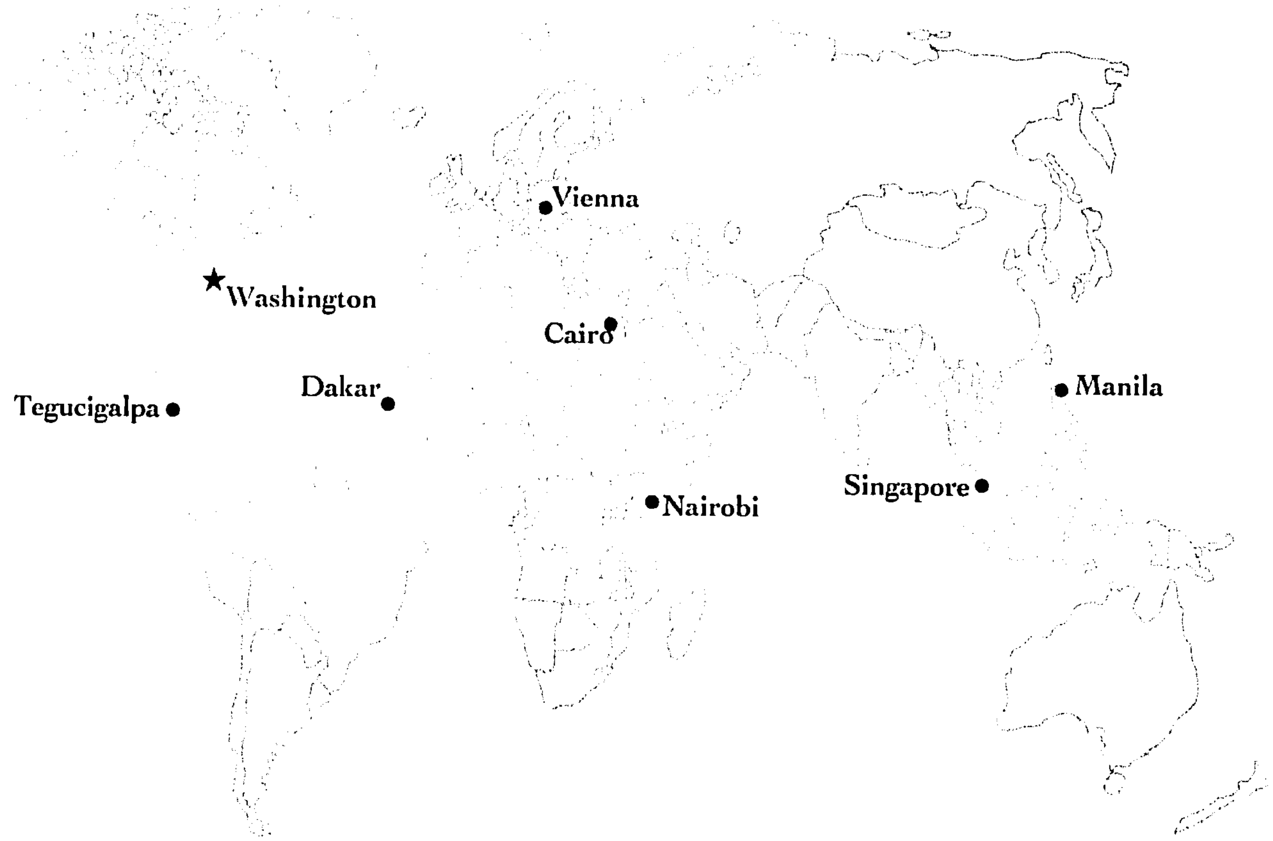
Regional Inspector General for Audit
Singapore

AUDIT OF USAID/INDONESIA'S CONTRACT NO. 497-0353-C-00-9108 WITH STV/LYON ASSOCIATES, INC. INDONESIA

Audit Report No. 5-497-94-007-N
March 23, 1994



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USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 23, 1994

TO: Charles F. Weden, Mission Director
USAID/Indonesia

FROM: Richard C. Thabet, RIG/A/Singapore

SUBJECT: Audit of USAID/Indonesia's Contract No. 497-0353-C-00-9108 with STV/Lyon Associates, Inc. (STV/Lyon)
Report No. 5-497-94-007-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm of Hans Tuanakotta & Mustofa) for your action. The audit covered the period from June 19, 1989, to March 31, 1992. During this period, STV/Lyon reported that $3,401,656 was expended under the contract in Indonesia. The background information on the contract and the project is presented on page 1 of the report.

