

Financial Audits

AUDIT OF
INSTITUTE OF INTERNATIONAL EDUCATION
Contract Nos. 613-0215-C-00-3005 and 613-0229-C-00-8004
for the periods April 1, 1989 to January 1, 1991 and
January 1, 1988 to December 31, 1991, respectively

Report No. 0-000-93-09-N
April 16, 1993



**"CONTRACTOR 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."**

INSPECTOR
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

April 16, 1993

MEMORANDUM FOR USAID/Zimbabwe, Ted D. Morse

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

SUBJECT: Audit of Institute of International Education

The accounting firm of Clifton, Gunderson & Co. performed a financial-related audit of Institute of International Education (IIE) Contract No. 613-0215-C-00-3005 for the period April 1, 1989 through January 1, 1991 and Contract No. 613-0229-C-00-8004 for the period January 1, 1988 through December 31, 1991. Five copies of the report are enclosed for your action.

IIE, a not-for-profit organization, provides opportunities for men and women from foreign countries to study, conduct research, receive practical training, or provide technical assistance outside their own countries. Clifton, Gunderson & Co. audited approximately \$2.4 million in expenditures incurred by IIE under the two contracts.

The audit objective for Contract No. 613-0215-C-00-3005 was limited to reviewing the expenditures incurred from April 1, 1989 through January 1, 1991 to determine whether they were allowable according to the contract and Federal Acquisition Regulations.

The auditors questioned as unsupported \$7,367 of the \$315,503 in expenditures incurred during the audit period under Contract No. 613-0215-C-00-3005.

For Contract No. 613-0229-C-00-8004, the audit objectives were to determine whether: the Statement of Contract Expenditures was presented fairly in accordance with the terms of the contract; the internal control structure was adequate; and IIE had complied with the terms of the contract and applicable laws and regulations.

Clifton, Gunderson & Co. determined that IIE's Statement of Contract Expenditures for Contract No. 613-0229-C-00-8004 was fairly presented in all material respects. However, the auditors questioned \$14,511 of the \$2,049,678 in expenditures incurred under this contract. The questioned costs represent \$14,322 in potentially ineligible costs and \$189 in unsupported costs.

Regarding Contract No. 613-0229-C-00-8004, the auditors did not identify any material weaknesses in IIE's internal control structure and determined that IIE had complied, in all material respects, with contract provisions and applicable laws and regulations.

The auditors found, however, that IIE did not properly use rebates, in the form of free airline tickets, earned under the two contracts. IIE received from its travel agency some free airline tickets for travel funded by the contracts. IIE used the free tickets, however, for non-A.I.D. travel. Therefore, costs equaling the value of the free airline tickets earned under the two contracts are potentially ineligible and need to be resolved. The auditors did not determine the total value of the free airline tickets earned by IIE under the two contracts.

Recommendation No. 1: We recommend that USAID/Zimbabwe resolve the \$21,878 in combined questioned costs (\$14,322 ineligible and \$7,556 unsupported) identified in the audit report for Contract Nos. 613-0215-C-00-3005 and 613-0229-C-00-8004 (see page 12).

Recommendation No. 2: We recommend that USAID/Zimbabwe determine the amount of rebates for free airline tickets that the Institute of International Education received for A.I.D.-financed travel (audit report, page 13) and resolve amounts determined to be ineligible for reimbursement.

These recommendations will be included in the Inspector General's audit recommendations follow up system. Within 30 days, please provide this office with the status of actions planned or taken to resolve and close the recommendations.

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**INSTITUTE OF INTERNATIONAL EDUCATION
New York, New York**

REPORT ON AUDIT OF AID CONTRACTS

613-0215-C-00-3005

**For The Period From April 1, 1989 to
January 1, 1991**

613-0229-C-00-8004

**For The Period From January 1, 1988 to
December 31, 1991**

Members Of

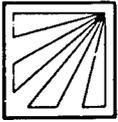
NEXIA
INTERNATIONAL

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC
ACCOUNTANTS

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**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

March 31, 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 contracts 613-0215-C-00-3005 and 613-0229-C-00-8004 between the Institute of International Education (IIE) and the United States Agency for International Development (AID) for the periods April 1, 1989 to January 1, 1991 and January 1, 1988 to December 31, 1991, respectively.

