2,682
4566.00	Training	47,153	8,503		8,503
4567.00	Representation expenses	1,607	6,691	(6,691)	0
4571.00	Equipment and materials (domestic)	1,307,854			0
4577.00	Mission purchased vehicles	130,991			0
4580.00	Consultants	44,972	10,337	(10,000)	337
4581.00	Regional technicians service costs	3,625			0
4586.00	Depreciation/Amortization	55	3,739		3,739
4587.00	Insurance	24,177	(25)		(25)
4588.00	Sundry	33,731	11,942	(4,280)	7,662
		\$ 3,193,713	\$ 701,841	\$ (83,597)	\$ 618,244

See accompanying Notes 1 to 3

DETERMINATION OF OVERHEAD  
CHARGED TO THE URBAN COMMUNITY  
DEVELOPMENT PROGRAM DURING THE PERIOD  
JULY 1, 1991 TO JUNE 30, 1992

(expressed in US Dollars)

CARE NICARAGUA  
MISSION FORMULA PH-85

SHARED COST ALLOCATION BY 92  
PERIOD: JULY 91 TO JUNE 92

DONOR	A INTERN STAFF		B DOMESTIC STAFF		C PROJECT PROCUREMENT		D MISSION LOCAL		AVERAGE (AtoD)/4	REAL FMC
		%		%		%		%		
No.1	1	16.7	19	14.29	41,506	3	5	20	13.5	83,463
No.2	1	16.7	12	9.02	13,715	1	2	8	8.7	53,787
No.3	2	33.2	20	15.04	36,773	3	5	20	17.8	110,047
No.4	0	0	16	12.03	23,594	2	3	12	6.5	40,186
USAID	1	16.7	14	10.53	1,041,889	79	5	20	31.6	195,365
No.5	1	16.7	50	37.59	91,598	7	4	16	19.3	119,322
No.6	0	0	2	1.5	58,779	5	1	4	2.6	16,074
	6	100	133	100	1,307,854	100	25	100	100	618,244

A. NUMBER OF INTERNATIONAL STAFF	Charged to USAID	US\$215,177
B. NUMBER OF DOMESTIC STAFF	Actual computations	195,365
C. VOLUME OF PROJECT PURCHASES (US\$)	Pending reimbursement	US\$ 19,812
D. ESTIMATED USE OF MISSION FACILITIES		

See accompanying Notes 1 to 3

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CARE INTERNATIONAL IN NICARAGUA

NOTES TO THE DETERMINATION OF OVERHEAD SCHEDULES  
FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

NOTE 1 - SHARED COSTS:

Shared costs, according to CARE, represent economies of scale and are allocated to a number of projects. These costs are more properly identified as multi-project costs.

CARE recognizes that the reporting method that would most accurately match costs against their associated benefits would require an allocation decision for every individual cost item. CARE has, nevertheless, considered that the allocation decisions under this method could be a very time consuming exercise and, to save time and costs in deciding how to allocate every multi-project cost during the year, has allowed its Missions to estimate the percentage of the total multi-project costs that should be charged to a project, which can be determined via a standard multi-project allocation formula, or a Mission developed formula.

CARE-Nicaragua has elected to make the above determination via a locally developed allocation formula which considers the following four factors, the first three of which are based on budgeted items: 1) Total project costs - both direct and indirect; 2) Number of staff; 3) Dollar value of project procurement; and 4) Use of Mission office facilities (which requires a subjective estimate). Each of these four factors has a 25% weight within the formula, and each project is allocated a percentage of the indirect costs based on the percentages that the project has of each factor.

NOTE 2 - COSTS THAT ARE NOT ALLOWABLE  
FOR USAID PURPOSES:

Audit testing of the indirect costs pool for the year ended June 30, 1992 disclosed the costs discussed in the following page which are considered non-allowable on the grounds that they do not comply with the criteria and cost principles of OMB A-122:

Account 4556 - Office furniture and equipment -

Our tests, which covered 42.6% of the total for the year disclosed that all disbursements examined were made for capital expenditures; therefore, we have considered the total as non-allowable for USAID purposes.