The audit objectives were to:

- Determine whether STV/Lyon's Fund Accountability Statement presents fairly the receipts and costs incurred under the contract;

- Report on STV/Lyon's system of internal controls; and

- Report on STV/Lyon's compliance with applicable laws, regulations, and terms of the contract.

The auditors concluded that STV/Lyon's:

- Fund Accountability Statement presents fairly the receipts and costs incurred under the contract except for $1,356,404 in questioned costs;

- Internal controls had 11 reportable conditions, all of which were considered to be material weaknesses; and

- Operations did not comply in all material respects with applicable laws, regulations, and terms of the contract.

This audit report contains 15 findings and recommendations which include questioned costs of $1,356,404. Eight of these findings relate to both internal control and compliance issues. In their response, STV/Lyon officials generally disagreed with these findings and recommendations. Their comments are summarized after each finding in the report and presented in their entirety on pages 35 to 54.

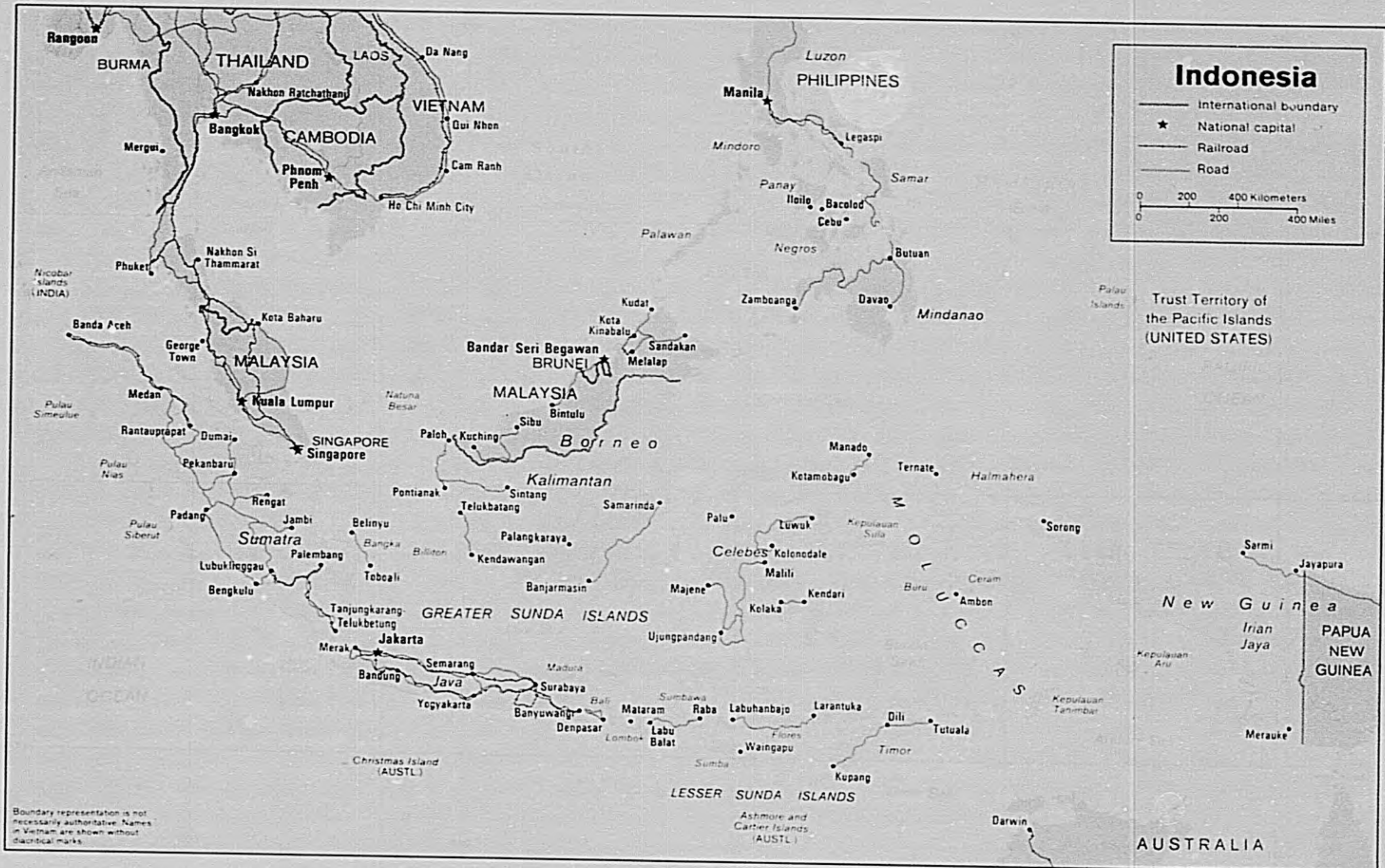
USAID/Indonesia needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendations will be included in the Inspector General's recommendation follow-up system:

