

Financial Audits

**AUDIT OF
INTERNATIONAL SCIENCE
AND TECHNOLOGY INSTITUTE, INC.
Federal Contracts
July 1, 1988 to June 30, 1991**

**Report No. 0-000-93-13-N
July 23, 1993**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 23, 1993

MEMORANDUM FOR FA/OP, Frederick A. Will

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

SUBJECT: Audit of International Science and Technology
Institute, Inc.

The accounting firm of KPMG Peat Marwick performed a financial-related audit of International Science and Technology Institute, Inc. (ISTI). Five copies of the report are enclosed for your action.

ISTI is a private for-profit consulting firm located in the District of Columbia. ISTI provides technical, managerial, and financial expertise to aid economic and social development in over 60 countries. KPMG Peat Marwick audited approximately \$37.3 million in expenditures incurred by ISTI for U.S. Government contracts during the period July 1, 1988 through June 30, 1991. During this period, A.I.D. was the only Federal agency that had contracts with ISTI.

The audit objectives were to determine whether: the Statements of A.I.D. Contract Expenditures were presented fairly in accordance with the terms of contracts; the internal control structure was adequate; and ISTI had complied with the terms of contracts and with applicable laws and regulations.

KPMG Peat Marwick determined that ISTI's Statements of A.I.D. Contract Expenditures were presented fairly in all material respects. However, the audit disclosed \$2,831 in questioned costs. The questioned costs represent \$1,505 in potentially ineligible costs and \$1,326 in costs that were considered unsupported.

The auditors did not adjust ISTI's indirect cost rates, submitted to A.I.D., for fiscal years 1989, 1990, and 1991 because the questioned indirect costs did not affect the rates. The indirect cost rates submitted to A.I.D. for these years are shown in Appendix A.

With respect to ISTI's internal control structure and compliance with the provisions in contracts and applicable laws and regulations, the auditors noted no material weaknesses or noncompliance. However, the auditors noted nine matters involving

ISTI's internal control structure that needed improvement. The most significant of these were that (1) ISTI exceeded line-item budgets without prior approval from A.I.D. and (2) did not require expense reports to be prepared in ink. However, ISTI obtained subsequent approval from A.I.D. for exceeding the line-item budgets. Regarding the expense reports, the auditors found that underlying documentation was sufficient to determine that the associated costs were reasonable and allowable. As ISTI agreed to correct the noted conditions, we are not making any recommendations about these matters. ISTI's response is included in its entirety as Appendix E to this report.

Recommendation No. 1: We recommend that the A.I.D.'s Office of Procurement (FA/OP) resolve the \$2,831 (\$1,505 ineligible and \$1,326 unsupported) in questioned costs (page 11).

Recommendation No. 2: We recommend that A.I.D.'s Office of Procurement (FA/OP) finalize the indirect cost rates with the International Science and Technology Institute, Inc. for the period July 1, 1988 through June 30, 1991 (pages 30-32)

These recommendations will be included in the Inspector General's Audit Recommendation Follow-up System. Within 30 days, please provide this Office with the status of actions planned or taken to resolve and close these recommendations.



Certified Public Accountants

AUDIT OF
INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC.
Federal Contracts for the period July 1, 1988 to June 30, 1991

(With Independent Auditors' Reports Thereon)

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

Table of Contents

Transmittal letter and summary	Page
Background	3
Audit objectives and scope	4
Results of the audit	5
Management comments	7
Contract Expenditures	
Independent auditors' report	8
Statements of contract expenditures	8A-F
Note to the statements of contract expenditures	9
Compliance with the terms of the contract and applicable laws and regulations	
Independent auditors' report	10
Schedule of questioned costs	11
Schedule of findings	12
Internal controls	
Independent auditors' report	19
Schedule of findings	21
Appendix	
Indirect cost rates	30
Unsupported costs - direct and indirect costs	33
Direct costs not prepared in accordance with A.I.D guidelines	34
Direct costs compliance findings by ISTI job number	35
Management response	36

KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

February 19, 1993

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

Dear Mr. Howard:

This report presents the results of the audit we were engaged to perform of the International Science and Technology Institute, Inc. (ISTI), US Agency for International Development (A.I.D.) contracts for the period July 1, 1988 to June 30, 1991.

BACKGROUND

ISTI is a private for-profit, consulting firm providing assistance for developing countries through technical, managerial and financial expertise in the field of economic and social development. In its work in more than 60 countries, ISTI has forged in-country partnerships with individuals at the local, provincial, and national levels. The ISTI approach stresses innovation and flexibility, with a sensitivity to the cultural and geophysical factors unique to each area of the world.

ISTI performs assignments for international agencies, governments, public institutions and private firms. In addition, ISTI has established and maintains working relationships directly with foreign institutions and individuals. Since 1978, the firm has consistently provided experts with specific technical expertise, language skills and geographic experience.

AUDIT OBJECTIVES AND SCOPE

The objective was to perform a financial related audit of A.I.D. contracts from July 1, 1988 to June 30, 1991 administered by ISTI. We did not perform procedures on the subsequent period.

We performed our work in accordance with Generally Accepted Auditing Standards and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States 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:

The Statements of Contract Expenditures presents fairly the expenditures from July 1, 1988 to June 30, 1991, according to the terms of the contracts.

ISTI's internal control structure was sufficient to capture data under the contracts and was adequate for the contracts' purposes.

ISTI complied with the terms of the contracts and applicable laws and regulations, identifying unsupported costs or those not considered appropriately allocable or allowable under the contract.

The major audit procedures conducted during our work in order to meet the audit objectives consisted of:

Salaries

Analyzing employees' salaries individually to verify salary increases were in accordance with the terms of the contracts.

Examining employees' timesheets on a selected basis to determine the propriety of the salaries charged to the contracts.

Other Direct Costs

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

Indirect Costs

Examining supporting documentation for selected indirect costs to determine the allowability of expenditures as part of the indirect cost pools. See Appendix A, A-1 and A-2 for the Indirect Cost Rates for the years ending June 30, 1989, 1990 and 1991.

Internal Control Review

Studying and evaluating ISTI's internal control structure relative to the A.I.D. contracts in order to assess the control risks and to determine our auditing procedures.

RESULTS OF THE AUDIT

Statement of Contract Expenditures

We conducted the audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General Of the United States (1988 revision). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements of Contract Expenditures is free of material misstatement.

In our opinion, the Statements of Contract Expenditures referred to above presents fairly, in all material respects, the expenditures on A.I.D. contracts for the period July 1, 1988 to June 30, 1991 in conformity with generally accepted accounting principles.

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

As part of the audit, we performed tests of ISTI's compliance with certain provisions of the contracts, 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 the following instances of noncompliance:

Direct Costs

1. Certain direct costs were unsupported.
2. Certain expenses in excess of \$25.00 did not have supporting documentation.

Payroll Costs

1. Certain vacation and holiday costs were billed to A.I.D. as direct expenses.
2. Certain salary increases were in excess of maximum allowable.
3. A timesheet did not recalculate accurately.
4. A billing to A.I.D. was mathematically inaccurate.

Indirect Costs.

1. Certain indirect costs were unsupported.

The results of our tests indicate that with respect to the items tested, ISTI complied, in all material respects, with the provisions of the contracts, laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that ISTI has not complied in all material respects, with those provisions.

Internal Control Structure

We studied and evaluated ISTI's internal control structure relative to A.I.D. contracts for the period July 1, 1988 to June 30, 1991 in order to assess the control risks and to determine our auditing procedures for the purpose of expressing an opinion on the Statement of Contract Expenditures of ISTI and not to provide assurance on ISTI's internal control structure taken as a whole.

We noted the following matters that we consider internal control findings.