34,271

Account 4560 - Vehicle fuel and maintenance -

a) Purchase of various spare parts to be maintained in stock. Payment made with check No. 173 of February 24, 1992

12,755

b) Air conditioner (capital expenditure) for the vehicle assigned to the EDP and General Services department. Voucher 12-23 of June 30, 1992

2,800

c) Provision for the purchase of tires made as of June 30, 1992 by Voucher 12-24

8,000

d) Provision to purchase two motorcycles (capital expenditure) made as of June 30, 1992 by Voucher 12-25

4,800

Account 4567 - Representation expenses

6,691

Account 4580 - Consultants - Provision for consultancy fees made as of June 30, 1992 by Voucher 12-80.

The consultancy in question was scheduled to commence in August, 1992. The estimated completion date was October, 1992.

10,000

Account 4588 - Sundry -

Celebration of CARE's 25th anniversary (checks Nos. 14869, 14868, and Vouchers No. 6-22 and 6-23)

4,280

Total

US\$ 83,597

NOTE 3 - STANDARD MULTI-PROJECT  
ALLOCATION FORMULA:

CARE's International Manual suggests that the allocation of indirect costs (shared costs) be determined by applying a standard formula which considers the following four factors, the first three of which are based on budgeted items: 1) Number of international staff; 2) Number of national staff; 3) Dollar value of project procurement; and 4) Use of Mission office facilities (which requires a subjective estimate). Each of these four factors has a 25% weight within the formula, and each project is allocated a percentage of the indirect costs based on the percentages that project has of each factor.

# *Price Waterhouse*



FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have performed a financial related audit aimed at determining the reasonableness of the overhead charges made by CARE-Nicaragua to the USAID funded Urban Community Development Project for the period from July 1, 1991 to June 30, 1992, and have issued our report thereon dated November 6, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the 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 regarding the fairness in the determination and application of overhead to different projects.

In planning and performing our audit of the overhead applied by CARE-Nicaragua for its fiscal year 1992, we considered its internal control structure in order to determine our audit procedures for the purpose of expressing an opinion on the reasonableness of the overhead charges, and not to provide assurance on the entity's overall internal control structure.

The management of CARE-Nicaragua 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 of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are protected 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 information in conformity with sound practices and

generally accepted accounting and cost principles. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

For purposes of this report, we have classified as significant and have evaluated the internal controls established by Care-Nicaragua in the following areas: organization; accounting and budget systems; cash receipts and disbursements; procurement and contracting of services; payrolls; and fixed assets.

For the internal control categories listed above we obtained an understanding of the design of significant policies and procedures and whether they were in place and evaluated control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions in accordance with the 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 CARE-Nicaragua's ability to record, process, summarize and report financial data consistent with the assertions of management concerning the application of overhead rates. The conditions noted are more fully described in the following pages as findings Nos. 1 and 2.

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 may occur in amounts that would be material in relation to the overhead rates subject to review and not be opportunely detected by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily reveal all matters in the internal control structure that might be material weaknesses and consequently would not necessarily disclose all reportable conditions considered to be material weaknesses, according to the definition above. In this



connection, none of the reportable conditions noted are deemed to be material weaknesses regarding project operations.

This report is intended solely for the use of CARE-Nicaragua and the United States Agency for International Development. This restriction, however, is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General (RIG/A/T), is a matter of public record.

*Price Waterhouse*

November 6, 1992

FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

INTERNAL CONTROL STRUCTURE

FINDINGS

1. The Financial Information System does not Integrate The Financial Data on the Civil Works and Projects Undertaken.

**Condition:**

The budget-accounting system, as it is currently in operation does not generate data related to the individual works or projects executed under the monetization program.

**Criteria:**

CARE-Nicaragua financial accounting system should have the capability of classifying and reporting separately the data on the works and projects under execution or alternatively, provide the mechanisms necessary to have the off-project records duly reconciled.

**Cause:**

The current computerized system has the capability to satisfy these information needs; however it was not yet fully implemented.

**Effect:**

Detailed information on projects' execution, useful to both USAID and CARE and tied up to, or taken from the accounting records, is not presently generated.

**Recommendation:**

CARE-Nicaragua should implement in full its OFS option code to summarize subproject costs for future projects.

2. The Financial Management System Needs Improvement With Respect to the Monetization Program.

**Condition:**

The accounts receivable balances resulting from the sale of vegetable oil have not been entered into the accounting system and, therefore, are not reflected in the balance sheet at March 31, 1992.

**Criteria:**

Management is responsible for establishing and maintaining accounting records in conformity with generally accepted accounting principles to generate financial reports that include all transactions and balances resulting therefrom.

