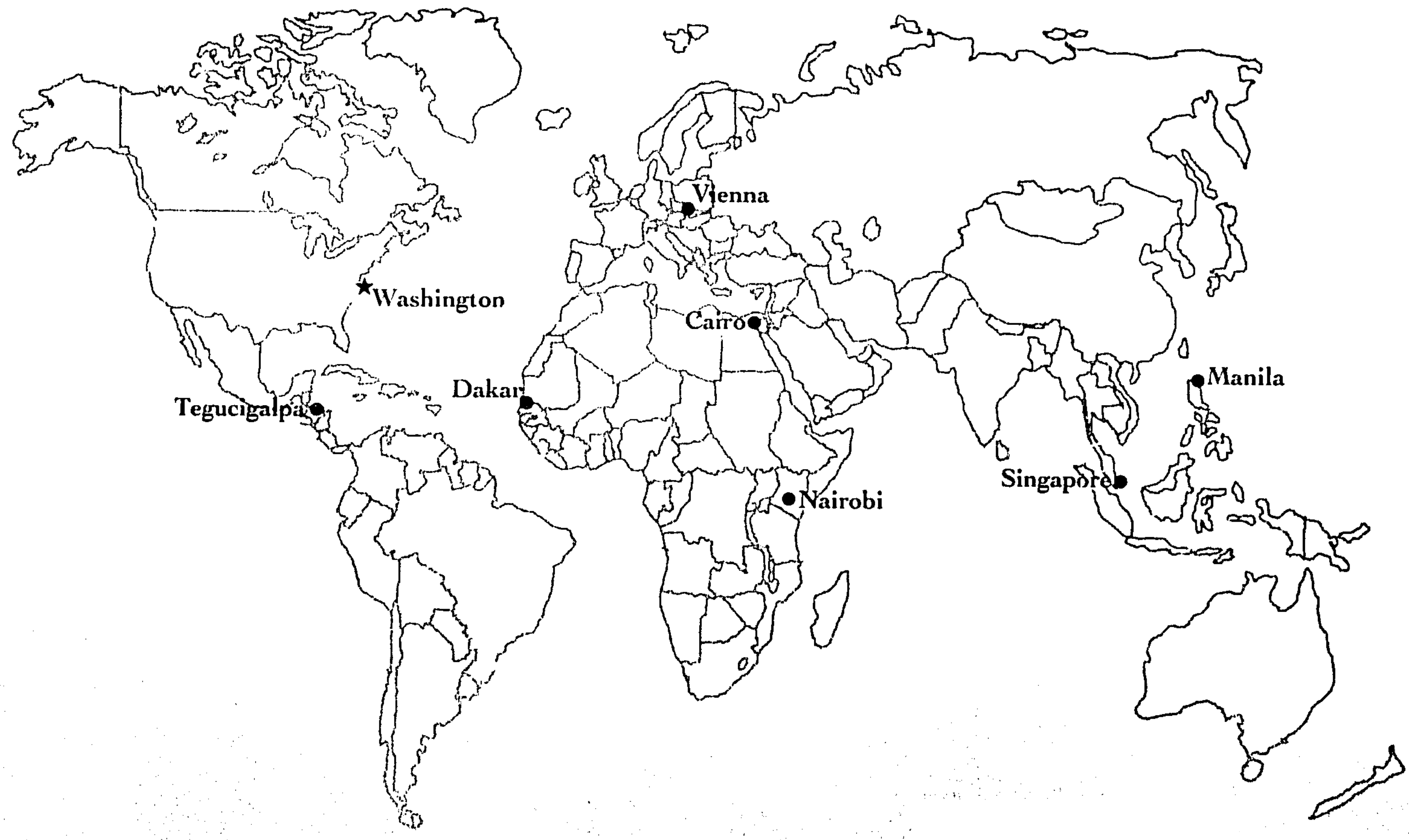
PD-ABF-520

Financial Audits

Audit of INTERNATIONAL EXECUTIVE SERVICE CORPS Expenditures January 1, 1990 to December 31, 1991

Report No. 0-000-93-05-N
February 19, 1993



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INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

February 19, 1993

MEMORANDUM FOR FA/OP, Frederick A. Will

FROM: IG/A/FA, Reginald Howard

SUBJECT: Audit of International Executive Service Corps

The accounting firm of Clifton, Gunderson & Co. performed a financial-related audit of International Executive Service Corps (IESC). Five copies of the report are enclosed for your action.

IESC, a not-for-profit organization, has received A.I.D. funding for the past 28 years. It relied primarily on this A.I.D. funding to provide management and technical assistance to businesses in developing countries. Clifton, Gunderson & Co. audited approximately $40 million in expenditures incurred by IESC during the period January 1, 1990 through December 31, 1991.

Originally, the objective of the audit was to perform an audit of A.I.D. grant agreement number PDC-0012-G-SS-9007-00. However, the Fund Accountability Statement could not be specifically related to the grant agreement because IESC's accounting system did not segregate costs by individual agreement. Consequently, the revised audit objectives were to audit all IESC expenditures for the audit period to determine whether: the Statement of Expenditures was presented fairly in accordance with the terms of A.I.D. agreements; the internal control structure was adequate; and IESC had complied with the terms of agreements, applicable laws and regulations.

Clifton, Gunderson & Co. determined that IESC's Statement of Expenditures was presented fairly in all material respects. However, the audit disclosed $1,060,987 in questioned costs. The questioned costs represent $1,051,636 in potentially ineligible costs and $9,351 in costs that are considered unsupported. Among the potentially ineligible costs were $704,522 in costs associated with revenues and rebates.

The auditors determined that IESC had income totaling $104,522 which should have been remitted to A.I.D. Instead, IESC retained the $47,264 it collected from the sale of nonexpendable personal property and the $57,258 it received in interest income. The audit questioned, as potentially ineligible, costs equaling the $104,522 in revenues which should have been remitted to A.I.D.

Further, the auditors found that IESC had received approximately $600,000 in rebates from the sale of airline tickets. IESC retained these rebates to pay various expenses. Generally, this would be acceptable because Office of Management and Budget (OMB) Circular No. A-122 permits the retention of refunds if these are credited to the Government as a reduction of allowable costs. However, IESC commingles all receipts and expenditures, whether Federal or non-Federal, into one account. As a result, there was no assurance that the rebates were actually credited to A.I.D. as a cost reduction or that they were used for costs that would be allowable under OMB Circular No. A-122. Therefore, costs equaling the $600,000 in rebates are potentially ineligible and need to be resolved by A.I.D.

The auditors also told us that IESC and its employees received benefits, such as reduced cafeteria prices and free parking, as a direct result of certain concessionaires use of AID-financed space. Additionally, we understand that IESC's A-133 auditor had made contributions to IESC. While the audit did not cover these specific areas, to the extent that they occurred, these benefits should be offset against A.I.D. costs for space provided and for the procurement of audit services.

The remaining $347,114 of potentially ineligible costs were for food and drinks at IESC meetings, improperly allocated publication and printing costs, improperly expensed capital equipment, and gifts to employees and others.

IESC's management comments explained that there were sufficient private contributions available to finance some of the questioned costs. We believe that A.I.D. should consider whether it would be appropriate to obtain evidence from IESC that private contributors would permit their contributions to be used for the items questioned, such as social activities, ceremonials, dinners and alcohol purchases.

The auditors identified as a material weakness in IESC's internal control structure the fact that IESC's accounting records did not record the source and application of all Federal funds as required by OMB Circular No. A-110. As a result, the auditors also determined that there was more than a relatively low risk that IESC may not have complied with certain provisions of agreements and applicable laws and regulations. Minor matters were reported to IESC in a separate management letter which is not included in this report.

The auditors noted another matter involving per diem rates. IESC established its own per diem rates which differed from those established by the U.S. Government. However, the auditors did not determine whether IESC actually paid more in per diem than that allowed by the Government. In responding to the auditors' comments, IESC management stated they would submit a schedule of IESC's per diem rates to the contracting officer.

Recommendation No. 1: We recommend that A.I.D.'s Office of Procurement (FA/OP) resolve the $1,060,987 in questioned costs ($1,051,636 ineligible and $9,351 unsupported). (audit report, page 9)

Recommendation No. 2: We recommend that the A.I.D.'s Office of Procurement (FA/OP) require IESC to design and implement an accounting system that records the source and application of all Federal funds in compliance with OMB Circular No. A-110. (audit report, pages 10 and 38)

Recommendation No. 3: We recommend that the A.I.D.'s Office of Procurement (FA/OP) determine whether IESC's per diem rates are appropriate and, if not, determine the amount of any costs that need to be resolved. FA/OP should also determine the extent other benefits, such as reduced cafeteria prices and free parking, have accrued to IESC or its employees as a direct result of AID-financed activities and determine any additional costs that need to be resolved.