Direct Costs

1. Certain costs incurred could not be traced from the general ledger detail to A.I.D. billings
2. Certain supporting documentation was not prepared in ink.
3. Certain costs in excess of \$15.00 were not adequately supported.
4. Certain costs billed to A.I.D. were in excess of allowable amounts per the contract budget.
5. Classification of expenses recorded on the general ledger did not agree with the classifications of expenses billed to A.I.D.

Payroll Costs

1. Certain timesheets were not mathematically accurate, corrections were not reviewed or signed or the timesheet was not prepared in ink.

Indirect Costs

1. Certain indirect cost timesheets were not completed adequately.
2. ISTI project directors did not document their approval on certain invoices.
3. Certain costs in excess of \$15.00 did not have adequate support.

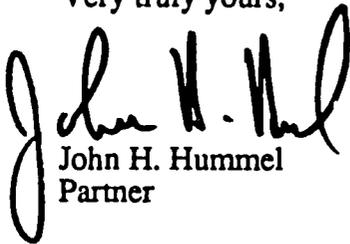
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

MANAGEMENT COMMENTS

Management's response to the questioned costs and internal control findings are included on page 36, Appendix E. Management has either concurred with the finding, accepted the finding with the provision that they will continue to look for unlocated documents or has implemented procedures to correct the finding.

* * * * *

Very truly yours,


John H. Hummel
Partner

KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on the Statements of Contract Expenditures

We have audited the accompanying Statements of Contract Expenditures of the International Science and Technology Institute, Inc. (ISTI) Agency for International Development (A.I.D.) contracts for the period July 1, 1988 to June 30, 1991. These Statements of Contract Expenditures are the responsibility of ISTI's management. Our responsibility is to express an opinion on the Statements of Contract Expenditures based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements of Contract Expenditures are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements 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 Statements of Contract Expenditures. We believe that our audit provides a reasonable basis for our opinion.

As described in note (c), the Statements of Contract Expenditures presents ISTI's expenditures related to A.I.D. contracts for the period July 1, 1988 to June 30, 1991, and are not intended to indicate ISTI's financial position, results of operations or cash flows in accordance with generally accepted accounting principles.

In our opinion, the Statements of Contract Expenditures referred to above presents fairly, in all material respects, the expenditures on A.I.D. contracts for the period July 1, 1988 to June 30, 1991 in conformity with generally accepted accounting principles.

As described in the accompanying Schedules of Findings and Questioned Costs, the Statements of Contract Expenditures includes expenditures of \$2,831.10 considered questioned costs, of which \$1,325.76 are unsupported costs. A.I.D. will make a final determination as to whether the questioned costs are allowable under the terms of the contract. The Statements of Contract Expenditures do not include any adjustment that might result from the outcome of this uncertainty.

This report is intended solely for the information of the Agency for International Development and the management of the International Science and Technology Institute, Inc. This restriction is not intended to limit the distribution of this report if it is a matter of public record.

KPMG Peat Marwick

January 8, 1993

INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC,

A.I.D. Contracts

Statement of Contract Expenditures

For the year ended June 30, 1989

ISTI Job No. -----	A.I.D. Contract Number -----	Total Direct Costs -----
1	DPE-0001-C-00-5034-00	\$254.14
2	DSPE-C-0080	652.80
3	AFR-0438-C-00-5037	238,630.75
10	608-0180-C-00-5043-00	475,614.38
13	PDC-1406-I-2085-00	(27.00)
17	AFR-0510-C-00-5039-00	(941.35)
23	AFR-0235-C-00-5041-00	16,320.49
24	DAN-5055-00-C-5113-00	236,980.15
25	685-0248-C-00-6001-00	1,043,034.64
26	LAC-0000-C-00-5113-00	445.00
27	PDC-0250-C-00-5123-00	90.00
28	AFR-0000-C-00-2065-00	2,667.08
31	OTR-0096-C-00-5201-00	(224.00)
34	PDC-0800-C-00-3027-00	(541.00)
39	HC-13006	(290.05)
43	AFR-0000-C-00-3038-00	10,061.48
45	NEB-0000-C-00-3049-00	562.00
51	DPE-5920-C-00-4008-00	110,863.57
54	LAC-5728-C-00-4032-00	(214.00)
57	ASB-0470-C-00-4118-00	(267.00)
60	383-0043-C-00-4006-00	108,920.07
65	NEB-0150-C-00-4083-00	64.80
66	DPE-3024-C-00-4063-00	8,546.19
67	AFR-0132-C-00-4030-00	82,079.58
80	DPE-5942-C-00-4085-00	60,768.62
82	AFR-0958-C-00-5008-00	119,367.58
102	AFR-0000-C-00-6023-00	158.29
110	LAC-0619-C-00-6057-00	241.00
115	ANE-0348-C-00-6062-00	244,542.20
120	527-0000-C-00-6453-00	63,275.19
125	263-0152-C-00-6123-00	46,746.52
126	DPE-3038-C-00-6064-00	122,482.88
127	LAC-0001-C-00-7003-00	5.00
135	ANE-0305-C-00-7027-00	279,211.70
165	391-0469-C-00-7167-00	141,755.46
166	ANE-0289-C-00-7044-00	11,883.69
167	LAC-0000-C-00-7050-00	41,829.96
170	PDC-2002-C-00-7184-00	323,302.22
171	LAC-0619-C-00-7038-00	392,756.54
172	PO 695-87-115	265.30

(continued)

INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC,

A.I.D. Contracts

Statement of Contract Expenditures

For the year ended June 30, 1989 (continued)

ISTI Job No.	A.I.D. Contract Number	Total Direct Costs
*****	*****	*****
173	DEP-3024-Z-00-7079-00	\$177,586.42
177	657-0012-C-00	87.43
178	DHR-5823-C-00-8006-00	65,011.75
181	517-0000-0-00-8084-00	26.00
182	DPE-5920-A-00-5056-00	(2,721.86)
185	DPE-5951-Z-00-8004-00	643,308.97
191	511-0573-C-00-8245	60,945.41
198	263-0152-C-00-9001-00	91,321.95
199	DPE-5973-Z-00-2081-00	45,741.21
200	ANE-0354-C-00-8030-00	1,802,012.27
201	DPE-3024-Z-00-8078-00	188,645.95
206	DAN-4084-Z-00-8034-00	75,728.61
208	625-0621	29,991.44
215	383-0100-C-00-9019-00	1,319.18
219	493-0340-C-00-9072-00	45,927.77
220	5942-C-00-4085-00	504.79
296	POE-0001-I-00-2059-00	126.16

Total costs claimed		\$7,407,438.32

See accompanying notes to the Statements of Contract Expenditures.

INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC,

A.I.D. Contracts

Statement of Contract Expenditures

For the year ended June 30, 1990

ISTI Job No. *****	A.I.D. Contract Number *****	Total Direct Cost *****
3	AFE-0438-C-00-5037	\$90,429.00
10	608-0180-C-00-5043-00	504,229.00
24	DAN-5055-00-C-5113-00	255,061.00
25	685-0248-C-00-6001-00	1,109,753.00
67	AFR-0132-C-00-4030-00	407.00
80	DPE-5942-C-00-4085-00	3,479.00
82	ARF-0958-C-00-5008-00	194,799.00
115	ANE-0348-C-00-6062-00	269,229.00
121	PDC-0000-I-00-6134-00	1,531.00
125	263-0152-C-00-6123-00	(152.00)
126	DPE-3038-C-00-6064-00	114,002.00
135	ANE-0305-C-00-7027-00	227,696.00
151	PDC-0000-I-00-6134-00	44.70
162	PDC-0000-I-00-6134-00	(4,975.74)
165	391-0469-C-00-7167-00	70,690.00
166	ANE-0289-C-00-7044-00	34,824.00
170	PDC-2002-C-00-7184-00	254,291.00
171	LAC-0619-C-00-7038-00	246,471.00
178	DHR-5823-C-00-8006-00	139,051.00
185	DPE-5951-Z-00-8004-00	740,351.00
197	PDC-0000-I-00-6134-00	254.93
198	263-0152-C-00-9001-00	1,540.00
199	DPE-5973-Z-00-8081-00	132,757.00
200	ANE-0354-C-600-8030-00	1,865,894.00
201	DPE-3024-Z-00-8078-00	273,273.00
204	PDC-0000-I-00-6134-00	1,873.56
205	PDC-0000-I-00-6134-00	3,821.43
206	DAN-4084-Z-00-8034-00	35,415.00
208	625-0621	94,259.12
213	PDC-0000-I-00-6134-00	1,039.54
214	PDC-0000-I-00-6134-00	4,376.94
215	383-0100-C-9019-00	509,931.00

(continued)

INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC.