**Cause:**

The sales of vegetable oil under the project were accounted by CARE-Nicaragua on a cash basis.

**Effect:**

The financial accounting and management reporting systems followed by CARE/Nicaragua did not provide for the preparation of financial statements for the project under the accrual basis of accounting.

**Recommendation:**

Management should supplement its financial accounting system with data on accounts receivable and on any other transactions which result from the application of the accrual method of accounting.

*Price Waterhouse*



FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have performed a financial related audit aimed at determining the reasonableness of the overhead charges made by CARE-Nicaragua to the USAID funded Urban Community Development Project for the period from July 1, 1991 to June 30, 1992, and have issued our report thereon dated November 6, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the 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 regarding the fairness in the determination and application of overhead to different projects.

Compliance with agreement terms and applicable laws and regulations is the responsibility of CARE-Nicaragua's management. As part of obtaining reasonable assurance about whether the overhead determination was free of material misstatement, we performed tests of CARE-Nicaragua's compliance with certain grant provisions and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the cases of noncompliance that are described as findings Nos. 1 and 2 in the following pages



of this report. These material instances of noncompliance were considered by us in forming an opinion, expressed in our report dated November 6, 1992, on the reasonableness of the overhead charges made by CARE-Nicaragua to the USAID funded Urban Community Development Project.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, CARE-Nicaragua complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that CARE-Nicaragua had not complied, in all material respects, with those provisions.

This report is intended solely for the use of CARE-Nicaragua and the United States Agency for International Development. This restriction, however, is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General (RIG/A/T), is a matter of public record.

*Price Waterhouse*

November 6, 1992

FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Overhead Charges For The Period Under Review Included Costs That are not Allowable in Accordance with the Cost Principles Contained in OMB A-122.

**Condition:**

CARE-Nicaragua did not prepare its overhead costs proposal to USAID on the basis of the criteria and cost principles of OMB A-122, and elected to allocate its indirect costs using a locally developed formula instead of using the Standard Multi-Project Formula suggested by CARE's International Manual.

**Criteria:**

CARE-Nicaragua needs to be aware of all the requirements applicable to the recipients of Federal funds and its administrative and accounting control systems should be designed to properly identify those costs which are not allowable or allocable to USAID funded projects.

**Cause:**

Lack of experience of CARE-Nicaragua in applying the cost principles of OMB A-122 together with the fact that overhead for the original eighteen months of the project was authorized at a fixed amount.

**Effect:**

In the auditors' opinion the criteria behind the locally developed formula for allocating overhead to projects, and the non-exclusion from the indirect costs pool of those costs which are non-allowable in accordance with OMB A-122, have resulted in excess charges to the USAID funded project estimated at US\$19,812 for the period July 1, 1991 to June 30, 1992.

**Recommendation:**

CARE-Nicaragua should prepare its overhead cost proposal for USAID funded projects in accordance with the criteria and the cost principles of OMB A-122 and obtain specific approval from USAID regarding the allocation method to be followed for that purpose.

2. Lack of USAID Approval of Budget Modifications Concerning the Use of Funds from the Monetization Program.

**Condition:**

CARE lacks written evidence regarding USAID/Nicaragua approval of the budget currently in force for project activities. The only approval on hand is that of the original budget which has since undergone reductions and other modifications.

**Criteria:**

The use of funds from the monetization program, and the financial execution of both works and projects, require proper approval by USAID.

**Cause:**

The project underwent multiple internal modifications.

**Effect:**

Lack of confirmed information with respect to the financial planning of works and projects to be executed with program funds, as well as to the related costs.

**Recommendation:**

The budgets prepared by CARE-Nicaragua with respect to the monetization program under the project and their subsequent modifications, should be invariably approved by USAID/Nicaragua.

FINANCIAL RELATED AUDIT OF THE OVERHEAD CHARGES  
MADE BY CARE IN NICARAGUA TO THE USAID FUNDED  
URBAN COMMUNITY DEVELOPMENT PROJECT

FOR THE PERIOD JULY 1, 1991 TO JUNE 30, 1992

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure:

**Recommendation 1:**

CARE-Nicaragua should implement in full its OFS option code to summarize subproject costs for future projects.

**Recommendation 2:**

Management should supplement its financial accounting system with data on accounts receivable and on any other transactions which result from the application of the accrual method of accounting.