The recommendations will be included in the Inspector General's audit recommendations follow up system. Until we are advised of FA/OP's determination regarding the questioned costs, per diem rates, and other benefits; Recommendation Nos. 1 and 3 will be considered unresolved. The recommendations can be resolved when we receive the contracting officer's determination as to the amounts sustained or not sustained. Both recommendations can be closed when we receive: evidence of an actual offset to a request for reimbursement or a monetary collection; a copy of the bill for collection; or a copy of the contracting officer's written determination for non-recovery.

In a letter dated January 8, 1993, FA/OP directed IESC to bring its accounting records into compliance with OMB Circular No. A-110. Therefore, Recommendation No. 2 is considered resolved. The recommendation can be closed when we receive evidence that IESC has made the needed improvements.

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

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INTERNATIONAL EXECUTIVE SERVICE CORPS
Stamford, Connecticut

REPORT ON AUDIT OF STATEMENT OF EXPENDITURES
For The Period From January 1, 1990 to December 31, 1991

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Clifton, Gunderson & Co.
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January 27, 1993

Mr. Reginald Howard
Director of Financial Audits
IG/A/FA SA-16 (RPE)
Room 514
Washington, D.C. 20523-1604

Dear Mr. Howard:

This report presents the results of our audit of the statement of expenditures of the International Executive Service Corps (IESC) for the period from January 1, 1990 to December 31, 1991 (the audit period).

International Executive Service Corps, a not-for-profit organization located in Stamford, Connecticut, has been receiving U.S. Agency for International Development (AID) grant money each year over the last 28 years, primarily so that IESC could provide management and technical assistance to businesses in developing countries. Up until about 1984, IESC relied primarily on AID to provide general purpose support funds, which were spent by IESC with few restrictions. Subsequent to 1984, IESC has solicited funds from the private sector and has also received other grants for specific purposes from AID. In 1990, IESC received about 4.3 percent of revenues from other than AID grants and related program revenues and in 1991, it was about 3.3 percent of revenues.

In spite of a greater number of sources of income, IESC has continued to mix all revenues in a general purpose fund and uses revenues, regardless of their source, to pay for <u>all</u> organizational expenses. In other words, IESC does not have in place a financial system that fully accounts for the source and the application of funds.

The grant for $20,000,000 to be spent over a four-year period became effective on January 1, 1989, and will continue until December 31, 1992. In July 1990 another $710,000 was added to the grant. In May 1992, a major change was made to the grant. According to the change, funds for the fourth year could only be used to pay for Office Administration in Stamford, Connecticut. This was the complete opposite of the original provision governing the first three years, which required that the grant money could <u>not</u> be used to cover costs of Office Administration. Such costs were to be covered from client generated revenues from projects that were undertaken primarily outside the United States.

The objective of our audit was originally to perform a cost and compliance audit of AID grant agreement number PDC-0012-G-SS-9007-00 for the period January 1, 1990 to December 31, 1991, as administered by IESC. However, because the Fund Accountability Statement could not be specifically related to this grant agreement, the audit objectives were revised to include all of IESC's expenditures.

We performed our work in accordance with generally accepted auditing standards and the Comptroller General's Government Auditing Standards and, accordingly, included such tests of the accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The statement of expenditures presents fairly the expenditures from January 1, 1990 to December 31, 1991, according to the terms of AID agreements, the Federal Grant and Cooperative Agreement Act of 1982, AID Handbook 13 and applicable OMB Circulars, identifying unsupported costs or those not considered appropriately allocable or allowable under the agreements.

2. IESC's internal control structure was sufficient to capture data under the agreement and was adequate for the purposes of the agreements.

3. IESC complied with U.S. Government regulations, U.S. laws and the terms of the agreements.

Neither IESC nor the auditors were able to prepare a Fund Accountability Statement for grant number PDC-0012-G-SS-9007-00. IESC's accounting system does not account for costs incurred under the AID grant or any other sources of income from IESC clients or private contributions. Instead, all revenues are co-mingled and used to pay all organizational expenses as they come due. Therefore, we were unable to express an opinion on the Fund Accountability Statement of U.S. AID grant agreement number PDC-0012-G-SS-9007-00 for the period January 1, 1990 to December 31, 1991, as administered by IESC. Since IESC receives most of their funds from AID, it was decided that the audit would be extended to include all IESC expenditures for the period January 1, 1990 to December 31, 1991.

Audit procedures conducted in order to meet the revised audit objectives included the testing of a sample of transactions from every expense category and studying and evaluating IESC's internal control structure relative to the agreement in order to assess control risks and as a basis for our auditing procedures.

RESULTS OF THE AUDIT

We questioned ineligible and unsupported costs in four expense categories as follows:

Category	Scope
Publication and printing	Questioned 100% of expenditures during the audit period
Other expenses	Questioned 100% of expenditures to Michael C. Fina Co. for gifts
Equipment	Reviewed all expenditures over $500 and questioned all items that were not capitalized

Meetings and conferences	Using dollar weighted sampling methodology, we tested transactions totalling $203,814 out of a total population of $523,965. We questioned $41,423 in ineligible costs and $4,143 in unsupported costs.

We did not question any costs in expense categories other than the above.

Our tests of compliance disclosed the following instances of non-compliance.

1. Separate accounting was not maintained for funds provided and expended under AID grants to IESC.

2. Client income generated from different AID grants was co-mingled with non-U.S. Government revenues.

3. Actual travel costs were not charged.

4. Nonexpendable personal property was disposed of without AID approval and the funds from the sale were kept by IESC.

5. Interest earned from AID funds was neither reported nor remitted to AID.

6. Employee time charges were not properly recorded.

7. Publication and printing costs were allowed as direct costs without AID approval.

8. Equipment costing between $500 and $1,000 was expensed rather than capitalized.

9. Unallowable expenses for meetings and conferences were paid.

10. Unallowable expenses for gifts were paid.

11. Per diem was paid in excess of the supplement to U.S. travel regulations maximum.

12. "Letter of Credit" draw downs were based on estimated amounts rather than actual expenses.

13. Documentation was unavailable or insufficient to support certain expenditures.

Our consideration of the internal control structure of IESC disclosed the following reportable conditions:

1. Accounting records did not provide adequate detail to monitor grant revenues and expenditures.

2. Actual costs versus projected budgets were not distributed and reviewed.

3. Accounting and internal control procedures were not always documented.

4. Grant agreements, laws and regulations applicable to AID programs were not readily available to staff.

5. Property records were not adequate.

6. Overseas currency conversion rates were not verified by IESC's headquarters accounting staff.

7. Unusual general journal entries were recorded without the approval of a responsible independent staff member.

We believe that condition number one above is a material weakness.

We discussed the findings and recommendations in this report with IESC management throughout the engagement in Stamford, Connecticut. At the conclusion of the audit, we held a close-out on November 30, 1992, with members of IESC's management team in Stamford, Connecticut. Additionally, we discussed the report verbally with AID program and contracting personnel and AID's Office of the Inspector General. Their comments on the draft report have been considered in finalizing the report while IESC's comments have been included in this report. We wish to thank the individuals at IESC for the time and cooperation given to us throughout the engagement.

Very truly yours,

CLIFTON, GUNDERSON & CO.

William H. Oliver

William H. Oliver
Partner

Clifton, Gunderson & Co.

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of expenditures of the International Executive Service Corps (IESC), for the period from January 1, 1990 to December 31, 1991, under the terms of grants between IESC and the United States Agency for International Development. The statement of expenditures is the responsibility of IESC's management. Our responsibility is to express an opinion on the statement of expenditures based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 statement of expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the statement of expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of expenditures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of expenditures referred to above presents fairly, in all material respects, the contract expenditures of IESC for the period from January 1, 1990 to December 31, 1991, in accordance with the terms of the grants referred to above. As described in Note 1, the accompanying schedules only include IESC's expenditures and are not intended to present IESC's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting principles.

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

Clifton, Gunderson & Co.