BACKGROUND

Institute of International Education (IIE), a not-for-profit organization, located in New York City, provides opportunities for men and women from foreign countries to study, conduct research, receive practical training or provide technical assistance outside their own countries. During the time period noted above, IIE was engaged by AID to provide assistance in designing and staging training courses in Zimbabwe and both long and short-term training in the U.S.A. and other location as agreed upon.

Contract 613-0215-C-00-3005 was awarded on December 23, 1982 to IIE for about \$11.4 million to be spent over a three-year period of time and was then later extended for another two years at no additional cost. Contract 613-0229-C-00-8004 was awarded for about \$557,000 to cover only IIE management costs, exclusive of training and education costs for the period January 1, 1988 through December 31, 1990. This contract was later increased by about \$350,000 and extended for another year to December 31, 1991.

AUDIT OBJECTIVES AND SCOPE

Originally, the objective of our audit was to perform a cost and compliance audit of AID contracts 613-0215-C-00-3005 and 613-0229-C-00-8004 for the period December 23, 1982 to January 31, 1991, as administered by IIE.

These audit objectives were modified, in concurrence with AID's Office) of the Inspector General, after determining that the types of costs incurred under both contracts were the same. Accordingly, only expenses incurred from April 1, 1989 to January 1, 1991 under contract number 613-0215-C-00-3005 were reviewed to determine if the costs were in fact allowable, allocable and reasonable in accordance with the terms of the contract and Federal Acquisition Regulations.

These expenses were reviewed because USAID/Zimbabwe questioned all expenses submitted subsequent to March 1989, the date IIE had first decommitted \$62,550 in funds from the contract. Another \$291,855 in funds were decommitted later in 1989, for a total of \$354,405.

Relative to contract number 613-0229-C-00-8004, we performed our work in accordance with generally accepted auditing standards and the Comptroller General's "Government Auditing Standards" and, accordingly, including 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 Contract Expenditures presents fairly the expenditures from January 1, 1988 to December 31, 1991, according to the terms of the agreement, the Federal Grant and Cooperative Agreement Act of 1982, AID Handbook 10 and applicable OMB Circulars, identifying unsupported costs or those not considered appropriately allocable or allowable under the agreement.
2. IIE's internal control structure was sufficient to capture data under the agreement and was adequate for the purposes of the agreement.
3. IIE complied with U.S. Government regulations, U.S. laws and the terms of the agreement.

Audit procedures conducted in order to meet the audit objectives included a review of all expenses paid by IIE subsequent to 1989 under contract number 613-0215-C-00-3005 and under contract number 613-0229-C-00-8004 testing of a sample of transactions and studying and evaluating IIE's internal control structure relative to the contract in order to assess control risks and as a basis for our auditing procedures.

RESULTS OF THE AUDIT

Statement of Contract Expenditures

We have audited the Statement of Contract Expenditures for IIE contract number 613-0229-C-00-8004 for the period from January 1, 1988 to January 1, 1991. The Statement of Contract Expenditures is the responsibility of IIE's management. Our responsibility is to express an opinion on the Statement of Contract Expenditures based on our audit and in our opinion the Statement of Contract Expenditures is fairly presented, in all material respects, in conformity with generally accepted accounting principles.

We have applied certain agreed-upon procedures to expenditures under IIE contract 613-0215-C-00-3005 for the period April 1, 1989 to January 1, 1991.