A.I.D. Contracts

Statement of Contract Expenditures

For the year ended June 30, 1990 (continued)

ISTI Job No. -----	A.I.D. Contract No. -----	Total Direct Cost -----
216	PDC-0000-I-00-6134-00	\$26,322.78
217	PDC-0000-I-00-6134-00	632.94
219	493-0340-C-00-9072-00	3,502.00
221	DHR-5447-Z-00-7074-00	4,295.36
223	PDC-0095-I-00-9097-00	36,646.99
224	550-0288-C-00-9414-00	21,862.00
226	279-0249-0-00-9078-00	20,687.57
230	383-0100-A-00-0019-00	54,241.00
233	279-0052-C-00-0016-00	18,776.32
234	278-0265-C-00-0135-00	33,830.40
239	391-0475-0-00-0822	10,878.85
250	383-0090-C-00-0031-00	39,478.00
291	PDC-0000-I-00-6134-00	17,245.20
293	PDC-0000-I-00-6134-00	3,837.02
293	263-152	39,376.00
294	PDC-0000-I-00-6134-00	18,671.50
297	PDC-0000-I-00-6134-00	4,694.60
299	PDC-0000-I-00-6134-00	34,951.20
300	DAN-5116-C-00-9114-00	348,184.00

Total costs claimed		\$7,913,759.21

See accompanying notes to the Statements of Contract Expenditures.

INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC,

A.I.D. Contracts

Statement of Contract Expenditures

For the year ended June 30, 1991

ISTI Job No. -----	A.I.D. Contract Number -----	Total Direct Cost -----
10	608-0180-C-00-5043-00	\$86,292.57
24	DAN-5055-00-C-5113-00	118,922.41
25	685-0248-C-00-6001-00	982,510.58
82	AFR-0958-C-00-5008-00	13,153.27
115	ANE-0348-C-00-6062-00	227,504.28
126	DPE-3038-C-00-6064-00	24,121.50
166	ANE-0289-C-00-7044-00	83,698.54
170	PDC-2002-C-00-7184-00	62,174.60
171	LAC-0619-C-00-7038-38	4,398.53
185	DPE-5951-Z-00-8004-00	596,816.41
199	DPE-5973-Z-8081-00	93,666.27
200	ANE-0345-C-00-8030-00	1,933,432.66
201	DPE-3024-Z-00-8078-00	379,855.12
206	DAN-4084-Z-00-8034-00	24,246.80
215	383-0100-C-00-9019-00	531,615.12
223	PDC-0095-I-00-9097-00	201,509.12
224	520-0288-C-00-9414-00	24,292.27
230	383-0100-A-00-0019-00	272,963.17
233	279-0052-C-00-0016	19,972.02
234	278-0265-C-00-0135-00	9,189.75
239	391-0475-0-00-0822	7,192.07
241	COMMERCIAL	2,232.08
242	DPE-3038-C-00-0046-00	91,687.40

(continued)

INTERNATIONAL SCIENCE AND TECHNOLOGY
INSTITUTE, INC,

A.I.D. Contracts

Statement of Contract Expenditures

For the year ended June 30, 1991 (continued)

ISTI Job No.	A.I.D. contract Number	Total Direct Costs
-	-----	-----
243	AID-#263-0203	\$47,699.98
244	DAN-5055-C-00-0054-00	185,989.04
245	DAN-5110-C-00-0013-00	197,253.38
247	DPE-3038-C-00-0046-00	29,487.88
250	383-0090-C-00-0031-00	1,129,435.84
251	DPE-5939-C-00-7003-00	12,412.07
252	522-9108-C-00-1009-00	15,070.30
255	ALABAMA A & M UNIV.	36,418.06
256	383-0090-C-00-0031	616.19
275	LAC-0657-C-00-0051-00	233,238.46
278	COMMERCIAL	1,843.27
300	DAN-5116-C-00-9114-00	801,233.47
301	DAN-5116-Q-00-9115-00	285,714.66

Total costs claimed		\$8,767,859.14

See accompanying notes to the Statements of Contract Expenditures.

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

Notes to the Statements of Contract Expenditures

For the period July 1, 1988 to June 30, 1991

Nature of Operations and Summary of Significant Accounting Policies

(a) **Background**

ISTI is a private for-profit, consulting firm providing assistance for developing countries through technical, managerial and financial expertise in the field of economic and social development. In its work in more than 60 countries, ISTI has forged in-country partnerships with individuals at the local, provincial, and national levels. The ISTI approach stresses innovation and flexibility, with a sensitivity to the cultural and geophysical factors unique to each area of the world.

ISTI performs assignments for international agencies, governments, public institutions and private firms. In addition, ISTI has established and maintains working relationships directly with foreign institutions and individuals. Since 1978, the firm has consistently provided experts with specific technical expertise, language skills and geographic experience.

(b) **Basis of Accounting**

Expenditures are related to the disbursing of funds provided by A.I.D. to accomplish the objectives of the projects discussed above. Expenditures are recognized as incurred, in accordance with generally accepted accounting principles.

(c) **Basis of Presentation**

The accompanying Statements of Contract Expenditures presents ISTI's expenditures relating to A.I.D. contracts for the period July 1, 1988 to June 30, 1991 and is not intended to present ISTI's financial position, results of operations or cash flows in accordance with generally accepted accounting principles.



Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on Compliance with the Terms of the Contracts and Applicable Laws and Regulations

We have audited the Statements of Contract Expenditures of the International Science and Technology Institute, Inc. (ISTI) US Agency for International Development (A.I.D.) contracts for the period July 1, 1988 to June 30, 1991, and have issued our report thereon dated January 8, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements of Contract Expenditures is free of material misstatement.

Compliance with laws, regulations, contract provisions and binding policies and procedures applicable to ISTI is the responsibility of ISTI's management. As part of our audit, we performed tests of ISTI's compliance with certain provisions of laws, regulations, contract provisions. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Statements of Contract Expenditures are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

Our testing of transactions and records selected disclosed instances of noncompliance with those laws, regulations and provisions. All instances of noncompliance that we found and the contracts to which they relate, are identified in the accompanying Schedules of Findings and Questioned Costs.

The result of our tests indicate that, with respect to the items tested, ISTI complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that ISTI had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the Agency for International Development and the management of the International Science and Technology Institute, Inc. This restriction is not intended to limit the distribution of this report if it is a matter of public record.

KPMG Peat Marwick

January 8, 1993

**INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.
A.I.D. Contracts**

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

Schedule of Questioned Costs

For the Period July 1, 1988 to June 30, 1991

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

- a) Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b) Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c) Conform to any limitations or exclusions set forth in the agreement in which the project is based.
- d) Be adequately documented.

Ineligible costs are all those costs unallocable and/or unallowable in accordance with the terms of the contract, applicable laws and regulations. Unsupported costs are costs not properly supported by the recipient.