Baltimore, Maryland
November 6, 1992

INTERNATIONAL EXECUTIVE SERVICE CORPS
STATEMENT OF EXPENDITURES
For The Period From January 1, 1990 to December 31, 1991

Expenditures	Amount
Salaries	$ 5,953,098
Travel	8,494,242
Subsistence	9,411,605
Rent	1,993,699
Recruiting	3,018,835
Insurance	131,443
Contracted services	1,582,664
Employee benefits and taxes	1,229,017
Telephone and telegraph	813,154
Meetings and conferences	523,965
Depreciation and amortization	649,236
Office printing and supplies	589,457
Professional fees	1,045,278
Equipment rental	205,796
Furniture and equipment acquisitions	184,865
Postage	276,686
Foreign exchange losses, net	165,078
Provision for pension and termination benefits	196,757
Other	3,210,163
Total	$39,675,038

This financial statement should be read only in connection with the accompanying notes to the statement of expenditures.

INTERNATIONAL EXECUTIVE SERVICE CORPS
NOTE TO THE STATEMENT OF EXPENDITURES
For The Period From January 1, 1990 to December 31, 1991

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. International Executive Service Corps (IESC) is a not-for-profit organization providing management and technical assistance to businesses in developing countries.

IESC received funding from AID under grant number PDC-0012-G-SS-9007-00 and other grants administered by overseas missions for the purposes of providing the assistance described above.

B. Expenditures are considered as being related to the disbursing of funds provided by AID to accomplish the objective identified in AID- grant agreement PDC-0012-G-SS-9007-00. Expenditures are recognized as incurred in accordance with generally accepted accounting principles.

C. This statement of expenditures is not intended to be a presentation of IESC's financial position, results of operations or changes in fund balances in accordance with generally accepted accounting principles. Rather, the statement presents the expenditures during the period January 1, 1990 to December 31, 1991, in accordance with the financial reporting requirements of the contracts.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the statement of expenditures of the International Executive Service Corps (IESC) for the period January 1, 1990 to December 31, 1991, and have issued our report thereon dated November 6, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to IESC is the responsibility of IESC's management. As part of obtaining reasonable assurance about whether the statement of expenditures is free of material misstatement, we performed tests of IESC's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the statement of expenditures 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, IESC complied with those laws and regulations referred to above, except as described in the attached schedule. However, the extent of noncompliance noted in our testing indicates that, with respect to items that were not tested by us, there is more than a relatively low risk that IESC may not have complied with the provisions referred to in the preceding paragraph. These matters were considered by us in evaluating whether the statement of expenditures is presented fairly in accordance with the terms of contracts between IESC and the U.S. Agency for International Development.

This report is intended for the information of the U.S. Agency for International Development and IESC. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Clifton, Gunderson & Co.

Baltimore, Maryland
November 6, 1992

INTERNATIONAL EXECUTIVE SERVICE CORPS
IESC EXPENDITURES FOR THE PERIOD
JANUARY 1, 1990 THROUGH DECEMBER 31, 1991

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

SCHEDULE OF QUESTIONED COSTS

According to AID applicable regulations, costs charged to a project must meet the following general criteria:

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

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

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

d. Be adequately documented.

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

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

Expenses	Finding(s)	Ineligible Costs	Unsupported Costs	Total
Meetings and conferences	9, 13	$ 41,422.74	$ 4,143.19	$ 45,565.93
Office printing and supplies	7	201,883.08	0.00	201,883.08
Furniture and equipment	8, 13	15,537.69	5,207.48	20,745.17
Other	10	88,270.43	0.00	88,270.43
		$347,113.94	$ 9,350.67	$356,464.61

IG/A/FA NOTE:

This note adds additional ineligible costs totaling $704,522 consisting of $104,522 (findings 4 and 5) and $600,000 (finding 3). Therefore, total ineligible costs now equal $1,051,636 ($704,522 + $347,114), and total questioned costs now equal $1,060,987 ($1,051,636 ineligible and $9,351 unsupported).

INTERNATIONAL EXECUTIVE SERVICE CORPS
IESC EXPENDITURES FOR THE PERIOD
FROM JANUARY 1, 1990 TO DECEMBER 31, 1991

COMPLIANCE WITH THE GRANT AGREEMENT AND APPLICABLE LAWS AND REGULATIONS

SCHEDULE OF FINDINGS

1. Separate accounting was not maintained for funds provided and expended under the AID grants to IESC.

CONDITION:

IESC was not maintaining separate accounting for all funds provided and expended under AID grant agreement number PDC-0012-G-SS-9007-00. Instead, the funds under such grant were co-mingled with funds received from other AID grants and private contributions from non-government sources.

CRITERIA:

Circular A-110 requires that grantees maintain records that identify adequately the source and application of funds for federally sponsored activities, including information pertaining to Federal awards authorizations, obligations, unobligated balances, assets, outlays and income.

CAUSE:

Up until about 1984, IESC was funded primarily from AID funds, thus, management believed there was no functional reason to separate and account for AID funds by a specific grant.

EFFECT:

By not maintaining separate accounting for AID grants, it is not possible to determine if AID funds are spent for their intended purposes.

RECOMMENDATION:

IESC should follow OMB Circular A-110, which means designing and implementing an accounting system that records the source and application of all AID funds so that it can be determined if AID funds are used for their intended purposes.

IESC'S RESPONSE:

The Core Grant funds provided under the terms of Grant agreement for the fiscal years 1990 and 1991 were to be used exclusively to assist the International Executive Service Corps (IESC) program in the Core Grant countries. Program income received from clients were used to pay the Core

Grant country portion of U.S. administrative costs and the remainder to pay for project expenses in these countries.

Program income from client contributions during this period were to equal at least 120% of U.S. administrative costs on a year-to-year basis. Program income historically had been considered funds from non-federal sources. In the event of disallowance of expenditures from AID grant funds, IESC substituted expenditures made with funds provided from program income or private contributions, under the provisions of AID Handbook 13, paragraph 6.

Funds drawn down under this grant were drawn after expenses had been incurred, accordingly, IESC did not view funds as being co-mingled, but rather as reimbursement of IESC working capital which had been expended.

IESC has provided Core Grant usage statements for the years under review which identifies the use of Core Grant funds applied to each Core Grant country to further program activities within these countries. The accounting systems followed during the years 1990 and 1991 and for some 25 prior years were consistently applied and subject to annual independent audits and periodic audits from the U.S. AID Inspector General.

We understand the current requirements of OMB Circular A-110 and A-133 and the need to clearly demonstrate that AID funds as being used for intended purposes. Accordingly, we are in the process of implementing a new accounting system which will provide for project accounting starting January 1, 1993. We are also establishing a physical segregation of all private contributions and non-government source income in order to demonstrate that AID funds are not being used for unallowable expenditures.

In addition, we are in the process of implementing a Grants Information and Tracking Systems (GITS) which will provide timely information on all grants worldwide. The GITS system has been tested and is being used to track fiscal 1992 expenditures for the Central and Eastern European grant. We expect to have this system in place for all grants by July 1, 1993.

AUDITOR'S COMMENT:

In response to this finding and to various other findings, IESC claims that funds are drawn down after expenses have been incurred. Based on our audit finding that separate accounting is not maintained for funds provided and expended under AID grants, we are unable to support IESC's assertion.

2. Client income generated from different AID grants was co-mingled with non-U.S. Government revenues.

CONDITION:

Client income generated from different AID grants was co-mingled with non-U.S. Government revenues. During the two-year period audited, IESC generated income in the amount of $10,814,010 from clients overseas. All of the income generated from the AID funded grants was co-mingled and used to pay IESC expenses, regardless of the source.

CRITERIA:

OMB Circular A-110 requires that all program income earned during the period of a project should be retained by the recipient and, in accordance with the grant, should be:

a. added to funds committed to the project by the sponsoring agency and recipient organization and be used to further eligible program objectives; or

b. deducted from the total project costs in determining the net costs on which the federal share of costs would be based.

CAUSE:

Up until about 1984, IESC was funded primarily from AID funds and any income generated would automatically be recycled for AID activities, thus, management believed there was no functional reason to separate and account for income by a specific grant.

EFFECT:

By not maintaining separate accounting for income by AID grant it is not possible to determine if AID income is spent for its intended purposes.

RECOMMENDATION:

IESC should follow OMB Circular A-110, and design and implement an accounting system that records the source of all AID income to ensure that AID generated income is used on the same project or activity that generated the income.

IESC'S RESPONSE:

Funds provided under the Core Grant as well as funds from other government grants are drawn down after program expenses have been paid. IESC therefore looks upon the funds received from government sources as a reimbursement of its own working capital, which has been provided from private contributions and non-government resources since inception.