A summary of the audit and agreed-upon procedure testing is as follows:

	Contract	
	<u>613-0215-C-00-3005</u>	<u>613-0229-C-00-8004</u>
Total contract expenditure	<u>\$11,484,225</u>	<u>\$ 2,049,678</u>
Total expenditures tested	<u>\$ 213,960</u>	<u>\$ 523,723</u>
Ineligible costs	<u>\$ 0</u>	<u>\$ 14,322</u>
Unsupported costs	<u>\$ 7,367</u>	<u>\$ 189</u>

Total ineligible costs were \$14,322 and total unsupported costs were \$7,556, which combine for total questioned costs of \$21,878.

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

As part of our audit, we performed tests of IIE's compliance with certain provisions of the Contract and laws, regulations and binding policies and procedures. We performed those tests of compliance as part of obtaining reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our tests of compliance disclosed two instances of non-compliance, which were not considered to be material. In one case, IIE was using credits (transportation tickets) generated from AID funds to support other than AID activities, and in the other case, IIE drew down and was holding \$14,322.69 that will not be needed to pay for expenses under contract number 613-0229-C-00-8004.

Internal Control Structure

We studied and evaluated IIE's internal control structure relative to AID contract number 613-0229-C-00-8004 in order to assess the control risks and to determine our auditing procedures for the purpose of expressing an opinion on IIE's Statement of Contract Expenditures and not to provide assurance on IIE's internal control structure taken as a whole. We identified certain matters involving the internal control structure and its operations that we consider to be reportable conditions

1. Segregation of duties within the accounting department were not adequate.
2. Accounting policies and procedures manual had not been prepared.

We discussed the findings and recommendations in this report with IIE management throughout the engagement in New York City and Washington, D.C. At the conclusion of the audit, we held a close-out on February 1, 1993, with members of IIE's management team in New York City. Additionally, we discussed the report with AID's Office of the Inspector General. Their comments on the draft report have been considered in finalizing the report while IIE's comments have been included in the report. We wish to thank the individuals at IIE for the time and cooperation given to us throughout the engagement.

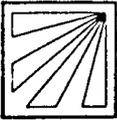
Sincerely,

CLIFTON, GUNDERSON & CO.



William H. Oliver
Partner

WHO/kdm



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of contract expenditures of the Institute of International Education (IIE), for the period from January 1, 1988 to December 31, 1991, under the terms of contract between IIE and the United States Agency for International Development. The statement of contract expenditures is the responsibility of IIE's management. Our responsibility is to express an opinion on the statement of contract 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 contract expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the statement of contract 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 contract expenditures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of contract expenditures referred to above presents fairly, in all material respects, the contract expenditures of IIE for the period from January 1, 1988 to December 31, 1991, in accordance with the terms of the contract referred to above. As described in Note 1, the accompanying schedules only include IIE's expenditures and are not intended to present IIE's financial position, results of operations or changes in its fund balance in accordance with generally accepted accounting principles.

This report is intended for the information of IIE's management and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report if a matter of public record.

Clifton, Gunderson & Co.

Baltimore, Maryland
December 22, 1992

**INSTITUTE OF INTERNATIONAL EDUCATION
 CONTRACT NUMBER: 613-0229-C-00-8004
 STATEMENT OF CONTRACT EXPENDITURES
 For the Period January 1, 1988 to December 31, 1991**

<u>Budget Category</u>	<u>Budget</u>	<u>Expenditures</u>
Administrative Performance		
Salaries	290,367.00	297,481.37
Fringe Benefits	77,917.00	84,389.52
G & A	83,143.00	81,708.16
Subcontract	104,928.00	95,897.47
Travel & Per Diem	31,309.00	31,568.63
Allowances	1,356.00	1,356.15
Other direct costs	212,994.00	191,788.23
Fiscal Management Fee	91,971.00	80,536.06
Equipment	<u>9,000.00</u>	<u>3,415.00</u>
Total Admin. Performance	<u>902,985.00</u>	868,140.59
Participant training		<u>1,181,537.72</u>
Total		<u>2,049,678.31</u>