> **Recommendation No. 1: We recommend that USAID/Indonesia resolve the $1,356,404 in questioned costs ($79,790 ineligible and $1,276,614 unsupported) with STV/Lyon Associates, Inc. and recover any amounts determined to be unallowable.**
>
> **Recommendation No. 2: We recommend that USAID/Indonesia verify that STV/Lyon Associates, Inc. establishes and implements procedures to:**
>
> > **(a) record and periodically verify the existence of non-expendable property purchased under the contract; and**
> >
> > **(b) periodically compile information on VAT paid under the contract so that the Mission may claim these payments from the Government of Indonesia.**
>
> **Recommendation No. 3: We recommend that USAID/Indonesia finalize STV/Lyon Associates, Inc.'s indirect cost rate for applicable periods and verify that STV/Lyon Associates, Inc. finalizes indirect cost rates applicable to its subcontracts for applicable periods.**

Please advise me within 30 days of any actions planned or taken to close the above recommendations.

We appreciate the courtesies and cooperation USAID/Indonesia and STV/Lyon extended to the auditors and our staff during the course of this audit.

Attachment: a/s



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FINANCIAL AUDIT OF
STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

FINANCIAL AUDIT OF STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. 497-0353-C-00-9108-00) WITH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT IN INDONESIA FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

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Mr. Richard C. Thabet
Regional Inspector General
for Audit/Singapore
United States Agency for International Development
111 North Bridge Road
No. 17-03 Peninsula Plaza
Singapore 0617

Dear Mr. Thabet,

This report presents the results of our audit of STV/Lyon Associates, Inc. (STV) and its contract with the United States Agency for International Development in Indonesia (USAID/I) for the Rural Roads Maintenance Systems (RRMS) Project under Contract No. 497-0353-C-00-9108-00 (the Contract) from the inception of the Contract on June 19, 1989, to March 31, 1992. Our audit pertains to STV's Indonesian operations only and does not include STV's disbursements made outside Indonesia. Also, our audit does not cover STV's management policies, and systems and procedures on its operations outside Indonesia.

BACKGROUND

The purpose of the RRMS Project is to establish effective and financially sustainable systems to maintain and manage district roads. The Project focuses on eleven districts in South Sulawesi and Nusa Tenggara Timur. The life of the Project is eight years.

The Project's approach includes establishing a planning framework for roads in each district, developing procedures and skills to implement road work effectively, and expanding the financial base to maintain a network over a long term.

STV signed the contract with USAID/I on June 19, 1989 for US$ 9,212,698, as amended. The Contract was amended from time to time; the latest amendment was dated June 17, 1992 for the extension of the completion date of the Contract to September 30, 1992.

AUDIT OBJECTIVES AND SCOPE

We conducted a financial audit of STV's fund accountability statement pertaining to its Contract with USAID/I for the RRMS Project from the beginning of the Contract on June 19, 1989, to March 31, 1992. The fund accountability statement comprises of the Statement of Expenditures and the notes thereon. The Statement of Expenditures reflects only the costs incurred in Indonesia and does not include any other costs incurred by STV's U.S. - based home office in the United States.

The results of our audit, which pertain only to STV's Indonesian operations, are reflected in the following accompanying Independent Auditors' Reports on:

1. Statement of Expenditures
2. Internal Control Structure
3. Compliance with the Terms of the Contract, Applicable Laws and Regulations

The audit did not include the examination of the transactions made by STV in the United States as the supporting documents for these transactions are maintained in the United States. However, we have included as part of Note 3 to the Statement of Expenditures an unaudited statement of expenditures for the Contract as a whole, for information purposes only.