We are in the process of establishing physical segregation of all private contributions and non-government source income in order to clearly demonstrate that funds are not, in fact, co-mingled.

3. Actual travel costs were not charged.

CONDITION:

Cash refunds (rebates) from the sale of transportation tickets were provided by American Express to IESC, rather than reducing the price of the tickets. During the two-year period, IESC earned about $600,000 in rebates. About $420,000 of the above amount was used to cover expenses, such as a 15% management fee, employee salaries, rent and other operating expenses. The balance remaining, $178,804, was used by IESC to cover day-to-day operations.

CRITERIA:

OMB Circular 122 requires that credits such as purchase discounts, rebates or allowances be credited to the Government either as a cost reduction or cash refund.

CAUSE:

Management did not believe that the OMB Circular required that refunds from AID transportation tickets should be deducted from the cost of the program, but the cash refunds could be used for appropriate IESC general purposes.

RECOMMENDATION:

Inform appropriate IESC employees and include in the IESC accounting manual instructions on how to properly handle refunds that are generated from transportation tickets purchased with AID funds.

IESC'S RESPONSE:

Funds provided under the Core Grant as well as funds from other government grants are drawn down after program expenses have been paid. IESC therefore looks upon the funds received from government sources as a reimbursement of its own working capital, which has been provided from private contributions and non-government resources since inception.

We are in the process of establishing physical segregation of all private contributions and non-government source income in order to clearly demonstrate that funds are not, in fact, co-mingled.

4. Nonexpendable personal property was disposed of without AID approval and the funds from the sale were kept by IESC.

CONDITION:

IESC disposed of fixed assets and other inventory, primarily overseas, without getting approval from AID. The money generated from the sales was kept and used by IESC. Details of revenues received are as follows:

Year	Description	Account Number	Amount
1990	Sale of fixed assets	6407	$ 9,501.65
1991	Sale of fixed assets	6407	43,013.47
			$52,515.12

CRITERIA:

OMB Circular A-110 requires recipients of Federal grant funds, before disposing of nonexpendable personal property (over $1,000 at acquisition) to request disposition instructions from the sponsoring agency. The proceeds from the sale of the property, minus 10% or $100 for handling charges, should be remitted to the sponsoring agency.

CAUSE:

Management believed that since the assets could not be specifically identified as nonexpendable property procured with AID grant funds, the OMB Circular did not apply and funds from the sale did not have to be turned over to AID.

EFFECT:

IESC kept $47,263.61 ($52,515.12 - $5,251.51) that should have been turned over to AID.

RECOMMENDATION:

We recommend that IESC pay AID $47,263.61 and notify all staff, by including in their policies and procedures manuals, the OMB requirement that AID be notified prior to the disposal of AID nonexpendable personal property.

IESC'S RESPONSE:

The items disposed of in 1990 and 1991 were purchased in the mid and late 1980s by IESC with private funds or program income. Therefore, AID was not consulted at the time of purchase nor at the time of disposal.

During the two years under review, additions to fixed assets amounted to $1,500,666.

We recognize that property purchased with Federal grant funds need to be identified and disposal disposition is required by the sponsoring agency.

5. Interest earned from AID funds was neither reported nor remitted to AID.

CONDITION:

IESC earned interest income of $57,258.53. The interest earned was neither reported nor returned to AID. Interest was earned as follows:

Year	Description	Account Number	Amount
1990	Interest income	6456	$31,005.65
1991	Interest income	6456	26,252.88
			$57,258.53

CRITERIA:

AID's "Instructions to Recipient Organizations for the Receiving of Federal Funds Using the Agency Issued Letter of Credit" requires that interest earned shall be reported on SF-272 and be paid to AID on a quarterly basis. A similar provision is included in OMB Circular A-110.

CAUSE:

Management believed that all AID draw downs were done after the expenses have been incurred and, accordingly, there were no interest earnings to report.

EFFECT:

IESC kept $57,258.53 that should have been turned over to AID.

RECOMMENDATION:

We recommend that IESC pay AID $57,258.53 and notify all staff, by including in their policies and procedures manuals, the OMB requirement that interest earned from AID funds be reported on SF-272 and remitted to AID each quarter.

IESC'S RESPONSE:

IESC, since inception, has avoided drawing funds on an advance basis. As federal funds are drawn, they are for reimbursement of expenses already incurred, which have been funded by our own working capital. Accordingly, we had no interest earnings to report under OMB requirements.

Please note, as additional support for our practice, that our audited balance sheet at December 31, 1991 and 1990 state the accounts receivable from AID as $2,560,209 and $1,791,711, respectively.

6. Employee time charges were not properly recorded.

CONDITION:

Non-professional employees were not reporting daily time charges, nor were they reporting the time worked on different activities, grants, projects and/or appropriate work centers at the headquarter's office. The latter weakness also applied to professional employees.

CRITERIA:

OMB Circular A-122 and Department of Labor regulations require that time cards or their equivalent, showing the total number of hours worked, are prepared by the non-professional employees each day. Further, professional and non-professional employees should record the number of hours worked on various activities, grants, projects and/or appropriate work centers.

CAUSE:

Management believed that since most funds were provided by AID it was not necessary that the employees report time charges to various activities, grants, projects and/or appropriate work centers. Relative to the preparation of daily time cards, IESC management believed it was only necessary to report other than the time worked.

EFFECT:

AID grants could be charged by IESC employees for work that was performed for a non-AID activity. Also, employees may be being paid for work that was not performed.

RECOMMENDATION:

Include in the IESC policies and procedures manual instructions to all employees to prepare daily time sheets and also to record the number of hours worked on various activities, grants, projects and/or appropriate work centers.

IESC'S RESPONSE:

All headquarters employees are assigned to specific work centers or departments and attendance records are maintained for all employees. Project officers and other employees covered by specific grants are identified and work exclusively on activities which are covered under the terms of the individual grant.

We are in the process of reviewing our present procedures and will institute any changes which appear warranted.

7. Publication and printing costs were allowed as direct costs without AID approval.

CONDITION:

Publication and printing costs in the amount of $201,883.08 as detailed in Schedule A are considered as a direct cost by IESC rather than allocating the cost indirectly to the offices/activities using the services.

CRITERIA:

OMB Circular A-122 does not allow publication and printing costs unless such costs are approved by AID as direct costs. If the costs are not approved by AID, the costs must be allocated as indirect costs to the benefitting programs/activities in the organization.

CAUSE:

IESC was not aware of this requirement.

EFFECT:

AID grants could be charged for costs disproportionate to the benefits received, resulting in excessive grant costs.

RECOMMENDATION:

Inform appropriate IESC employees and include in the IESC accounting manual instruction on how to properly charge publication and printing costs.

IESC'S RESPONSE:

Our major publications and current costs include the IESC Annual Report ($41,500), the brochure This is IESC ($6,500) and the IESC News, which is published six times yearly ($132,000). The IESC News we view as a house publication, under paragraph 11 of OMB A-122, for maintaining our volunteer executive program. Copies of these publications are provided routinely to our AID project officer and are included in the annual budget request for our Core Grant. To comply with the requirements of paragraph 37 of OMB Circular A-122, for publication and printing costs we will, in the future, obtain the written approval for our publication and printing program.

The schedule of questioned costs also include numerous minor items of normal printing costs.

8. Equipment costing between $500 and $1,000 was expensed rather than capitalized.

CONDITION:

IESC expenses all equipment costing less than $1,000 and any equipment over this amount is capitalized. In 11 of 90 instances tested, IESC expensed equipment over $500 rather than capitalizing it as follows:

G/L Page	Description	Amount
406-90	Typewriter	$ 837.07
407-90	Xerox electronic typewriter	855.07
407-90	Kodak projector	562.18
408-90	Air conditioner	922.75
408-90	Typewriter	743.12
591-90	Two monitors @ $945 each	1,890.00
57-N91	Typewriter @ $821.49	
	Chair @ $602.99	1,424.48
57-N91	Two computer tables	1,379.95
404-N91	Partitions for conference room @ $939.34	
	Partitions for CD's office @ $645.79	1,585.13
216-D91	Electronic system	732.60
TIPS	Microwave	526.12
408-90	Canon typewriter	975.00
216-91	Refrigerator	700.00
409-90	Dinner table	604.34
409-90	Sango refrigerator	956.51
405-91	Canon fax phone	843.37
		$15,537.69

CRITERIA:

OMB Circular A-122 states that equipment with a useful life of more than two years and an acquisition cost of $500 or more should be capitalized and depreciated.