The following costs were questioned because they were not adequately supported or were not in compliance with provisions of the contracts, applicable laws or regulations:

<u>Finding</u>	<u>Ineligible Costs</u>	<u>Unsupported Costs</u>	<u>Total</u>
Direct Costs			
1	\$--	581.71	581.71
2	150.67	--	150.67
Payroll Costs			
1	843.44	--	843.44
2	269.31	--	269.31
3	241.92	--	241.92
Indirect Costs			
1	\$--	744.05	744.05
Total Questioned Costs	<u>\$1,505.34</u>	<u>\$1,325.76</u>	<u>\$2,831.10</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

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

Schedule Of Findings - Direct Costs

For the Period July 1, 1988 to June 30, 1991

1. **Certain direct costs were unsupported**

Condition:

In 5 out of 320 direct costs tested, ISTI could not locate supporting documentation to permit a determination of allowability under the contract.

Documentation not located \$581.71 (Appendix B)

Criteria:

FAR 31.201-6 (c) requires that "the detail and depth of records required as backup support for proposal, billings, or claims shall be that which is adequate..."

Effect:

The allowability of the expenditures could not be determined. These costs are included in the Schedule of Questioned Costs as unsupported costs.

2. Certain expenses in excess of \$25.00 did not have supporting documentation

Condition:

In 4 out of 320 direct costs tested, ISTI did not have supporting documentation for reimbursed expenses exceeding \$25.00.

Date	ISTI Job #	Vendor	Expense Classification	Voucher	Total Expense	Questioned Amount
04/30/91	250	Sparks Commodities	Grd Transp	24045	\$147.31	\$35.00
12/21/89	115	Idelfonzo Cruz	ODC-Travel	17579	34.36	34.36
12/31/90	215	Estelle Twang	Per Diem	23087	3,333.00	33.50
05/31/91	25	Field Expenses	Vehicle exp.	JE	<u>1,608.21</u>	<u>47.81</u>
			Total		<u>\$5,122.88</u>	<u>\$150.67</u>

Criteria:

FAR 31.205-46 (a) (3) (iv) - Travel Costs - states that "Documentation to support actual costs incurred shall be in accordance with the contractor's established practices provided that a receipt is required for each expenditure in excess of \$25.00."

Cause:

Employees submitted expense reports with certain expenses in excess of \$25.00 without receipts.

Effect:

\$150.67 is included as ineligible costs in the Schedule of Questioned Costs.

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

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

Schedule of Findings - Payroll

For the Period July 1, 1988 to June 30, 1991

1. Certain vacation and holiday costs were billed to A.I.D. as direct expenses

Condition:

In 3 out of 184 payroll costs tested, ISTI billed A.I.D. vacation and holiday costs as direct labor.

<u>Pay Period</u>	<u>ISTI Job #</u>	<u>Employee Name</u>	<u>Questioned Hours</u>	<u>Pay Rate</u>	<u>Questioned Amount</u>
01/11/91	200	Anne Demaret	40	\$ 15.13	\$605.20
07/15/88	80	Dan Campbell	8	13.91	111.28
10/12/90	25	Timothy Rosche	8	15.87	<u>126.96</u>
				Total	<u>\$843.44</u>

Criteria:

FAR 31.202 (a) - Direct Costs - states that "No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective."

Cause:

Indirect costs were billed to A.I.D. as direct costs.

Effect:

\$843.44 of vacation and holiday costs were billed as direct labor to A.I.D. This is included as an ineligible cost in the Schedule of Questioned Costs.

2. Certain salary increases were in excess of maximum allowable

Condition:

In 5 out of 25 payroll disbursements tested, ISTI exceeded the maximum allowable salary increase per the contract guidelines and the amounts exceeding the maximum increase were not approved by the A.I.D. Contracting Officer.

<u>Pay period</u>	<u>Hours related to contract</u>	<u>Employee Name</u>	<u>Job Number</u>	<u>Pay increase over contract limitation</u>	<u>Contract hours tested as a percent of total yearly hours</u>	<u>Questioned Costs</u>
06/16/89	38	Friday, Barbara	171	\$4,000.00	1.8%	\$73.07
09/01/89	30	Carlaw, Raymond	115	1,712.48	3.8	65.88
10/13/89	72	Evans, Judith Coker	170	1,979.80	3.4	68.53
11/24/89	65	Mclees, Suzanne	115	440.00	3.1	13.75
05/17/91	80	Lewing, Tara	185	1,250.00	3.8	<u>48.08</u>
					Total	<u>\$269.31</u>

Criteria:

ISTI job number 115, (A.I.D. contract number ANE-0348-C-00-6062-00), Article B paragraph (7)(2) and ISTI job number 185, (A.I.D. DPE-5951-Z-00-8004-00) Article H paragraph (4)(a)(4), annual salary increases of not more than 5% are allowed to be granted after the completion of 12 months of satisfactory work.

ISTI job number 170, (A.I.D. contract number PDC-2002-C-00-7184-00) Article B paragraph (7)(2), annual salary increases may not exceed more than 4% for a direct employee, and 3% for an intermittent employee. This increase is allowed to be granted after the completion of 12 months of satisfactory work.

Prior written approval should be received from the A.I.D. Contracting Officer if the increase exceeds the contract limitations.

Effect:

\$269.31 of salaries are in excess of the maximum allowable amount established by the A.I.D. contracts. This amount is included as ineligible costs in the Schedule of Questioned Costs.

Recommendation:

ISTI should obtain prior written approval from the A.I.D. contracting officer before exceeding the contract limitation on salary increases.

3. **A timesheet did not recalculate accurately**

Condition:

In 1 out of 184 payroll costs tested, the amount billed to A.I.D. did not agree to the timesheet.

<u>Pay Period</u>	<u>ISTI Job #</u>	<u>Employee Name</u>	<u>Questioned Hours</u>	<u>Pay Rate</u>	<u>Questioned Amount</u>
9/1/89	185	Erkham Longmire	24	\$10.08	<u>\$241.92</u>

Criteria:

FAR 31.201-6(c) requires that "the detail and depth of records required as backup support for proposals, billings, or claims shall be that which is adequate..."

Cause:

The timesheet was not reviewed adequately to prevent a mathematical error.

Effect:

\$241.92 was billed to A.I.D. in excess of the hours recorded on the timesheet. This amount is included as ineligible costs in the Schedule of Questioned Costs.

Recommendation:

ISTI should review and recalculate timesheets to ensure that appropriate amounts are billed to A.I.D.

4. **A billing to A.I.D. was mathematically inaccurate**

Condition:

In 1 out of 184 payroll disbursements tested, ISTI did not bill A.I.D. for work performed on an A.I.D. contract.

<u>Pay Period</u>	<u>ISTI Job #</u>	<u>Voucher Number</u>	<u>Billed to A.I.D.</u>	<u>Supporting documentation</u>	<u>Questioned Amount</u>
8/31/90	185	28	\$ 10,117.16	\$ 10,636.36	<u><u>\$(519.20)</u></u>

Criteria:

Billings should be mathematically accurate.

Cause:

ISTI did not include Steven Waugh's salary in an A.I.D. billing.

Effect:

\$519.20 of allowable costs were not billed to A.I.D. This is included as a reduction of ineligible costs in the Schedule of Questioned Costs.

Recommendation:

ISTI should review billings to A.I.D. to ensure that the billings are mathematically accurate.

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

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

Schedule Of Findings - Indirect Costs

For the Period July 1, 1988 to June 30, 1991

1. Certain indirect costs were unsupported

Condition:

In 5 out of 268 indirect costs tested, ISTI could not locate supporting documentation to permit a determination of allowability under the contract

Documentation not located \$744.05 (Appendix B)

Criteria:

FAR 31.201-6 (c) requires that "the detail and depth of records required as backup support for proposal, billings, or claims shall be that which is adequate..."