The objectives of our audit were to:

a. Determine whether the Statement of Expenditures for STV presents fairly the expenditures covering the period June 19, 1989, to March 31, 1992 in accordance with the terms of the Contract with USAID/I, and to identify costs which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the Contract.

b. Report on STV's internal accounting controls as it relates to its Indonesian operations.

c. Report on STV's compliance with applicable laws, regulations and terms of the Contract.

The audit was conducted in accordance with generally accepted U.S. Government Auditing Standards and, accordingly, included such tests to determine whether funds were properly accounted for and used as directed by the Contract, other applicable program documents and the laws of Indonesia.

The scope of our work primarily included the following general procedures:

a. Holding meetings with USAID/I, STV and RIG/A/S officials.

b. Reviewing the Contract between USAID/I and STV, including all amendments and modifications, action plans, pertinent sections of the AID standard provisions, correspondences and minutes of meetings between USAID/I and STV, as well as project reports maintained by STV and USAID/I.

c. Reviewing STV Indonesia's internal control structure, accounting records, and control procedures.

d. Assessing STV Indonesia's compliance with the terms of the Contract, applicable laws and regulations.

e. In performing some of the above procedures, compliance and substantive testing procedures were devised and performed. These include confirming balances with USAID/I offices.

f. Reviewing the reports, correspondences, schedules and workpapers prepared by USAID/I and the investigators from the Office of the Inspector General for Investigations, Singapore Field Office, who jointly made an investigation into the costs incurred by a local subcontractor, Indec Associates, Inc., during the same time as our audit.

g. Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit.

RESULTS OF THE AUDIT

Statement of Expenditures

In our opinion, of the US$ 3.4 million in costs presented in the Statement of Expenditures, US$ 79,790 and US$ 1,276,614 as summarized in Appendix 1 on page 34, are questioned on the basis of allowability and due to deficiencies noted (including reasonableness), respectively. These costs are questioned mainly because STV did not comply with the Contract terms, applicable laws and regulations. We do not consider such unreasonable costs as definite unallowable costs, due to the uncertainties, in some degree, that are there.

The Statement of Expenditures also includes excessive local subcontract salaries and lease costs claimed by STV amounting to US$ 312,611. These excessive claims were investigated by the Inspector General of Investigation, Singapore Field Office (IG/I/SFO), and form part of the US$ 1,276,614 questioned due to deficiencies noted.

In our opinion, except for the effects of any adjustments which might have been necessary as a result of the settlement of the above questioned costs, the Statement of Expenditures of STV presents fairly, in all material respects, the expenditures of STV for the period June 19, 1989, to March 31, 1992, in conformity with generally accepted accounting principles and the terms of the Contract with USAID/I.

Internal Control Structure

Our study and evaluation of the internal control structure were considered in determining the nature, timing and extent of the audit tests applied by us in the examination of the related Statement of Expenditures.

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

Our study and evaluation of the internal controls disclosed certain matters that we consider to be reportable conditions, and these are presented as Finding Nos. 1 to 3 on pages 13 to 15, and findings on noncompliance with the terms of the Contract, applicable laws and regulations as reported in Finding Nos. 1 to 4 on pages 18 to 21, and Finding Nos. 6 to 9 on pages 24 to 27. We believe the reportable conditions are material weaknesses.

Since our study and evaluation of the internal control structure were made for limited purposes, it would not necessarily disclose all weaknesses in the system, and therefore, we do not express an opinion on STV Indonesia's internal control structure taken as a whole.

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

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

Our tests disclosed several instances of noncompliance. These material instances have resulted in questioned costs of US$ 1,356,404, the findings for which are summarized in Appendix 1 on page 34 and are set out in detail as Finding Nos. 1 to 9 on pages 18 to 27 of this report.

In an investigation by the IG/I/SFO, it was noted that excessive subcontract salaries and lease costs amounting to US$ 312,611 were claimed by STV. This is reported as Finding No. 10 on pages 28 to 29 under "Other Matters." As a result of these noncompliances, and because we were unable to apply our auditing procedures to subcontract costs as this is out of our audit scope, the questioned costs summarized in Appendix 1 include all amounts paid to the subcontractor.

In addition, we also noted the following noncompliance issues which were not within our scope of audit. These findings are also presented under "Other Matters."