CAUSE:

IESC was not aware of the A-122 requirement.

EFFECT:

Expenses for equipment are overstated and property records understate capital equipment on hand.

RECOMMENDATION:

Inform appropriate IESC employees and include in the IESC accounting manual the A-122 requirement that AID grant equipment under $500 should be expensed and any equipment with a two year useful life over this amount should be capitalized and depreciated.

IESC'S RESPONSE:

IESC current capitalization policy we believe represents a reasonable threshold in view of current business practices. However, we have modified our policy effective January 1, 1993 to conform with the stated level in OMB Circular A-122; and will capitalize equipment having an acquisition cost of $500 and a useful life of more than two years.

9. Unallowable expenses for meetings and conferences were paid.

CONDITION:

Expenses for food and drinks at IESC meetings and conferences were paid by IESC, and possibly funded by AID grants. The details are included in Schedule B.

CRITERIA:

OMB Circular A-122 states that costs of amusement, diversion, social activities, ceremonials and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities, are unallowable.

CAUSE:

The meetings and conferences expenses were not adequately reviewed for compliance with the Standardized Regulations.

EFFECT:

Unallowable costs of $41,422.74 were paid for meetings and conferences.

RECOMMENDATION:

IESC should review meetings and conferences expenses for compliance with Standardized Regulations.

IESC'S RESPONSE:

The listing of questioned items cover a wide range of activities from dinners which were held as part of our annual meeting with IESC's Board of Directors and Council, fund-raising meetings, recruiter's workshops, orientation and debriefing meetings for volunteer executives.

Sufficient funds were available from non-federal sources to cover those portions of expenses for meetings and conferences which were unallowable under federal regulations.

10. Unallowable expenses for gifts were paid.

CONDITION:

Expenses for gifts to employees and others were paid by IESC and possibly funded by AID grants. The details are included in Schedule C.

CRITERIA:

OMB Circular A-122 states that the costs of ceremonials and costs relating thereto, and gratuities, are unallowable.

CAUSE:

The Michael C. Fina Co. expenses were not adequately reviewed for compliance with the Standardized Regulations.

EFFECT:

Unallowable costs of $88,270.43 were paid for gifts.

RECOMMENDATION:

IESC should review gift expenses for compliance with Standardized Regulations.

IESC'S RESPONSE:

All IESC projects are performed by volunteers and volunteer couples who receive no compensation for all their efforts other than reasonable living expenses. IESC management believes that it is appropriate to provide our volunteer couples with a very modest token of IESC's appreciation for a job well done. Please note that IESC had 1,683 project starts during 1990 and 1991 which would amount to a per project cost of $52.45, for these items.

We dispute the reference cited under OMB Circular A-122 for considering these items unallowable which would appear to be paragraph 12, entertainment costs. It is our opinion that these items should be judged against paragraph 11, employee (volunteer) morale. We view these as allowable expenses incurred in accordance with our established practices and customs for the improvement of IESC-volunteer relations, volunteer morale and volunteer performance.

AUDITOR'S COMMENT:

OMB Circular A-122, Attachment B, Paragraph 12 specifically states that ceremonials are unallowable. Paragraph 11 lists certain specific types of costs under employee morale. This paragraph does not specifically address gifts, awards, ceremonials, etc. We believe that the citation of Paragraph 12 is correct and the costs are therefore unallowable.

11. Per diem was paid in excess of the supplement to U.S. travel regulations maximums.

CONDITION:

In 39 of 83 localities, IESC published per diem rate exceeded the maximum as provided by the U.S. Government from $1 to $56 per day. IESC has not obtained approval for its published per diem rates.

CRITERIA:

The U.S. Government allows maximum per diem rates based on the location of travel. These maximums are provided in the supplement to the standard travel regulations.

CAUSE:

IESC did not follow the U.S. Government standards when establishing maximum per diem rates.

EFFECT:

AID grants could be charged for costs in excess of U.S. Government standards.

RECOMMENDATION:

IESC should review per diem rates for compliance with U.S. Government rates.

IESC'S RESPONSE:

In the fall of 1992, Louis Berger International, Inc. conducted an evaluation of IESC's program. One of the topics covered was the question of IESC's per diem rates. The following is a quote from that evaluation:

> "IESC develops its own per diem rates for overseas operations. The individual Country Directors research local costs and propose rates to the Director of Human Resources, who makes the final determination of IESC's per diem rate structure. IESC is aware that the U.S. Government also establishes per diem rates for world-wide usage.
>
> We examined per diem rates used by IESC and found them to be generally in accordance with U.S. Government rates for similar locations. The difference between the AID per diem for a single traveller and the IESC per diem for a VE and spouse for each of the selected countries ranged from a plus $96 to a negative $79.
>
> Our analysis of the percentage differences between IESC per diems and AID per diems determined that on those occasions where IESC pays more than the AID per diem (occurring in 62 locations), IESC paid an average of 31.27% more than the AID daily per diem. Alternatively, on those occasions where IESC pays less than the AID per diem (occurring in 55 locations), IESC paid an average of 16.31% less than the AID daily per diem. Thus we conclude that the annual cost of per diem to the IESC program would not be reduced to any significant degree, if IESC were to apply U.S. Government per diem rates."

We will review all established rates and will provide the appropriate contracting officer with a schedule of current rates being used.

12. "Letter of Credit" draw downs were based on estimated amounts rather than actual expenses.

CONDITION:

IESC drew down one-twelfth of the total amount budgeted of $5,000,000 relating to grant agreement PDC-0012-G-SS-9007-00 each month - based upon estimated expenses - rather than the amount of money needed to pay their actual expenses for the period covered.

CRITERIA:

Department of Treasury Directive 1075 requires that funds only be withdrawn to cover immediate disbursement needs. Only three days of cash are allowed to be advanced by Treasury standards for organizations in the United States. For overseas operations, AID allows up to a 30 day requirement provided it represents documented needs.

CAUSE:

IESC management believed that all draw downs were on a reimbursement basis. IESC management further believed that there would be too much of a time delay to accumulate and process actual expenditures.

EFFECT:

IESC may have drawn down funds, in violation of the Treasury Directive, that were not needed to cover immediate disbursement needs.

RECOMMENDATION:

Inform appropriate IESC employees and include in the IESC policy and procedures manual, a requirement that draw downs are only made to cover actual documented immediate disbursement needs.

IESC'S RESPONSE:

IESC's annual overseas program expenses far exceed its annual Core Grant. (In 1990, overseas expenses, excluding the value of donated services, was $15,661,000; the Core Grant amounted to $5,500,000, all AID revenue including the Core Grant was $11,901,000).

IESC gathers its monthly financial reports from its many offices from around the world which then have to be processed by our headquarters accounting department. There can be a time delay of as much as 60 to 90 days between the actual payment of expenses and the final accounting report. Accordingly, if IESC were to wait until all accounting reports were accumulated and processed before making a draw down, our cash flow would be such as to render us unable to operate. As a result, IESC makes the draw downs <u>before</u> the accounting reports are completely processed, but <u>after</u> the expenses have been incurred and paid for. AID was advised of this procedure in writing.

13. Documentation was unavailable or insufficient to support certain expenditures.

CONDITION:

IESC could not locate supporting documentation for the following expenditures:

Equipment Purchases:

Account Number	Dept	Description	Unsupported Amount
849	103	Documentation not provided	$ 630.00
849	110	Sufficient documentation not provided	2,321.84
849	506	Sufficient documentation not provided	2,255.64
		Subtotal	$ 5,207.48

Meetings and Conferences:

Date	Ref. Number	Description	Unsupported Amount
3/25/92	12CAI08	Sufficient documentation not provided	$ 1,484.68
3/06/91	150E	Sufficient documentation not provided	1,042.47
10/15/90	BOE	Sufficient documentation not provided	1,238.11
6/20/90	CR6	Documentation not provided	133.33
6/20/90	CR6	Documentation not provided	244.60
		Subtotal	4,143.19
		Total	$ 9,350.67

CRITERIA:

All contracts with AID stipulate that adequate documentation supporting all costs be maintained.

CAUSE:

During the time period covered by the audit, the IESC office has been relocated, including records that have been moved and re-filed several times.

EFFECT:

The allowability of the expenditures could not be determined.

RECOMMENDATION:

IESC should maintain adequate documentation of expenditures to reduce the likelihood of questioned costs.

IESC'S RESPONSE:

Documentation for all items except one item for $630.00 has been located and has been provided to Clifton, Gunderson & Co.