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

**INSTITUTE OF INTERNATIONAL EDUCATION
NOTE TO THE STATEMENT OF CONTRACT EXPENDITURES
For The Period From January 1, 1988 to December 31, 1991**

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

- A. Institute of International Education (IIE) was founded in 1929, as a not-for-profit organization providing educational opportunities to people living outside the United States. IIE received funding from AID under contract number 613-0229-C-00-8004, administered by the Zimbabwe Mission for the purpose of providing the assistance described above.
- B. Expenditures are considered as being related to the disbursing of funds provided by U.S. AID to accomplish the objectives identified in AID contract number 613-0229-C-00-8004. Expenditures are recognized as incurred in accordance with generally accepted accounting principles.
- C. This statement of contract expenditures is not intended to be a presentation of IIE's financial position, results of operations or changes in fund balances. Rather, the statement presents the expenditures during the period January 1, 1988 to December 31, 1991, in accordance with the financial reporting requirements of the contract.
- D. The AID contract number 613-0229-C-00-8004 contains an itemized budget for administrative performance costs. The contract agreement allows costs for an individual line item to exceed the budgeted amount by up to 15%. IIE has not exceeded any individual budget lines by 15% or more.



**INDEPENDENT AUDITOR'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

We have applied certain agreed-upon procedures as discussed below, to expenditures of the Institute of International Education (IIE) under AID Contract 613-0215-C-00-3005 for the period April 1, 1989 through January 1, 1991. Our procedures and findings are as follows:

DECOMMITMENTS

Article II of contract number 613-0215-C-00-3005 required the Mission to prepare training orders, including valid PIO/P's for each participant and a budgeted training amount that was considered as obligated upon issuance of the training orders. In accordance with such contract terms, IIE obligated sufficient funds throughout the term of the contract to cover all participants. Near the end of the contract in April 1989, IIE reported \$354,405 in obligations no longer needed and consequently the funds were decommitted by AID (term used by USAID/Zimbabwe). Subsequent to the decommitments, more than \$315,000 in expenses were submitted to AID for payment.

While such action does not appear to be a violation of the Antideficiency Act because no evidence was found that the obligation or the making of any expenditure was in excess of an apportionment or reapportionment; any expenditures made after the decommitment were in excess of the amounts authorized. AID Handbook 19 considers such a practice to be poor "fund control" and under this condition raises the question as to whether the AID controller could carry out the responsibility of assuring that the accounts clearly, fully and accurately disclosed the status of appropriations, including the extent of compliance or noncompliance with limitations therein (page 1A-5 of AID Handbook 19). This condition showed poor internal fund controls both at IIE and the Mission and, in fact, the AID controller at the Mission, by decommitting funds at the time expenses remained outstanding, was not carrying out the responsibilities as defined in the AID Handbook.

With the knowledge that all decommitments must be supported by valid PIO/P's, including the obligated amount for training (Article II of the Contract), all decommitments under Contract 613-0215-C-00-3005 were reviewed to determine if an amendment had been made to a valid PIO/P signed by the Mission and IIE. PIO/P's were found for all decommitments, except for two participants under Contract 613-0215-C-00-3005.

<u>Name</u>	<u>PIO/P Number</u>	<u>Amount</u>
G. Mudgingwa	613-0215-1-30097	\$3,483
V. Tapfuma	613-0215-1-30096	4,806

The total amount of the decommitments for the two participants was \$8,289.

EXPENSES

Subsequent to the time that the first decommitments to contract 613-0215-C-00-3005 were made in 1989, IIE charged \$315,502.78 in expenses to bring the total amount of the contract to \$11,484,225.31 or \$13,337.31 more than the amount drawn down by IIE on the contract. For all such expenses, the auditors identified the name of the participant, authorized amount and the time period the participant would be covered. Also, the auditors reviewed the files to determine if a valid PIO/P (signed by AID and IIE) had been prepared for each of the participants. In 13 out of the 116 participants included in the review, the PIO/P's could not be located because IIE does not use the PIO/P number to monitor charges and the AID Office of International Training could not trace the PIO/P's without the number. The names of the thirteen participants and IIE participant assigned numbers are included on the attachment and can be validated by the Mission. All of the other PIO/P's (103) were signed by AID and IIE.