- The expenditures reimbursed under the U.S. - based subcontracts amounting to U.S.$ 2,232,689 may not be in accordance with the terms and conditions of the Contract between STV and USAID/I, since the subcontracts were not complete and not properly signed, and certain required provisions were excluded in these contracts. This finding is presented in Finding No. 11 on pages 29 to 31.
- Noncompliance with the provisions of the Contract that require the annual negotiation and finalization of the provisional indirect cost rates used by STV and its subcontractors for billing purposes. Total indirect costs reimbursed by USAID/I to STV during the audit period that were based on the provisional indirect cost rates amounted to US$ 2.182 million as detailed in Finding No. 12 on pages 31 to 33.

The results of our tests indicate that with respect to the items tested, based on the instances of noncompliance referred to above, STV did not comply, in all material respects, with the terms of the Contract, applicable laws and regulations. With respect to items not tested by us, nothing came to our attention that caused us to believe that STV had not complied, in all material respects, with those provisions.

SUMMARY OF MANAGEMENT COMMENTS

Management generally disagreed with our findings on the noncompliance issues. From the total questioned costs of US$ 1,356,404, management agreed to refund US$ 18,986 of costs to USAID/I. The questioned costs disagreed by management mainly relate to deficiencies in local subcontracts (Finding No. 5 of the compliance issues) and car rental cost not covered under the budget (Finding No. 6 of the compliance issues), in the amounts of US$ 1,276,614 and US$ 43,272, respectively. We retained the findings since STV management has not yet been able to resolve those matters, i.e., by settlement with the Contracting Officer of USAID/I. The full text of their comments is attached as Appendix 2 of this report.

STV management's representation and certification on the Statement of Expenditures is in Appendix 3.

FOLLOW-UP ON PRIOR AUDITS

There were no prior findings and recommendations that could have an effect in the current year audit objectives, since this is the first audit conducted by RIG/A/S for the project.

ACKNOWLEDGEMENT

We would like to take this opportunity to express our gratitude for the assistance extended to us by RIG/A/S, USAID/I, and STV during the course of the audit.

HANS TUANAKOTTA & MUSTOFA

Drs. Irwanta Wanatirta
Registered Accountant No. D-4118

December 16, 1992

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INDEPENDENT AUDITORS' REPORT

ON THE

STATEMENT OF EXPENDITURES

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Hans Tuanakotta & Mustofa

HTM

JAKARTA, SURABAYA, DENPASAR & BANDUNG

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Dear Mr. Thabet,

FINANCIAL AUDIT OF
STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

INDEPENDENT AUDITORS' REPORT ON THE STATEMENT OF EXPENDITURES

We have audited the accompanying Statement of Expenditures of STV's expenditures incurred in Indonesia pertaining to its Contract (No. 497-0353-C-00-9108-00) with the USAID/I for the RRMS Project for the period June 19, 1989, to March 30, 1992. The Statement of Expenditures and the notes thereon, as set out on pages 7 to 9, are the responsibility of STV's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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. We believe our audit provides a reasonable basis for our opinion.

As stated in Notes 2 and 3 on pages 8 and 9 of this report, the Statement of Expenditures presents only the expenditures of STV as they pertain to those expenditures incurred in Indonesia under the Contract for the period detailed above, and is not intended to present fairly all expenses incurred by STV under the Contract, or of STV, the organization, as a whole.

During the course of our audit, we identified several instances of noncompliance with the terms of the Contract, applicable laws and regulations that resulted in costs questioned on the basis of allowability and due to deficiencies noted (including reasonableness) amounting to US$ 79,790 and US$ 1,276,614, respectively. These findings are summarized on page 34 and are set out in detail as Finding Nos. 1 to

9 on pages 18 to 27 of this report.

In an investigation by the Inspector General of Investigation, Singapore Field Office, it was noted that excessive subcontract salaries and lease costs amounting to US$ 312,611 were claimed by STV. These have been summarized as Finding No. 10 on pages 28 to 29 under "Other Matters."

As part of our audit test of STV's compliance with the applicable laws, regulations, contract terms, and binding policies and procedures, we also noted instances of noncompliance relating to costs incurred by STV in the United States. As these do not form part of our audit scope (as stated in Notes 2 and 3 on pages 8 and 9 of this report), we have not considered its effect on the Statement of Expenditures that was audited as set out on page 7. The noncompliance has been included in the report as Finding Nos. 11 and 12.