Effect:

The allowability of the expenditures could not be determined. These costs are included in the Schedule of Questioned Costs as unsupported costs.

Independent Auditors' Report on the Internal Control Structure

We have audited the Statements of Contract Expenditures of the International Science and Technology Institute, Inc. (ISTI) Agency for International Development (A.I.D.) contracts for the period July 1, 1988 to June 30, 1991, and have issued our report thereon dated January 8, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements of Contract Expenditures are free of material misstatement.

In planning and performing our audit of the Statements of Contract Expenditures, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statements of Contract Expenditures and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

The management of ISTI 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 the Statements of Contract Expenditures in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate.

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

- Accounting process
- Payroll procedures
- Disbursement procedures

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by American Institute of Certified Public Accountants. A material weakness is a 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 Statements of Contract Expenditures being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information of the Agency for International Development and the management of the International Science and Technology Institute, Inc. This restriction is not intended to limit the distribution of this report if it is a matter of public record.

KPMG Peat Marwick

January 8, 1993

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

Internal Controls - Direct Costs

Schedule Of Findings

For the Period July 1, 1988 to June 30, 1991

1. **Certain costs incurred could not be traced from the general ledger detail to A.I.D. billings**

Condition:

Expenses incurred during FY 1989 could not be traced from ISTI's general ledger to A.I.D. billings. A sample was selected from FY 1989 A.I.D. billings and agreed back to the general ledger detail.

In FYs 1990 and 1991, job reconciliations were prepared to provide detail of A.I.D. billings. However, certain invoices could not be agreed to A.I.D. billings because expenses were not billed in a consistent manner.

Criteria:

Clause 14 (b) of the General Provisions of Cost Reimbursement type contracts states that: "... the contractor shall maintain, and the Contracting Officer or his representatives shall have the right to examine books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred for the performance of this contract (emphasis added)."

Cause:

In FY 1989, job reconciliations were not prepared which detailed when an expense recorded in the general ledger was billed to A.I.D. However, once an expenditure was billed to A.I.D., the bill provided detail which agreed to the general ledger.

In FYs 1990 and 1991, ISTI prepared job reconciliations to detail the expenses and provide a trail from the general ledger to A.I.D. billings. However, the job reconciliations did not allow general ledger expenses to be located in A.I.D. billings in a reasonable time period.

Effect:

Because we were able to perform procedures to agree the bills remitted to A.I.D. to the general ledger system tested, we do not question the costs associated with this finding.

Recommendation:

ISTI should implement additional procedures in its billing cycle. These procedures should provide details documenting when the invoice was billed to A.I.D.

2. Certain supporting documentation was not prepared in ink

Condition:

In 52 out of 320 direct costs tested, expenses reports were not prepared in ink. In addition, changes made to supporting documentation were not in ink or initialed.

Documentation not in ink \$118,982.84 (Appendix C)

Criteria:

FAR 31.201-6 (c) requires that "the detail and depth of records required as backup support for proposals, billings, or claims shall be that which is adequate..." Support for expenses billed to A.I.D. should be in ink to prevent unauthorized changes.

Cause:

ISTI did not require expense reports and changes made to correct errors to be in ink.

Effect:

ISTI billed A.I.D. for costs which the support is not in ink. Because the expense reports include the adequate documentation to support the claimed expenses the costs are reasonable and allowable as costs of the A.I.D. contracts and are not questioned.

Recommendation:

ISTI should require all expense reports to be submitted in ink. Expense reports not submitted in ink should be returned to the preparer for resubmission and should not be billed to A.I.D until proper support is received.

3. Certain costs in excess of \$15.00 were not adequately supported

Condition:

In 5 out of 320 direct costs tested, ISTI did not have adequate support.

<u>ISTI Job No.</u>	<u>Date</u>	<u>Expense Classification</u>	<u>Vendor</u>	<u>Voucher Number</u>	<u>Amount</u>
10	03/31/90	Ground Transp	Bronck Dutriewick	18801	\$74.56
135	08/31/89	Ground Transp	Arthur Reingold	16207	79.00
170	08/31/88	Local Transp	Tener Ekelberry	12667	53.95
250	08/31/88	Local Transp	Robert Landman	12236	73.00
250	04/30/91	Ground Transp	Sparks Commodities	24045	<u>20.25</u>
					<u>\$300.76</u>

Criteria:

ISTI's internal control policies require that expenditures in excess of \$15.00 be supported by adequate documentation.

Cause:

Expenses in excess of \$15.00 were submitted without adequate support.

Effect:

ISTI did not follow its internal control policy in obtaining adequate support. Because the individual expense amounts are less than \$25.00 (A.I.D. requires adequate support for expenses in excess of \$25.00, FAR 31.205-46 (iv)) we do not question these costs.

Recommendation:

ISTI should not make disbursements for expenditures incurred without adequate support required under its internal control policies and procedures.

4. **Certain costs billed to A.I.D. were in excess of allowable amounts per the contract budget**

Condition:

In 5 out of 15 direct costs tested, costs within the original contract budget exceeded the allowable amount per the contract provisions.

ISTI job #	Fiscal year	Voucher	Date	Expense description	Amount billed over allowable contract percent
80	1989	44	09/21/89	Expense	\$10,337.67
171	1989	20	06/30/89	Consultants	105,073.98
135	1990	32	07/20/90	Other Direct	3,810.22
25	1991	78	06/30/91	Consultants	2,626.22
185	1991	45	06/30/91	Other Direct	<u>40,309.26</u>
Total					<u>\$162,157.35</u>

Criteria:

Each contract includes a detail budget. Contracts also include a provision which allows ISTI to exceed budget line items by a certain percent. The amount charged to each line item should be within the contract allowable percent.

Effect:

ISTI exceeded budget line items by \$162,157.35. Because ISTI received subsequent authorization from A.I.D. to adjust the budget on the contracts tested, the effect of this finding is not included in the Schedule of Questioned Costs. We agreed contract amendments to subsequent A.I.D. authorization.

Recommendation:

Contract billings should be reviewed by ISTI to determine if amounts charged are in accordance within the contract's budget line items.

5. **Classifications of expenditures recorded on the general ledger did not agree with the classifications of expenditures billed to A.I.D.**

Condition:

In 3 out of 320 direct costs tested, expenditures were billed to A.I.D. under budget classifications which were different than the general ledger classification.

ISTI Job No.	Date	Vendor	Expense Classification Per G/L	Proper Expense Classification	Voucher No.	Amount
135	12/31/89	Deborah Elickson Brown	Subcontract	Other direct	17468	1,113.14
215	11/30/89	Ernst & Whinney	Subcontract	Acct/Fin. mgt	16962	6,995.00
215	6/30/90	Ernst & Whinney	Consulting	Acct/Fin. mgt	20393	<u>4,150.00</u>
					Total	<u>\$12,258.14</u>

Criteria:

Expenses should be billed to A.I.D. under the same expense classification as in the general ledger.

Cause:

Billings made to A.I.D. were not reviewed to ensure that expenses were classified consistently with the general ledger classification.

Effect:

The \$12,258.14 is not included as a questioned cost because the costs were billed to A.I.D. in the correct expense classification.

Recommendation:

All expenditures billed to A.I.D. should be reviewed and reconciled with the general ledger classifications and underlying supporting documentation. Adjustments to the general ledger should be made when applicable.

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

Internal Controls - Payroll

Schedule Of Findings

For the Period July 1, 1988 to June 30, 1991

1. Certain timesheets were not mathematically accurate, corrections were not reviewed or signed, or the timesheet was not prepared in ink

Condition:

In 5 out of 184 payroll costs tested, the timesheet was not mathematically accurate, corrections were not initialed, or the timesheet had not been prepared in ink.