AUDITOR'S COMMENT:

Documentation was not deemed sufficient in the items noted in the finding.

Schedule A

INTERNATIONAL EXECUTIVE SERVICE CORPS
PUBLICATION AND PRINTING COSTS
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Acct. Code	Dept. Code	Location	1990 Amount	1991 Amount	Total
PRINTING					
836	101	PRINTING FIELD SUPPORT	0.00	458.00	
836	102	EAST CARIB	372.26	1.89	-
836	103	COSTA RICA	1,297.34	144.03	
836	104	DOM. REP	213.79	0.00	
836	105	EL SALV	26.74	0.00	
836	106	GUATEMALA	2,183.53	3,119.82	
836	107	HAITI	0.00	592.98	
836	109	MEXICO	712.92	0.00	
836	110	HONDURAS	1,669.04	472.61	
836	111	PANAMA	222.28	0.00	
836	113	JAMAICA	536.24	221.52	
836	115	BELIZE	0.00	3.15	
836	202	BOLIVIA	244.91	112.01	
836	205	BRAZIL	0.00	150.86	
836	208	COLOMBIA	0.79	293.87	
836	211	PARAGUAY	282.51	488.87	
836	212	PERU	486.23	90.55	
836	215	GUAYAQUIL	321.32	115.34	
836	302	ZIMBABWE	1,091.17	195.60	
836	305	KENYA/TANZAN	219.84	26.45	
836	306	BOTSWANA	82.19	57.20	
836	307	ZAMBIA	251.82	91.69	
836	309	MALAWI	196.37	96.94	

Schedule A

INTERNATIONAL EXECUTIVE SERVICE CORPS
PUBLICATION AND PRINTING COSTS
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Acct. Code	Dept. Code	Location	1990 Amount	1991 Amount	Total
836	310	MAURITUS	404.83	208.08	
836	401	SRI LAN	675.86	100.63	
836	404	JAKARTA	2,573.09	237.46	
836	409	MANILA	68.42	84.29	
836	412	THAILAND	163.26	43.92	
836	422	INDIA	2,142.07	108.29	
836	503	YUGOSLAVIA	0.00	163.15	
836	504	YEMAN	0.00	2,322.47	
836	506	JORDON	250.60	44.05	
836	510	MOROCCO	(1,311.80)	(1,796.23)	
836	513	TURKEY	0.00	0.00	
836	516	EGYPT	2,102.16	1,512.51	
836	519	PAKISTA	588.90	0.00	
836	602	SWATELLE	224.00	0.00	
836	603	NON CD	227.00	0.00	
836	607	MIS OVR	286.40	0.00	
836	688	MISC	2,215.00	0.00	
836	722	PORTUGA	994.83	794.51	
836	907	CHILE	1,038.20	0.00	
836	909	ARG	26.09	0.00	
836	913	VENEZUELA	16.22	0.00	

Schedule A

INTERNATIONAL EXECUTIVE SERVICE CORPS
PUBLICATION AND PRINTING COSTS
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Acct. Code	Dept. Code	Location	1990 Amount	1991 Amount	Total
BROCHURES					
838	103	COSTA RICA	0.00	839.19	
838	106	GUATEMALA	0.00	1,498.42	
838	110	HONDURAS	0.00	540.74	
838	202	BOLIVIA	241.59	0.00	
838	207	CHILE	0.00	87.28	
838	208	COLOMBIA	0.00	0.00	
838	211	PARAGUAY	920.66	109.75	
838	212	PERU	464.40	0.00	
838	214	URUGUAY	954.00	0.00	
838	215	GUAYAQUIL	0.00	0.00	
838	302	ZIMBABWE	0.00	0.00	
838	306	BOTSWANA	0.00	40.16	
838	309	MALAWI	0.00	0.00	
838	310	MAURITUS	153.85	0.00	
838	401	SRI LAN	0.00	0.00	
838	402	VP FE	0.00	0.00	
838	404	JAKARTA	1,234.44	507.61	
838	417	BANGLEAD	0.00	2.78	
838	419	PAKISTAN	0.00	0.00	
838	501	VP AFRNE	0.00	0.00	
838	506	JORDON	0.00	0.00	
838	510	MOROCCO	0.00	0.00	

Schedule A

INTERNATIONAL EXECUTIVE SERVICE CORPS
PUBLICATION AND PRINTING COSTS
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Acct. Code	Dept. Code	Location	1990 Amount	1991 Amount	Total
838	516	EGYPT	355.77	552.88	
838	607	WALLENDER	895.01	1,157.00	
838	907	CHILE	119.52	0.00	
PRINTING					
936	1	PRESIDENT	10,582.00	19,283.00	
936	4	MARKETNG	2,015.00	5,249.00	
936	10	FINANCE	1,692.86	3,491.50	
936	11	FUND RAI	1,525.50	3,834.00	
936	12	DEVELOP	47,803.45	40,021.86	
936	13	MIS	0.00	0.00	
936	15	ADMIN	237.00	1,769.50	
936	20	UNALLOC	6,945.00	1,251.00	
936	70	FINANCE	0.00	40.00	
TIS/TIPS		PRINTING	4.08	745.95	
TIS/TIPS		PRINTING	2,367.55	225.00	
TIS/TIPS		PRINTING	38.88	(196.86)	
TIS/TIPS		PRINTING	337.76	279.04	
TIS/TIPS		PRINTING	488.76	1,197.72	
TIS/TIPS		PRINTING	250.00	9.75	
TIS/TIPS		PRINTING	60.02	646.21	
TIS/TIPS		BROCHURES/NEWSLETTERS	2,163.28	0.00	

Schedule A

INTERNATIONAL EXECUTIVE SERVICE CORPS
PUBLICATION AND PRINTING COSTS
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Acct. Code	Dept. Code	Location	1990 Amount	1991 Amount	Total
TIS/TIPS		BROCHURES/NEWSLETTERS	105.49	0.00	
TIS/TIPS		BROCHURES/NEWSLETTERS	286.20	0.00	
TIS/TIPS		BROCHURES/NEWSLETTERS	202.00	0.00	
TIS/TIPS		BROCHURES/NEWSLETTERS	1,096.00	0.00	
TIS/TIPS		BROCHURES/NEWSLETTERS	740.88	0.00	
TIS/TIPS		PRINTING	60.02	0.00	
TIS/TIPS		PRINTING	0.00	79.70	
TIS/TIPS		BROCHURES	0.00	475.00	
TIS/TIPS		PRINTING	0.00	38.00	
TIS/TIPS		PRINTING	0.00	38.00	
TIS/TIPS		PRINTING	0.00	38.00	
TIS/TIPS		PRINTING	0.00	38.00	
TOTALS			107,437.39	94,445.69	201,883.08

INTERNATIONAL EXECUTIVE SERVICE CORPS
MEETINGS AND CONFERENCES
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Date	Number	DESCRIPTION	AMT.
07/08/91	5 CAI 8	CANDY	10.54
07/08/91	5 CAI 8	FAREWELL DINNER	554.22
07/08/91	5 CAI 8	FAREWELL DINNER	1,574.92
07/08/91	5 CAI 8	FAREWELL DINNER	60.24
01/08/91	11 BAR 15A	FAREWELL/WELCOME DINNER	260.00
07/26/90	6 BEL 47	WELCOME DINNER/ALCOHOL	1,203.45
05/13/90	5 JAM 38	WELCOME DINNER	487.38
07/03/90	5 JAM 38	FAREWELL/WELCOME DINNER	1,067.00
05/16/91	C-0506	RECEPTION DINNER	8,006.10
10/08/90	103090	JAPANESE DANCE & FULL ENSEMBLE	1,654.00
10/08/90	102490	INDONESIAN FESTIVAL	4,500.00
09/10/90	7 INDO 14	FAREWELL/WELCOME DINNER	1,005.01
06/21/90	61890	IESC DINNER, ALCOHOL, CIGARS/CIGARETTES	4,900.17
06/08/90	116	DINNER/WINE	7,035.55
04/26/90	CR 6	ENTERTAINMENT/FAREWELL/WELCOME DINNERS	1,295.60
06/07/90	CR 6	FAREWELL/WELCOME DINNERS & SOCIAL	1,393.42
09/10/90	7 INDO 14	ENTERTAINMENT DINNERS	1,615.01
02/04/91	12 MOR 31	ENTERTAINMENT DINNERS	1,448.20
02/12/91	12 EGY 8	FAREWELL/WELCOME DINNERS	1,572.64
		FLOWERS	36.67
		ALCOHOL	1,312.46
		ENTERTAINMENT DINNER	430.16
		SUBTOTAL	41,422.74