In our opinion, except for the effects of any adjustments which might have been necessary as a result of the above questioned costs, the Statement of Expenditures of STV presents fairly, in all material respects, the expenditures of STV for the period June 19, 1989, to March 31, 1992, in conformity with generally accepted accounting principles.

This report is intended for the information of STV/Lyon Associates, Inc. and USAID. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

HANS TUANAKOTTA & MUSTOFA

Drs. Irwanta Wanatirta
Registered Accountant No. D-4118

December 16, 1992

STV/LYON ASSOCIATES, INC.'S CONTRACT NO. 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT

STATEMENT OF EXPENDITURES
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992
(Amounts in United States Dollars)

EXPENDITURES

Subcontractor	1,276,614
Allowances	990,230
Travel and transportation	244,204
Salaries and wages of Indonesian staff	187,359
Equipment and supplies	118,869
Local fringe benefit	80,551
Other direct costs	503,829
Total	3,401,656

The accompanying notes form an integral part of
the Statement of Expenditures.

STV/LYON ASSOCIATES, INC.
NOTES TO THE STATEMENT OF EXPENDITURES
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

1. SIGNIFICANT ACCOUNTING POLICIES

The Statement of Expenditures is prepared in accordance with the historical cost concept. The records are maintained in United States Dollars.

Project furniture and equipment purchases are included as part of expenditures.

2. COMPONENT UNIT OF THE ORGANIZATION

The Statement of Expenditures presents only STV's expenses incurred in Indonesia under the Contract. The Statement is not meant to present all transactions of STV under the Contract or of STV as a whole.

3. UNAUDITED STATEMENT OF EXPENDITURES FOR THE CONTRACT IN TOTAL

Part of the costs incurred under Contract No. 497-0353-C-00-9108-00 for the RRMS Project was expended in the United States and part in Indonesia. Those expended in the United States were not audited because the related supporting documents are maintained in STV's home office in the United States.

Reimbursements of all expenditures, including those expended in the United States, are processed by STV Indonesia. The reimbursement amounts are paid by USAID to STV's office in Hawaii. Accordingly, STV Hawaii receives all reimbursements, while STV Indonesia receives its operating funds from STV Hawaii.

The following unaudited schedule pertains to the Contract budget and the Statement of Expenditures for the Contract as a whole for the period June 19, 1989, to March 31, 1992:

	Budget	Total Commulative Expenditures (Unaudited)	STV United States Expenditures (Unaudited)	STV Indonesia Expenditures (Audited)
	US$	US$	US$	US$
EXPENDITURES				
Subcontractors	4,258,077	3,509,303	2,232,689	1,276,614
Allowances	1,407,406	1,208,738	218,508	990,230
Salaries and Wages	795,593	679,921	492,562	187,359
Fixed fee (STV)	536,000	437,730	437,730	–
General and Administrative	488,044	399,964	399,964	–
Travel and transportation	333,462	244,204	–	244,204
Overhead (STV)	308,223	263,798	263,798	–
Fringe Benefit (STV)	300,173	254,336	173,785	80,551
Equipment and supplies	280,311	118,869	–	118,869
Other direct costs	505,409	503,829	–	503,829
Total	9,212,698	7,620,692	4,219,036	3,401,656

Column headings of the above statement of expenditures for the Contract in total are explained as follows :

Total cumulative expenditures; pertains to the Organization's total expenditures under the Contract.

STV – United States; pertains to STV's expenditures that were made in the United States.

STV – Indonesia; pertains to STV's expenditures that were made in Indonesia.

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INDEPENDENT AUDITORS' REPORT

ON THE

INTERNAL CONTROL STRUCTURE

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Tuanakotta &
Mustofa

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JAKARTA, SURABAYA, DENPASAR & BANDUNG

Registered Public Accountants

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Mr. Richard C. Thabet
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Dear Mr. Thabet,

FINANCIAL AUDIT OF
STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE

We have audited the Statement of Expenditures of STV pertaining to its Contract with the USAID/I for the RRMS Project for the period June 19, 1989, to March 31, 1992, and have issued our report thereon dated December 16, 1992.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Expenditures is free of material misstatement.

In planning and performing our audit, we considered STV's internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the Statement of Expenditures and not to provide assurance on STV's internal control structure.

The management of STV 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 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 Statement of 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 policies and procedures may deteriorate.