<u>ISTI Job #</u>	<u>Employee</u>	<u>Hours</u>	<u>Date</u>	<u>Payroll Amount</u>
201	Barbara Pillsbury	240	11/09/90	\$8,853.60
300	David Nelson	60	12/07/90	2,079.00
250	Nishanie Perera	3	07/20/90	30.30
171	Robert Landman	34	11/04/88	1,177.08
185	Erkhan Langmere	69	09/01/89	<u>695.52</u>
	Total			<u>\$12,835.50</u>

Criteria:

FAR 31.201-6 (c) requires that "the detail and depth of records required as backup support for proposals, billings, or claims shall be that which is adequate..." Support for expenses billed to A.I.D. should be in ink to prevent unauthorized changes.

Effect:

The effect of this finding for the timesheet not being mathematically accurate is included in payroll compliance finding number 3, as ineligible costs, in the Schedule of Questioned Costs. We do not question the other 4 timesheets because the costs are reasonable and allowable as costs of the contracts.

Recommendation:

Timesheets should be prepared in ink, reviewed and approved by appropriate ISTI personnel. Corrections should be documented in ink and initialed by the employee.

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

A.I.D. Contracts

Internal Controls

Schedule Of Findings - Indirect Costs

For the Period July 1, 1988 to June 30, 1991

1. Certain indirect cost timesheets were not completed adequately

Condition:

In 3 out of 268 indirect costs tested, timesheets were in pencil, not signed, or not approved by supervisors.

<u>Employee</u>	<u>Date</u>	<u>Amount</u>
Ron Black	05/31/89	\$1,671.80
James R, Echols	05/31/89	1,644.00
James Jeffers	04/05/91	<u>900.24</u>
Total		<u>\$4,216.04</u>

Criteria:

FAR 31.201-6 (c) requires that "the detail and depth of records required as backup support for proposal, billings, or claims shall be that which is adequate..." Support for expenses billed to A.I.D. should be in ink to prevent unauthorized changes.

Effect:

Due to a lack of control timesheets may not be not signed, approved or in ink. This is not considered a questioned cost because the expenses are reasonable as indirect costs.

Recommendation:

ISTI should institute a system to ensure that A.I.D. regulations are followed.

2. ISTI project directors did not document their approval on certain invoices

Condition:

In 6 out of 268 indirect costs tested, the invoice did not include documented approval by the project director.

<u>Vendor</u>	<u>Voucher</u>	<u>Date</u>	<u>Invoice amount</u>
Brenton Int'l Inc.	13134	12/09/88	1,209.00
Mclean Fin Plan	16468	10/13/89	800.00
Maryland Nat'l Bank	17956	01/02/90	7,781.92
Grant Thornton	17870	02/09/90	1,375.00
Studebaker-Worth	15920	08/31/89	272.83
Wright & Co.	24018	03/31/89	<u>3,000.00</u>
Total			<u>\$14,438.75</u>

Criteria:

All expenses should be authorized by the project director before being processed.

Cause:

Inadequate review techniques performed by ISTI have allowed for vouchers to be issued and billed to A.I.D. without proper approval.

Effect:

This is not included in the Schedule of Questioned Costs because the indirect costs are allowable and reasonable as indirect expenses in the indirect cost pool.

Recommendation:

Project directors should document their approval on invoices as evidence of their review.

3. Certain costs in excess of \$15.00 did not have adequate support

Condition:

In 3 out of 268 indirect costs tested, ISTI did not have adequate support for costs in excess of \$15.00.

<u>Employee</u>	<u>Date</u>	<u>Voucher</u>	<u>Amount</u>
Leigh Miller	11/30/88	12745	\$192.50
John Lawson	03/31/89	14065	70.00
Maythis Williams	09/04/90	21645	<u>51.79</u>
	Total		<u>\$314.29</u>

Criteria:

ISTI's internal control policies require that expenditures in excess of \$15.00 be supported by adequate documentation.

Effect:

ISTI did not follow its internal control policy in obtaining adequate support. Because the individual expense amounts are less than \$25.00 (A.I.D. requires adequate support for expenses in excess of \$25.00, FAR 31.205-46 (iv)) we do not question these costs.

Recommendation:

ISTI should not make disbursements for expenditures incurred without adequate support as required under its internal control policies and procedures.

Appendix A

Indirect Cost Rate 1989

	<u>Amounts</u>	Less: Questioned Costs	<u>Amounts</u>	<u>Rate</u>
Fringe benefits				
Claimed fringe benefits	<u>\$1,240,074</u>		<u>\$1,240,074</u>	<u>34.12%</u>
Base - total direct and indirect labor	<u>\$3,634,761</u>		<u>\$3,634,761</u>	
 Overhead				
Claimed overhead	\$1,220,705		\$1,220,705	
Fringe benefits on overhead labor (34.12% x's 451,994)	<u>\$154,220</u>		<u>\$154,220</u>	
Claimed overhead	<u>\$1,374,925</u>		<u>\$1,374,925</u>	<u>41.17%</u>
Base - direct labor plus fringe benefits (34.12% + 2,490,304)	<u>\$3,339,996</u>		<u>\$3,339,996</u>	
 General and administrative (G&A)				
Claimed G&A expenses	\$1,241,308		\$1,241,308	
Fringe benefits on G&A labor (34.12% x's \$692,462)	<u>\$236,268</u>		<u>\$236,268</u>	
Claimed G&A	<u>\$1,477,576</u>		<u>\$1,477,576</u>	<u>15.06%</u>
 Base - total costs less G&A				
Direct labor and fringe benefits	\$3,339,996		\$3,339,996	
Overhead	\$1,374,926		\$1,374,926	
Other direct costs	\$5,693,652		\$5,693,652	
Unallowable costs	\$192,845		\$192,845	
Less: direct subcontractors	<u>(\$787,200)</u>		<u>(\$787,200)</u>	
	<u>\$9,814,219</u>	<u>\$0.00</u>	<u>\$9,814,219</u>	

Note: The effects of the indirect questioned costs do not materially effect the indirect cost rates submitted to A.I.D. for the year ended June 30, 1989.

Appendix A-1

Indirect Cost Rate 1990

	<u>Amounts</u>	<u>Less:</u> <u>Questioned</u> <u>Costs</u>	<u>Amounts</u>	<u>Rate</u>
Fringe benefits				
Claimed fringe benefits	<u>\$1,412,359</u>		<u>\$1,412,359</u>	<u>31.41%</u>
Base - total direct and indirect labor	<u>\$4,497,043</u>		<u>\$4,497,043</u>	
Overhead				
Claimed overhead	\$1,493,004		\$1,493,004	
Fringe benefits on overhead labor (31.41% x's \$551,275)	\$173,155		\$173,155	
Sale and leaseback adjustment	<u>\$1,770</u>		<u>\$1,770</u>	
Claimed overhead	<u>\$1,667,929</u>		<u>\$1,667,929</u>	<u>41.26%</u>
Base - direct labor plus fringe benefit (31.41% + 3,076,305)	<u>\$4,042,572</u>		<u>\$4,042,572</u>	
General and administrative (G&A)				
Claimed G&A expenses	\$1,346,181		\$1,346,181	
Fringe benefits on G&A labor (31.41% x's \$869,463)	\$273,098		\$273,098	
Plus: sale and leaseback adjustment	<u>\$592</u>		<u>\$592</u>	
Claimed G&A	<u>\$1,619,871</u>		<u>\$1,619,871</u>	<u>14.20%</u>
Base - total costs less G&A				
Direct labor and fringe benefits	\$4,042,572		\$4,042,572	
Overhead	\$1,667,929		\$1,667,929	
Other direct costs	\$5,476,145		\$5,476,145	
Unallowable costs	<u>\$221,794</u>		<u>\$221,794</u>	
	<u>\$11,408,440</u>	<u>0.00</u>	<u>\$11,408,440</u>	

Note: The effects of the indirect questioned costs do not materially effect the indirect cost rates submitted to A.I.D. for the year ended June 30, 1990.