After determining if the participants charges had been authorized, by reviewing the PIO/P's, the records were reviewed to see if the expenses charged fell within the authorized amount and time frame. All expenses charged beyond the authorized amount or beyond the authorized time period were marked and reviewed to determine if such expenses were in fact allowable, allocable and reasonable in accordance with the contract provisions and pertinent U.S. Government laws and regulations. The questioned costs under contract 613-0215-C-00-3005 amounted to \$7,367 and are included in the findings. The costs were questioned because supporting documentation, which had been placed on microfiche, was not always complete or not included.

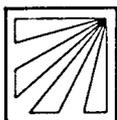
Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the expenditures referred to above. In connection with the procedures referred to above, no matters came to our attention other than those described in our findings, that caused us to believe that the expenditures should be questioned. Had we performed additional procedures or had we conducted an audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States, matters might have come to our attention that would have been reported to you. This report relates only to the expenditures specified above and does not extend any financial statements of IIE taken as a whole.

This report is intended for the information of IIE's management and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report if a matter of public record.

Baltimore, Maryland
December 22, 1992

**INSTITUTE OF INTERNATIONAL EDUCATION
CONTRACT 613-0215-C-00-3005
MISSING PIO/P's**

<u>Participant's Name</u>	<u>IIE Assigned Number</u>
Dirawu, Jeffrey	14000117
Marozva, Lovemore	15822758
Moponga, Charles	15852529
Clemence, Dominic	15852532
Vito, Fungisiai	15863524
Sibenge, E.	15863655
Dzama, Kennedy	15873978
Gufu, Thomas	15874078
Ferreira, Paulo	33000696
Sibanda, M.	33001491
Majero, T.K.	33001518
Chihori, A.	33001525
Raftopoulos, Brian	33001526



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the statement of contract expenditures of the Institute of International Education (IIE) for the period January 1, 1988 to December 31, 1991, and have issued our report thereon dated December 22, 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 and contracts applicable to IIE is the responsibility of IIE's management. As part of obtaining reasonable assurance about whether the statement of contract expenditures is free of material misstatement, we performed tests of IIE's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the statement of contract 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, IIE complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that IIE had not complied, in all material respects, with those provisions. We noted certain immaterial instances of noncompliance which are reported in the schedule of findings and questioned costs.

This report is intended for the information of IIE's management and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report if a matter of public record.

Clifton, Gunderson & Co.

Baltimore, Maryland
December 22, 1992

INSTITUTE OF INTERNATIONAL EDUCATION
COMPLIANCE WITH THE TERMS OF THE CONTRACT 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:

- I. 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.
- II. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- III. Conform to any limitations or exclusions set forth in the agreement in which the project is based.
- IV. 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.

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:

<u>Expenses</u>	<u>Ineligible Costs</u>	<u>Unsupported Costs</u>	<u>Total</u>
Participant Training:			
613-0229-C-00-8004	\$ 14,322	\$ 189	\$ 14,511
613-0215-C-00-3005	<u>0</u>	<u>7,367</u>	<u>7,367</u>
	<u>\$ 14,322</u>	<u>\$ 7,556</u>	<u>\$ 21,878</u>

INSTITUTE OF INTERNATIONAL EDUCATION
COMPLIANCE WITH THE TERMS OF THE CONTRACT AND
APPLICABLE LAWS AND REGULATIONS

SCHEDULE OF FINDINGS

1. Actual travel costs were not charged

CONDITION:

For contract numbers 613-0229-C-00-8004 and 613-0215-C-00-3005, rebates from the sale of transportation tickets were provided to IIE by the travel agency, rather than reducing the price of AID funded tickets. The travel agency provided IIE one free ticket for each 50 domestic tickets purchased and one free ticket for each 10 international tickets sold on either American Airlines or TWA in any class of service, except consolidated fares. The control and use of the tickets is monitored by the Office of the President.