Compliance With Agreement Terms and  
Applicable Laws and Regulations:

**Recommendation 1:**

CARE-Nicaragua should prepare its overhead cost proposal for USAID funded projects in accordance with the criteria and the cost principles of OMB A-122 and obtain specific approval from USAID regarding the allocation method to be followed for that purpose.

**Recommendation 2:**

The budgets prepared by CARE-Nicaragua with respect to the monetization program, and their subsequent modifications, should be invariably approved by USAID/Nicaragua.

# CARE INTERNATIONAL EN NICARAGUA

ANNEX

APTO. POSTAL 3084 MANAGUA NICARAGUA • TELS. 70059, 70482, FAX: 609 - 2 - 670206, TLM 1001 BOOTH MK

December 3, 1992  
#10756

Lic. Oscar Cordón  
**PRICE WATERHOUSE**  
Edificio Tivoli Plaza 4to. Nivel  
6ta. Calle 6-382-9  
Guatemala

Subject: ADDITIONAL COMMENTS FROM TRISH SHANNON OF CARE-USA ON THE  
OVERHEAD AUDIT OF THE USAID FUNDED MONETIZATION PROJECT.

Dear Mr. Cordón:

Attached for your inclusion to the audit report prepared by PW on the above mentioned project overhead is an additional comment from Ms. Trish Shannon, Director of CARE USA internal audit.

Please acknowledge receipt.

Best regards,



Swaleh Karanja  
Director  
CARE International in Nicaragua

SK:acr

cc: T. Shannon, CARE-New York  
M. Madhavan, CARE-Canada  
W. Teebo, RIG Honduras  
R. Layton, AID Nicaragua  
F. Valva, AID Nicaragua

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**CARE-NICARAGUA**  
**PW REPORT RESPONSES**

**COMPLIANCE WITH AGREEMENT ITEMS**

**Overhead Charges :**

Considering that the difference in the amount of fixed mission costs allocated to AID between the CARE Nicaragua methodology and the Price Waterhouse methodology is only approximately \$20,000, we feel that the CARE Nicaragua methodology is reasonable.

We do agree, however that the methodology discussed in the CARE International Overseas Finance Manual is more reasonable.

We do not agree with the definition of capital expenditures as described by PW. It is CARE's policy to expense office equipment, furniture, vehicles, computers, etc. when purchased. This has been CARE's policy for quite some time and has been accepted by our external auditors and by AID Washington.

Given the environment in which CARE operates, the useful life of many of these items is greatly limited. In addition, such expenses are included in budget proposals submitted to, and approved by CARE donors.

We also believe that CARE's methodology for allocating the Mission shared fixed costs is adequate. As you are aware, the allocation percentages are based on budgeted information. Due to the nature of our business, given the fact that these costs are spread among various donors, whose contracts end at different times, it would be extremely difficult, if not impossible to adjust the percentages to reflect actual cost information.

USAID/Washington has always advised USAID missions that USAID/W concurs with CARE's simplified method of allocating mission level indirect costs.

**Budget :**

We are working with AID Nicaragua to approve the budget for the period July 1, 1992 - March 25, 1993. This budget will include an allocation of fixed mission costs based on the percentage of direct costs, as audited by Price Waterhouse.

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**CARE NICARAGUA**  
**MANAGEMENT LETTER RESPONSES**

**1. FINANCIAL INFORMATION SYSTEM:**

CARE-Nicaragua does prepare sub-project (e.g. Civil Works) information on a monthly basis. The OFS system does allow for the use of an option code to generate this information from the system, however the Mission was not using this feature of the system.

We agree that it would be more efficient to use the OFS generated information rather than our manually prepared reports and will therefore consider using the OFS option in the future.

**2. OVERHEAD CHARGES TO OTHER DONORS:**

CARE charges fixed mission costs to donors based on an allocation formula, which is then reviewed and adjusted based on other information (e.g. specifically excluded costs per the grant agreement, budget restraints, etc.).

**3. RECORDING OF MONETIZATION PROGRAM RECEIVABLES:**

The Mission agrees with this comment, however it should be noted that we have always monitored the outstanding accounts receivables resulting from the sale of vegetable oil in an off balance sheet ledger. As of November 30, 1992, the accounts receivable balance is zero. It is now our Mission policy to record accounts receivable on the balance sheet.

## APPENDIX I

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