Appendix A-2

Indirect Cost rate 1991

	<u>Amounts</u>	<u>Less: Questioned Costs</u>	<u>Amounts</u>	<u>Rate</u>
Fringe benefits				
Claimed fringe benefits	<u>\$1,323,510</u>		<u>\$1,323,510</u>	<u>27.20%</u>
Base - total direct and indirect labor	<u>\$4,865,209</u>		<u>\$4,865,209</u>	
Overhead				
Claimed overhead	\$1,498,148		\$1,498,148	
Fringe benefits on overhead labor (27.20% x's \$563,863)	\$153,370		\$153,370	
Sale and leaseback adjustment	<u>(\$14,735)</u>		<u>(\$14,735)</u>	
Claimed overhead	<u>\$1,636,783</u>		<u>\$1,636,783</u>	<u>36.71%</u>
Base - direct labor plus fringe benefits (27.20% + 3,505,617)	<u>\$4,459,145</u>		<u>\$4,459,145</u>	
General and administrative (G&A)				
Claimed G&A expenses	\$1,231,885		\$1,231,885	
Fringe benefits on G&A labor (27.20% x's \$795,729)	\$216,438		\$216,438	
Less: sale and leaseback adjustment	<u>(\$4,911)</u>		<u>(\$4,911)</u>	
Claimed G&A	<u>\$1,443,412</u>		<u>\$1,443,412</u>	<u>13.39%</u>
Base - total costs less G&A				
Direct labor and fringe benefits	\$4,459,145		\$4,459,145	
Overhead	\$1,636,784		\$1,636,784	
Other direct costs	\$5,830,080			
Subcontracts	\$1,152,571			
Commodities	<u>\$174,059</u>		\$4,503,450	
Unallowable costs	<u>\$180,894</u>		<u>\$180,894</u>	
	<u>\$10,780,273</u>	<u>\$0.00</u>	<u>\$10,780,273</u>	

Note: The effects of the indirect questioned costs do not materially effect the indirect cost rates submitted to A.I.D. for the year ended June 30, 1991.

Appendix B

Listing of direct costs for which there is no supporting documentation.

<u>Item #</u>	<u>ISTL Job #</u>	<u>Date</u>	<u>Expense</u>	<u>Vendor Name</u>	<u>Amount</u>	<u>Voucher #</u>
1	25	5/31/91	Ground Transportation	Yves Charbit	\$234.00	24625
2	115	8/21/90	Ground Transportation	Dr. William Zelman	250.00	21635
3	170	2/28/89	Telephone & Telegraph	William Hendrick	55.41	14591
4	215	12/31/90	Other Travel	Estella Tang	<u>42.30</u>	23087
Total					<u>\$581.71</u>	

Listing of indirect costs for which there is no supporting documentation

1	500	5/9/89	Travel	Edward Ross	\$43.70
2	500	1/31/89	Dues and subscription	John Hopkins Univ	250.00
3	-	8/31/90	Conference expense	Gourmet Express	91.35
4	641	10/31/88	Reproduction charge	ACR	70.76
5	641	10/31/88	Ins general	Wright and Co.	<u>288.24</u>
Total					<u>\$744.05</u>

Appendix C

Listing of direct expenditures for which the supporting documentation did not follow A.I.D. guidelines.

Item #	ISTI Job #	Date	Expense	Vendor	Amount	VP#
1	10	5/31/90	Airfare	Information LTEE	\$2,267.22	19401
2	24	6/30/89	Consulting	Clarence Gray	3,200.00	15367
3	25	10/3/89	Training	Management Science	4,850.00	16472
4	25	3/31/91	Per Diem	Albert Baron	1,509.85	24179
5	80	2/28/89	Consulting	Edwin Cobb	600.00	13666
6	115	12/31/89	Visas	Idelfonso Cruz	34.36	17579
7	115	8/21/90	Per Diem	Dr. William Zelman	3,540.00	21635
8	135	8/31/89	Per Diem	John Nystuen	3,625.00	16161
9	135	8/31/89	Ground Transp	Arthur Reingold	255.00	16207
10	170	12/31/88	Per Diem	Tener Ecklerberry	2,679.00	13026
11	170	5/31/89	Per Diem	Arthru Warmum	1,491.50	14749
12	170	6/7/89	Per Diem	Elissy Zapata	2,008.75	15025
13	170	6/30/89	Per Diem	Sandra Goshgarian	1,689.00	15274
14	170	7/31/89	Per Diem	Sandra Goshgarian	2,329.50	15939
15	171	8/31/88	Local Transp	Robert Landman	746.00	11829
16	171	10/31/88	Per Diem	Robert Bond	1,518.80	12361
17	171	10/31/88	Local Transp	Robert Bond	341.10	12361
18	171	11/8/88	Per Diem	Hilda Ymaseva	1,707.50	12794
19	171	12/31/88	Local Transp	Donald Swanson	706.50	13023
20	171	1/31/89	Per Diem	Gordon Hunt	1,191.65	13228
21	171	1/31/89	Travel	Donna Davis	190.65	13224
22	171	2/28/89	Per Diem	Donna Davis	1,531.25	13665
23	171	6/30/89	Per Diem	Alain Thery	1,848.00	15064
24	175	3/31/89	Per Diem	Robert Pratt	1,593.75	14006
25	185	8/31/88	Travel	Roy Miller	2,204.25	11724
26	185	11/30/88	Per Diem	John Lawson	806.25	12676
27	185	4/30/89	Per Diem	Bart Burkhalter	250.42	14473
28	185	7/31/89	Consulting	Mary Kay Nilan	16,195.50	15535
29	185	7/31/89	Travel	Stan Lehman	134.50	15537
30	185	9/30/89	Airfare	Elizabeth Burleigh	786.00	16245
31	185	1/31/91	Per Diem	Judith Justice	1,714.00	23457
32	200	7/26/89	Tele & Telegraph	Robert Sholdrice	173.14	15755
33	200	11/30/89	Airfare	Robert Martin	3,278.00	16748
34	200	9/30/90	Ground Transport	Albert Baron	1,801.90	21508
35	200	6/30/91	Per Diem	Steven Liepis	3,107.15	24980
53	200	10/31/89	Per Diem	Usha Stoke	459.00	16554
36	215	12/31/89	Per Diem	John Kinnamen	1,993.64	17374
37	215	4/30/90	Airfare	Leigh Miller	238.00	18869
38	215	11/30/90	Consulting	Robert Bishop	8,288.00	22759
39	215	13/31/89	Other Expenses	John Kinnamen	121.46	17375
54	215	4/30/90	Per Diem	Leigh Miller	1,118.50	18877
55	215	12/31/90	Per Diem	Estelle Tang	3,333.00	23087
40	250	8/31/90	House Allowance	Paul Bundick	2,494.33	21361
41	250	11/30/90	Postage & Freight	Corporate Transfers	173.04	22808
42	250	12/31/90	Consulting	Tom Heely	6,006.00	23090
43	250	4/30/91	Ground Transport	Earl Guise	1,280.00	24494
44	250	4/30/91	Ground Transp	Sparks	147.31	24095
45	250	6/30/91	Per Diem	Thomas Hart	4,504.37	25079
46	300	1/31/90	Consulting	John Mckigney	4,286.70	17714
47	300	3/31/90	Per Diem	John Mckigney	1,811.00	18561
48	300	10/31/90	Per Diem	Dr. Jose Mara	311.00	22237
49	300	12/31/90	Consulting	Alan Rioux	2,500.00	22982
50	300	1/18/91	Airfare	Tina Sanghvi	4,270.00	23219
51	300	5/31/91	Per Diem	Robert Pratt	1,608.28	24842
52	300	6/30/91	Per Diem	David Nelson	<u>2,133.72</u>	24986