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 rebates from AID transportation tickets should be deducted from the cost of the program, but the funds could be used for appropriate IIE general purposes.

RECOMMENDATION

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

IIE'S RESPONSE:

IIE questions whether this practice can be categorized as receiving a rebate or refund from the sale of transportation tickets since IIE does not actually receive a cash discount or refund. IIE will seek appropriate advice from counsel and will respond more fully at a later date.

2. IIE drew down from the letter of credit more money than needed.

CONDITION:

The total amount of expenses under contract number 613-0229-C-00-8004 was \$2,049,678.31, but IIE drew down from its Federal Letter of Credit \$2,064,000 or \$14,321.69 more than was needed. This money has been held by IIE at least since early 1991 and possibly longer.

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 and up to 30 days for overseas operations. Further, Article VII of the original contract requires that contractors return to AID any excesses beyond allowable amounts.

CAUSE:

IIE management draws down funds on all of its contracts on a monthly basis. They stated that any excess funds drawn on this contract were transferred to another AID contract.

EFFECT:

IIE has drawn down funds, in violation of the Treasury Directive, that were not needed to cover immediate disbursements.

RECOMMENDATION:

IIE should return the \$14,321.69 questioned amount to AID by making an adjustment on the Federal Letter of Credit. In addition, IIE should inform appropriate IIE employees of the requirements and include in the IIE policy and procedures manual, a requirement that draw downs are only made to cover actual documented immediate disbursements.

IIE'S RESPONSE:

IIE follows the criteria you outlined in the cash management of all U.S. Government contracts and is not holding any excess cash. With prior approval of the USIA Inspector General's office, IIE draws down cash for all of its contracts on a monthly basis. Because of restrictions on the number of draw-downs we can make daily (4 contracts) and the number of contracts we administer (30-35), it is impossible to draw down funds for each contract using the three day rule.

IIE follows the three day rule for the sum of all of the contracts under our administration. That is, for all of our AID contracts combined, we are never holding more than three days funds. From month to month some contracts may have either a credit or deficit cash balance, but the total

cash balance for all contracts is usually a deficit balance. The cash transaction reports we have filed with AID on a monthly basis for the last 10 years show that. When this contract ended, the excess cash was transferred to another AID contract. IIE has not been holding any excess (idle) funds on any U.S. Government contract.

3. Certain costs were unsupported.

CONDITION:

Certain expenditures did not have adequate documentation to permit a determination of allowability or documentation could not be located by IIE. A detail of these costs is included.

CRITERIA:

Expenditures must be adequately supported to permit a determination of allowability and necessity in accordance with the terms of the contract.

CAUSE:

The contract period was for an extended period of time and was completed approximately one and a half years ago. In the intervening period, records have been either moved to storage or put on microfiche.

EFFECT:

The allowability of the expenditures could not be determined.

RECOMMENDATION:

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

**INSTITUTE OF INTERNATIONAL EDUCATION
UNSUPPORTED COSTS**

613-0229-C-00-8004

Grantee Number	Cont No	Obj. Class	TXN	Date	Ref/Check Number	Insufficiently Documented	Undocumented Amount	Subtotal
15874322	8004	4699		12/31/89	D9L9		\$189.00	\$189.00
					4699 Subtotal	0.00	189.00	189.00
					Grand Total	\$ 0.00	\$189.00	\$189.00