Schedule C

INTERNATIONAL EXECUTIVE SERVICE CORPS
MICHAEL C. FINA CO. (OTHER EXPENSES)
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Check Date	Check Number	Description	Questioned Amount
1/10/91	037413	APPLE TRAYS (ENGRAVED)	1,132.75
1/10/91	037413	IESC ENGRAVED CHARMS	2,055.90
1/29/91	037641	IESC ENGRAVED CHARMS	4,530.40
2/07/91	037785	IESC ENGRAVED CHARMS	53.85
2/21/91	037903	GLOBAL STERLING 90 DISC W/TAPE (ENGRAVED)	1,064.81
2/14/91	037845	APPLE TRAYS (ENGRAVED)	2,314.75
2/28/91	037969	IESC ENGRAVED CHARMS	2,217.40
3/15/91	038104	IESC ENGRAVED CHARMS	588.70
4/04/91	038312	FREIGHT FOR GIFTS (NEXT TWO ITEMS)	38.00
4/04/91	038312	APPLE TRAYS (ENGRAVED)	1,132.75
4/04/91	038312	APPLE TRAYS (ENGRAVED)	197.00
4/18/91	038428	IESC ENGRAVED CHARMS	1,121.40
4/18/91	038428	APPLE TRAYS (ENGRAVED)	541.75
5/02/91	038585	IESC ENGRAVED CHARMS	2,105.25
5/02/91	038585	APPLE TRAYS (ENGRAVED)	935.75
5/02/91	038585	GLOBAL STERLING 90 DISC W/TAPE (ENGRAVED)	1,335.07
5/16/91	038744	IESC ENGRAVED CHARMS	1,195.40
5/23/91	038816	IESC ENGRAVED CHARMS	49.50
5/30/91	033878	APPLE TRAYS (ENGRAVED)	689.50
5/30/91	033878	APPLE TRAYS (ENGRAVED)	98.50
5/30/91	033878	APPLE TRAYS (ENGRAVED)	197.00
5/30/91	033878	APPLE TRAYS (ENGRAVED)	708.95
6/13/91	039046	IESC ENGRAVED CHARMS	54.40

Schedule C

INTERNATIONAL EXECUTIVE SERVICE CORPS
MICHAEL C. FINA CO. (OTHER EXPENSES)
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Check Date	Check Number	Description	Questioned Amount
6/20/91	039118	IESC ENGRAVED CHARMS	931.80
7/19/91	039406	IESC ENGRAVED CHARMS	930.40
7/19/91	039406	APPLE TRAYS (ENGRAVED)	246.25
7/19/91	039406	APPLE TRAYS (ENGRAVED)	529.22
8/15/91	039650	IESC ENGRAVED CHARMS	1,078.22
8/15/91	039650	APPLE TRAYS (ENGRAVED)	492.50
8/15/91	039650	IESC ENGRAVED CHARMS	1,133.57
8/15/91	039650	APPLE TRAYS (ENGRAVED)	197.00
8/22/91	039735	APPLE TRAYS (ENGRAVED)	295.50
8/22/91	039735	APPLE TRAYS (ENGRAVED)	49.25
8/22/91	039735	APPLE TRAYS (ENGRAVED)	1,428.25
10/03/91	040261	IESC ENGRAVED CHARMS	2,231.10
10/03/91	040261	IESC ENGRAVED CHARMS	1,473.00
10/03/91	040261	IESC ENGRAVED CHARMS	107.75
10/03/91	040261	IESC ENGRAVED CHARMS	52.30
10/31/91	040608	APPLE TRAYS (ENGRAVED)	541.75
10/07/91	040608	APPLE TRAYS (ENGRAVED)	1,134.81
10/07/91	040696	APPLE TRAYS (ENGRAVED)	48.96
10/14/91	040767	IESC ENGRAVED CHARMS	54.47
10/26/91	040927	IESC ENGRAVED CHARMS	2,226.90
1/10/90	033653	APPLE TRAYS (ENGRAVED)	519.68
1/25/90	033848	APPLE TRAYS (ENGRAVED)	377.39
1/25/90	033848	IESC ENGRAVED CHARMS	1,176.65

Schedule C

INTERNATIONAL EXECUTIVE SERVICE CORPS
MICHAEL C. FINA CO. (OTHER EXPENSES)
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Check Date	Check Number	Description	Questioned Amount
1/25/90	033848	IESC ENGRAVED CHARMS	510.05
2/14/90	034107	APPLE TRAYS (ENGRAVED)	143.88
2/14/90	034107	IESC ENGRAVED CHARMS	2,727.48
3/22/90	034385	GLOBAL STERLING 90 DISC W/TAPE (ENGRAVED)	1,009.75
3/29/90	034458	IESC ENGRAVED CHARMS	1,869.60
3/29/90	034458	IESC ENGRAVED CHARMS	1,349.62
3/29/90	034458	APPLE TRAYS (ENGRAVED)	995.63
3/29/90	034458	APPLE TRAYS (ENGRAVED)	757.16
4/11/90	034603	IESC ENGRAVED CHARMS	1,474.50
4/11/90	034603	IESC ENGRAVED CHARMS	260.94
4/11/90	034603	APPLE TRAYS (ENGRAVED)	1,180.83
4/19/90	034681	APPLE TRAYS (ENGRAVED)	806.00
4/19/90	034681	APPLE TRAYS (ENGRAVED)	617.97
5/10/90	034879	APPLE TRAYS (ENGRAVED)	573.16
5/10/90	034879	APPLE TRAYS (ENGRAVED)	51.22
5/10/90	034879	IESC ENGRAVED CHARMS	1,449.70
5/03/90	034797	IESC ENGRAVED CHARMS	1,073.60
5/03/90	034797	APPLE TRAYS (ENGRAVED)	49.50
5/17/90	034967	IESC ENGRAVED CHARMS	1,476.98
5/17/90	034967	APPLE TRAYS (ENGRAVED)	692.80
5/31/90	035119	APPLE TRAYS & 48 FACSIMILES (ENGRAVED)	2,228.80
6/14/90	035265	IESC ENGRAVED CHARMS	1,262.79
6/14/90	035265	IESC ENGRAVED CHARMS	1,491.65

Schedule C

INTERNATIONAL EXECUTIVE SERVICE CORPS
MICHAEL C. FINA CO. (OTHER EXPENSES)
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Check Date	Check Number	Description	Questioned Amount
6/14/90	035265	APPLE TRAYS (ENGRAVED)	51.58
6/14/90	035265	APPLE TRAYS (ENGRAVED)	640.17
6/14/90	035372	APPLE TRAYS (ENGRAVED)	776.91
6/28/90	035372	APPLE TRAYS (ENGRAVED)	837.31
6/28/90	035536	IESC ENGRAVED CHARMS	51.25
7/12/90	035536	IESC ENGRAVED CHARMS	1,344.00
7/12/90	035536	IESC ENGRAVED CHARMS	1,427.00
7/12/90	035826	APPLE TRAYS (ENGRAVED)	839.92
8/02/90	035826	GLOBAL STERLING 90 DISC W/TAPE (ENGRAVED)	1,403.40
8/02/90	035826	IESC ENGRAVED CHARMS	1,263.90
8/02/90	035826	IESC ENGRAVED CHARMS	57.53
8/23/90	035991	IESC ENGRAVED CHARMS	1,968.20
8/23/90	035991	APPLE TRAYS (ENGRAVED)	49.50
8/23/90	035991	APPLE TRAYS (ENGRAVED)	70.00
8/23/90	035991	APPLE TRAYS (ENGRAVED)	708.50
8/23/90	035991	APPLE TRAYS (ENGRAVED)	1,348.00
12/27/90	037331	TIE BARS W/EMBLEM	1,518.00
9/20/90	036296	IESC ENGRAVED CHARMS	50.00
9/27/90	036380	IESC ENGRAVED CHARMS	1,875.00
10/11/90	036520	APPLE TRAYS (ENGRAVED)	1,116.30
10/11/90	036520	APPLE TRAYS (ENGRAVED)	48.00
10/11/90	036520	APPLE TRAYS (ENGRAVED)	559.90
10/11/90	036520	IESC ENGRAVED CHARMS	1,161.60

Schedule C

INTERNATIONAL EXECUTIVE SERVICE CORPS
MICHAEL C. FINA CO. (OTHER EXPENSES)
QUESTIONED COSTS
January 1, 1990 to December 31, 1991

Check Date	Check Number	Description	Questioned Amount
10/25/90	036668	SHIPPING FOR GIFTS	91.05
11/01/90	036731	IESC ENGRAVED CHARMS	55.55
11/29/90	037010	APPLE TRAYS (ENGRAVED)	44.50
11/29/90	037010	APPLE TRAYS (ENGRAVED)	394.00
11/29/90	037010	APPLE TRAYS (ENGRAVED)	788.00
11/29/90	037010	APPLE TRAYS (ENGRAVED)	49.50
11/29/90	037010	IESC ENGRAVED CHARMS	563.05
12/13/90	037171	IESC ENGRAVED CHARMS	1,449.70
		TOTAL	88,270.43

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the statement of expenditures of the International Executive Service Corps (IESC) for the period from January 1, 1990 to December 31, 1991, and have issued our report thereon dated November 6, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 statement of expenditures is free of material misstatement.