Total \$118,982.84

Appendix D

Consolidation of compliance findings by ISTT's Job Number

<u>ISTT Job #</u>	<u>Compliance Finding#</u>	<u>Vendor Name</u>	<u>Voucher, date FY. or JE No.</u>	<u>Contract Amount</u>
25	Direct Cost #1, B	Ground Transport	24625	234.00
25	Direct Cost #2	Field Vehicle	JE	47.81
25	Payroll #1	Timothy Rosche	10/12/90	126.96
				408.77
80	Payroll #1	Dan Campbell	7/15/88	111.28
				111.28
115	Direct Cost #1, B	Dr. William Zelman	21635	250.00
115	Direct Cost #2	Idelfonzo Cruz	17579	34.36
115	Payroll #2	Raymond Carlaw	FY'90	65.88
115	Payroll #2	Suzanne Mclees	FY'90	13.75
				363.99
170	Direct Cost #1, B	William Hendrick	14591	55.41
170	Payroll #2	Judith Coker Evans	FY'90	68.53
				123.94
171	Payroll #2	Barbara Friday	FY'89	73.07
				73.07
185	Payroll #2	Tara Lewing	FY'91	48.08
185	Payroll #3	Erkham Longmire	9/1/89	241.92
185	Payroll #5	Voucher Number 28	8/31/90	-519.20
				-229.20
200	Payroll #1	Anne Demaret	1/11/91	605.20
				605.20
215	Direct Cost #1, B	Estella Tang	23087	42.30
215	Direct Cost #2	Estella Tang	23087	33.50
				75.80
250	Direct Cost #2	Sparks commodities	24045	35.00
				<u>35.00</u>
		Subtotal		<u>1,567.85</u>
		Subtotal -indirect costs (Appendix B)		<u>744.05</u>
		Total - compliance findings		<u>\$2,311.90</u>

International Science and Technology Institute, Inc.

Headquarters: 1129 20th Street, N.W., Washington, D.C. 20036
202/785-0831 • Telex: 272785 ISTI UR • FAX: 202/223-3865

February 17, 1993

John H. Hummel, Partner
KPMG Peat Marwick
2001 M Street, N.W.
Washington, D.C. 20036

Management's response to Audit of International Science & Technology Institute, Inc., A.I.D. Contracts for the period July 1, 1988 to June 30, 1991.

Schedule of Findings - Direct Costs

1. Certain direct costs were unsupported.

We have located the documentation for Yves Charbit's ground transportation of \$234.00 and have attached same to this letter. The documentation for the remaining costs questioned cannot be located at this time and, thus, ISTI accepts this finding with the proviso that we will continue to look for the documentation of these valid direct charges.

2. Certain expenses in excess of \$25.00 did not have supporting documentation.

ISTI accepts this finding.

Schedule of Findings - Payroll

1. Certain vacation and holiday costs were billed to A.I.D. as direct expenses.

ISTI accepts the cost questioned. However, we are still investigating the reasons behind those charges.

2. Certain salary increases were in excess of maximum allowable.

ISTI will institute procedures that will make project managers aware of contractual salary increase limitations.

3. A timesheet did not recalculate accurately.

ISTI has instituted procedures to rectify the cause of this finding by having an administrative review of all timesheets.

4. A billing to A.I.D. was mathematically inaccurate.

As of July 1, 1992, ISTI has installed Deltek's **Government Contractor Software Series** which should correct the cause of this finding.

Schedule of Findings - Indirect Costs

1. Certain indirect costs were unsupported.

Although documentation existed at the time these costs were incurred, ISTI at this time cannot locate the supporting documentation. ISTI accepts the cost questioned, but will continue to look for the documentation supporting these valid indirect costs.

Internal Controls - Direct Costs, Schedule of Findings

1. Certain costs incurred could not be traced from the General Ledger detail to A.I.D. billings.

As stated above, as of July 1, 1992, ISTI installed Deltek's **Government Contractor Software Series**. This accounting software provides an audit trail back to the General Ledger for every cost billed.

2. Certain supporting documentation was not prepared in ink.

ISTI has instituted procedures to require all expense reports to be prepared in ink.

3. Certain costs in excess of \$15.00 were not adequately supported.

ISTI has instituted procedures not to pay undocumented travel expenditures in excess of \$15.00.

4. Certain costs billed to A.I.D. were in excess of allowable amounts per the contract budget.

ISTI's contract management encompasses a monthly budget line item review to determine whether a contract line item will be exceeded by more than the contract limitation. Once a budget line item is identified as a potential problem, dialogue is initiated with the responsible A.I.D. officials. Once ISTI receives assurance from A.I.D. that a future contract amendment will rectify the situation, ISTI relies on A.I.D.'s timetable for the appropriate paperwork to be processed.

5. Classifications of expenditures recorded on the General Ledger did not agree with the classification of expenditures billed to A.I.D.

See No. 1 of Internal Controls - Direct Costs, Schedule of Findings above.

Internal Controls - Payroll, Schedule of Findings

1. Certain timesheets were not mathematically accurate, corrections were not reviewed, or the timesheet was not prepared in ink.

ISTI installed over two years ago a two-tier system for reviewing timesheets. Instructions have been issued to the responsible ISTI officials to be more vigilant in their review of timesheets.

Internal Controls - Indirect Costs, Schedule of Findings

1. Certain indirect cost timesheets were not completed adequately.

See 1. above, Internal Controls - Payroll, Schedule of Findings.

2. Project directors did not document their approval on certain invoices.

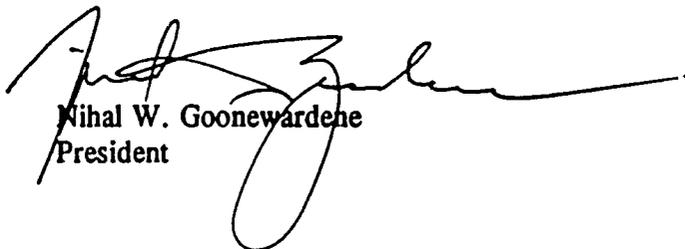
ISTI will issue instructions to all project managers to document their approval of invoices.

3. Certain costs in excess of \$15.00 did not have adequate support.

ISTI has instituted procedures to prohibit disbursement of undocumented costs in excess of \$15.00.

If you need further information, please let me know.

Sincerely,



Nihal W. Goonewardene
President

REPORT DISTRIBUTION LIST

APPENDIX F
Page 1 of 1

	<u>No. of Copies</u>
Director, Office of Procurement, FA/OP	5
Director, USAID/Senegal	5
Director, USAID/Sri Lanka	5
Acting Assistant Administrator, Bureau for Africa, AA/AFR	2
Acting Assistant Administrator, Bureau for Asia, AA/ASIA	2
Senegal Desk AFR/SWA/S	1
Nepal/Sri Lanka/Maldives Desk, ASIA/SA/NS	1
Associate Administrator, Directorate for Finance and Administration, AA/FA	1
Associate Administrator, Directorate for Operations, AA/OPS	1
Office of Financial Management, FA/FM/CONT	1
Office of External Affairs, XA/PR	1
Bureau for Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
Center for Development Information and Evaluation, POL/CDIE	3
Management Control Staff, FA/MC	1
IG	1
AIG/A	1
AIG/I&S	1
D/AIG/A	1
IG/LC	1
IG/A/PPO	2
IG/A/PSA	1
RIG/A/B	1
RIG/A/C	1
RIG/A/D	1
RIG/A/N	1
RIG/A/S	1
RIG/A/T	1
RIG/A/EUR/W	1
RAO/M	1
IG/RM/C&R	5