613-0215-C-00-3005

Grantee Number	Cont No	Obj. Class	TXN	Date	Ref/Check Number	Insufficiently Documented	Undocumented Amount	Subtotal
33001548	3005	4110	160	1/25/90	19A6 89		230.00	230.00
15883741	3005	4110	160	1/25/89	19A6 89		107.76	107.76
15863520	3005	4110	120	4/21/89	218062		236.17	236.17
33001748	3005	4110	160	11/29/88	M8AH		125.50	125.50
15863523	3005	4110	160	3/7/89	29LA 89		37.06	37.06
					4110 SUBTOTAL	0.00	736.49	736.49
33001722	3005	4210	110	3/9/89	215250		25.00	25.00
15852385	3005	4210	110	1/18/89	211080		176.70	176.70
					4210 SUBTOTAL	0.00	201.70	201.70
15863510	3005	4320	110	6/23/89	02162489		1,995.00	1,995.00
14000103	3005	4320	160	3/3/89	29AG 89		67.54	67.54
33000760	3005	4320	160	10/9/90	90JQ		71.00	71.00
15852537	3005	4320	110	10/6/89	229343		144.00	144.00
					4320 SUBTOTAL	0.00	2,277.54	2,277.54
15863794	3005	4322	160	7/30/90	70AD 90		29.96	29.96
15863510	3005	4322	110	6/23/89	223019		80.00	80.00
15863519	3005	4322	110	8/9/89	225654		117.00	117.00
15874270	3005	4322	160	11/19/90	00J8 90	125.00		125.00
15874271	3005	4322	160	11/19/90	00J8 90	125.00		125.00
					4322 SUBTOTAL	250.00	226.96	476.96

**INSTITUTE OF INTERNATIONAL EDUCATION
UNSUPPORTED COSTS**

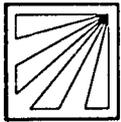
613-0215-C-00-3005

Grantee Number	Cont No	Obj. Class	TXN	Date	Ref/Check Number	Insufficiently Documented	Undocumented Amount	Subtotal
33001747	3005	4544	169	6/28/91	61J9 91		136.18	136.18
15874287	3005	4544	169	5/6/91	41J9 91		732.71	732.71
4544 SUBTOTAL						0.00	868.89	868.89
14000117	3005	4611	160	1/3/89	D8A3	552.00		552.00
15852385	3005	4611	160	1/25/89	19A6 89		120.00	120.00
15852530	3005	4611	110	5/18/90	E01140	120.00		120.00
15863519	3005	4611	160	2/2/89	19AM 89		120.00	120.00
4611 SUBTOTAL						672.00	240.00	912.00
15822764	3005	4612	110	12/21/88	209999		58.50	58.50
14000105	3005	4612	110	11/13/89	231353		14.70	14.70
33001549	3005	4612	110	3/689	215148		36.83	36.83
15852537	3005	4612	110	6/6/89	221482		20.20	20.20
15874297	3005	4612	110	7/18/89	223805		47.25	47.25
15863511	3005	4612	110	1/12/89	210382		33.20	33.20
15852532	3005	4612	110	1/3/89	210401		42.00	42.00
15873979	3005	4612	110	6/6/89	221482		20.95	20.95
15852531	3005	4612	110	8/2/90	249701		50.00	50.00
15874281	3005	4612	110	2/8/89	213039		50.00	50.00
4612 SUBTOTAL						0.00	373.63	373.63
15852532	3005	4631	110	1/25/89	19A6		52.75	52.75
15852532	3005	4631	160	1/25/89	19A6 89		52.75	52.75
15852532	3005	4631	110	1/12/89	210919		261.70	261.70
4631 SUBTOTAL						0.00	367.20	367.20
15852404	3005	4640	169	8/3/90	70J9		160.00	160.00
33001526	3005	4640	169	8/3/90	70J9 90		19.43	19.43
33001525	3005	4640	169	8/3/90	70J9 90		19.43	19.43
4640 SUBTOTAL						0.00	198.86	198.86