In planning and performing our audit of IESC, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of expenditures and not to provide assurance on the internal control structure.

The management of IESC 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 internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the terms of contracts between IESC and the U.S. Agency for International Development. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures of IESC applicable to the expenditures for the period January 1, 1990 to December 31, 1991, in the following categories:

- Accounting processes
- Payroll procedures
- Property and equipment
- Allowance and fringe benefit procedures
- Revenue/client receivables
- Travel and transportation
- Financial reporting

For all the control 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 that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and the United States Comptroller General's Government Auditing Standards. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Statement of Expenditures.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the matters described in finding number 1 represents a material weakness.

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

Clifton, Gunderson & Co.

Baltimore, Maryland
November 6, 1992

INTERNATIONAL EXECUTIVE SERVICE CORPS
IESC EXPENDITURES FOR THE PERIOD
From January 1, 1990 to December 31, 1991

REPORTABLE CONDITIONS

1. Accounting records did not provide adequate detail to monitor grant revenues and expenditures.

CONDITION:

IESC did not maintain adequate accounting records to show the amount of revenues generated as a result of the AID grant, nor how the generated revenues were used.

CRITERIA:

Detailed accounting records were needed to show that the AID grant administered by IESC generated one hundred percent of the income to pay IESC headquarters costs in Stamford, Connecticut, and twenty percent of the program costs in each country on a year-to-year basis.

CAUSE:

Management believed that since the total amount of client generated funds from the AID grant exceeded the total U.S. headquarters administrative expenses, there was no need to account for client generated income in more detail.

EFFECT:

A determination cannot be made if IESC had complied with the provisions agreed to in the grant agreement.

RECOMMENDATION:

IESC should review its accounting system and design a system with sufficient detail to account for the source and application of funds.

IESC'S RESPONSE:

We are in the process of implementing a new accounting system and Grants Information and Tracking System which will provide detail to account for the source and application of funds.

As discussed with the U.S. AID Inspector General for Audit, we plan to contract with Price Waterhouse to review the design of these systems as additional assurance that all AID requirements will be met.

REPORTABLE CONDITIONS

2. Actual costs versus projected budgets were not distributed and reviewed.

CONDITION:

IESC estimated and applied indirect cost rates covering recruiting and field support costs from the headquarters in Stamford, Connecticut, but end of year comparisons to actual costs were not made.

CRITERIA:

Estimated indirect cost rates should be compared at least at the end of the year.

CAUSE:

Management could not find sufficient time at the end of the year to compare the estimated indirect costs to the actual costs.

EFFECT:

Estimated indirect costs may be inaccurate and adjustments may be necessary.

RECOMMENDATION:

All estimated indirect cost rates should be reviewed and compared to actual costs at the end of the year and appropriate adjustments made.

IESC'S RESPONSE:

Indirect costs for recruiting and field support worldwide are now being reviewed to compare to actual costs incurred for all grants and projects worldwide. Adjustments which may be required will be made to the funding agency involved.

3. Accounting and internal control procedures were not always documented.

CONDITION:

IESC does not have a comprehensive accounting and internal control procedures manual that covers such things as staff responsibilities, volunteer travel policies, AID allowable costs and time charges by activity or source of funds.

REPORTABLE CONDITIONS

CRITERIA:

Accounting and internal controls should be documented and uniformly applied.

CAUSE:

Management believed that most of the important procedures had already been documented.

EFFECT:

Employees were confused or uninformed of accounting policies and procedures and were more likely to make mistakes.

RECOMMENDATION:

IESC should closely review the accounting system, including internal controls, and in those cases where the procedures have not been documented, prepare the documentation.

IESC'S RESPONSE:

Concurrent with the implementation of our new systems, documentation will be reviewed and updated to provide staff and volunteers with a clear understanding of our procedures and policies.

4. Grant agreements, laws and regulations applicable to AID programs were not readily available to staff.

CONDITION:

IESC has not identified and made available to the staff important grant provisions, laws and regulations that pertain to the administration of AID funds.

CRITERIA:

To properly administer AID grant funds, IESC staff should be knowledgeable of applicable AID grant agreement provisions and pertinent laws and regulations.

CAUSE:

Management did not make available to the staff responsible for administering the AID grant, the necessary tools.

REPORTABLE CONDITIONS

EFFECT:

Grant agreement provisions, laws and regulations were not always followed.

RECOMMENDATION:

IESC management should identify important provisions of the grant agreement and other applicable laws and regulations and make available to IESC staff such material.

IESC'S RESPONSE:

As part of the implementation of our new systems, we are summarizing the key provisions of all grant agreements and will communicate this data to all members of management and senior staff.

5. Property records were not adequate.

CONDITION:

Even though the equipment was purchased with AID funds, IESC did not follow AID Handbooks, which require that equipment be: related to the source of funds, properly identified with a serial number, properly identified as to ultimate disposition and inventoried on a regular basis.

CRITERIA:

In order to ensure that equipment purchased with AID funds is properly accounted for, recipients should properly mark and maintain adequate and accurate records on such equipment.

CAUSE:

IESC thought that since IESC had acquired title to the equipment, the AID requirements were not applicable.

EFFECT:

Lack of adequate property records increases the risk of theft and abuse.

RECOMMENDATION:

AID guidelines for government funded equipment should be prepared, included in the IESC policies and procedures manual and implemented.

REPORTABLE CONDITIONS

IESC'S RESPONSE:

We are in the process of updating our country directors manual and will incorporate current guidelines for government funded fixed assets.

6. Overseas currency conversion rates were not verified by IESC headquarter's accounting staff.

CONDITION:

IESC country directors located overseas send to the headquarters, each month, reports that show the amount of local currency owned by IESC in the country and the U.S. dollar equivalent, which is posted by IESC staff to the general ledger. IESC staff posts the dollar amount without verifying the accuracy of the exchange rate used by the country director to make the conversion.

CRITERIA:

To ensure the accuracy of the posting to the general ledger, exchange rates used by the country director should be verified by headquarter's staff in Stamford, Connecticut.

CAUSE:

Management allowed the bookkeepers to either accept or verify the exchange rates used to make the conversions: there was no standard policy.

EFFECT:

Absence of verification of the exchange rate by the headquarter's staff could increase the risk of abuse by the overseas staff and, if an incorrect rate was used, such action could materially affect the Cost Accountability Statement.

RECOMMENDATION:

IESC should prepare and implement a policy requiring all responsible headquarter's staff to verify the exchange rates used by the country directors to convert local currency into U.S. dollars.

IESC'S RESPONSE:

We agree and have already implemented this recommendation.

INTERNATIONAL EXECUTIVE SERVICE CORPS
IESC EXPENDITURES FOR THE PERIOD
From January 1, 1990 to December 31, 1991

REPORTABLE CONDITIONS

7. Unusual general journal entries were recorded without the approval of a responsible independent staff member.

CONDITION:

General journal entries were prepared and entered by staff members at all levels without prior approval.

CRITERIA:

To maintain adequate controls over all financial information entered in the general ledger, a responsible independent person should review and approve the entry.

CAUSE:

IESC management had not focused on the deficiency.

EFFECT:

Lack of approval by an independent staff member increases the risk of abuse and also the possibility of mistakes in the financial records.

RECOMMENDATION:

IESC should prepare and implement a policy that requires all general journal entries to be approved by a designated responsible staff member prior to the time entry is made on the general ledger.

IESC'S RESPONSE:

We agree and are implementing access controls within our new accounting system to implement this recommendation.

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