**INSTITUTE OF INTERNATIONAL EDUCATION
UNSUPPORTED COSTS**

613-0215-C-00-3005

Grantee Number	Cont No	Obj. Class	TXN	Date	Ref/Check Number	Insufficiently Documented	Undocumented Amount	Subtotal
15874286	3005	4690	169	6/28/91	61J9 91		119.00	119.00
15841228	3005	4690	110	3/17/89	215612		180.00	180.00
14000109	3005	4690	110	1/24/89	212372		165.00	165.00
15822756	3005	4690	110	1/06/89	210653		220.00	220.00
14000132	3005	4690	110	3/17/89	215614		47.90	47.90
15852532	3005	4690	110	2/27/89	214876		141.00	141.00
4690 SUBTOTAL						0.00	872.90	872.90
15852392	3005	4699	169	2/23/90	20L9		72.00	72.00
15863650	3005	4699	110	10/24/89	293260		9.00	9.00
4699 SUBTOTAL						0.00	81.00	81.00
GRAND TOTALS						922.00	6,445.17	7,367.17



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the statement of contract expenditures of the Institute of International Education (IIE) for the period from January 1, 1988 to December 31, 1991, and have issued our report thereon dated December 22, 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 contract expenditures is free of material misstatement.

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

The management of IIE 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 IIE 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 IIE applicable to the expenditures for the period January 1, 1988 to December 31, 1991, in the following categories:

- Accounting processes
- Payroll procedures
- Receipts/revenue
- Allowances
- Purchases/disbursements

- 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 (1988 Revision). 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 contract expenditures.

1. Segregation of duties within the accounting department are not adequate.
2. Accounting policies and procedures manual had not been prepared.

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. However, we believe that none of the matters described above are material weaknesses.

This report is intended for the information of IIE's management and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report if a matter of public record.

Clifton, Gunderson & Co.

Baltimore, Maryland
December 22, 1992

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REPORTABLE CONDITIONS

1. Segregation of duties within the accounting department were not adequate.

CONDITION:

IIE did not segregate duties within the accounting department to ensure that one individual did not have access to all parts of the cash disbursement cycle. One individual in the accounting department had the authority, or had the opportunity, to initiate a payment request, approve the request, acquire a check and use the check signing machine.

CRITERIA:

To prevent the misuse of funds, duties should be adequately segregated within the accounting department.

CAUSE:

IIE management believes adequate segregation exists.

EFFECT:

Lack of adequate segregation of duties within the accounting department increases the risk of the misappropriation of funds.

RECOMMENDATION:

IIE should closely review the cash disbursement cycle, including the internal controls, and where appropriate, segregate the duties of the staff so that one individual does not have the ability to control all key aspects of a transaction.

IIE'S RESPONSE:

Requests for payment are normally made by IIE staff outside of the Controller's division. A very small number of payment requests are generated by Controller's staff. These include payments for travel, tuition, and communications costs.

No one individual has ever had the opportunity to initiate a payment request, approve the request, acquire a check and use the check signing machine. In addition, all checks are either mailed directly by Controller's staff or signed for if picked up in person.

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Management has allowed the Disbursements Chief to initiate, approve, and acquire checks when necessary. This would be done for confidential purposes only. Examples are payments involving personnel or legal matters. In such cases, a complete paper trail would be maintained for the transaction. The Disbursements Chief never uses the check signing machine.

In addition, all disbursements over \$5,000 must be initialed by two managers in the Controllers division.

2. Accounting policies and procedures manual had not been prepared.

CONDITION:

Important accounting policies and procedures had not been documented or had been issued as memorandums and not updated over a long period of time. No consolidated accounting manual for the accounting department had ever been prepared and issued to the IIE staff.

CRITERIA:

Accounting policies and procedures manuals establish internal controls, provide consistency when recording transactions and reduce the possibilities of errors by the staff.

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

IIE should closely review the accounting system, including internal controls, and incorporate the memorandums already prepared into a consolidated accounting policies and procedures manual.

IIE'S RESPONSE:

IIE has documented accounting policies and procedures in a variety of ways, e.g., staff memorandums, administrative manuals, and written internal procedures. IIE is in agreement with the recommendation that management prepare a consolidated accounting policies and procedures manual.

APPENDIX I

REPORT DISTRIBUTION LIST

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