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

Accounting system and record keeping
Payroll
Cash disbursements
Cost allocation and allowability
Reimbursement request
Financial reporting
Monitoring

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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Statement of Expenditures. The reportable conditions are described as Finding Nos. 1 to 3 on pages 13 to 15, and the findings on noncompliance with terms of the Contracts, applicable laws and regulations as reported in Finding Nos. 1 to 4 on pages 18 to 21 and Finding Nos. 6 to 9 on pages 24 to 27.

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 Statement of Expenditures 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 material weaknesses under standards established by the American Institute of Certified Public Accountants. We believe the reportable conditions described above are material weaknesses.

This report is intended for the information of STV/Lyon Associates, Inc. and USAID. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

HANS TUANAKOTTA & MUSTOFA

Drs. Irwanta Wanatirta
Registered Accountant No. D-4118

December 16, 1992

STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS AND RECOMMENDATIONS

1. CASH ADVANCES NOT MONITORED

Condition
Advances, amounting to about Rp 3,000,000 (approximately US$ 1,500) a month, are made for certain operational expenses. However, we noted that proper books and records were not maintained to monitor these advances in the Ujung Pandang office. Some advances were due from people who had resigned.

Criteria
Accountability of cash advances and a close monitoring system should be established, especially when these funds could be easily misappropriated and misused.

Effect
Improper accounting and weak controls over cash advances could result in misappropriation and losses due to the inability to identify the persons and the amounts involved.

Cause
One deduction made to one employee who departed was left open in the Ujung Pandang Office due to the procedural matter.

Recommendation
We recommend that USAID/I require STV to establish and implement adequate internal controls over the cash advances.

Management Response
STV management disagrees with the finding. Management does not find any loss to USAID/I from advances not recovered. Management believes that they have complete records of all advances made and when repaid. The funds were recovered from the employee who departed thus establishing that the system works.

Auditor's Rebuttal
At the time of the audit, STV did not have complete records of all advances and when these advances were repaid.

2. CERTAIN WEEKLY EXPENSE REPORTS NOT APPROVED

Condition
Not all weekly expense reports were approved by the authorized person. From the samples tested, we noted that US$ 3,750 of per diem expense was not approved.

Criteria
Weekly expense reports should be properly approved before payments are made to the employees to ensure that expenses incurred are legitimate, fully-supported and within the budget-line item before being paid to the employees.

Effect
A lack of review and approval of weekly expense reports increases the risk of reimbursement of potentially unallowable or unauthorized expenses.

Cause
The distances involved in the Contract plus the number of expatriates per the number of local staff cause complex management problems which management feels are solved in a sound and reasonable manner.

Recommendation
We recommend that USAID/I require STV to establish and implement adequate internal controls for the approval of weekly expense reports. This will ensure compliance with approved rates, the allowability and accuracy of amounts claimed.

Management Response
Management reviewed their procedures but cannot find examples of this finding. Management believes that all expense reports are reviewed to assure that approval has been granted, and that expenses are in accordance with Contract provisions before these are invoiced to USAID/I and forwarded to corporate accounting.

Auditor's Rebuttal
At the time of the audit, certain of STV's weekly expense reports did not include any evidence that they were approved.

3. EQUIPMENT AND SUPPLIES NOT PROPERLY MANAGED

Condition
We noted that records and controls over equipment and supplies have not been properly maintained. The listing of equipment and supplies was not promptly updated as evidenced by the long delay in which the listing was provided for our audit. Details of the equipment and supplies such as the date of purchase, costs, location, etc., were also not available. We were also unable to find evidence that physical checks were performed on a regular basis.

Criteria
Based on AIDAR No. 752.245.70, "Non-expendable property (NEP), for the purposes of this contract, is defined as ..., and which has a unit cost of more than US$ 500. The contractor shall submit an annual report on all NEP in a form and manner acceptable to AID ... with certification that (1) physical inventories of property are taken not less frequently than annually, (2) the accountability records maintained for property are in agreement with such inventories, (3) the total of the detailed accountability records maintained agrees with the property value shown in the report submitted to AID."

Effect
Weak controls over equipment and supplies may lead to loss of these items and improper accounting.

Cause
STV did not update the equipment and supplies records on a timely basis.

Recommendation
We recommend that USAID/I require STV to establish and implement adequate internal controls over the equipment and supplies.

Management Response
Management contends that yearly NEP reports have been regularly submitted to USAID/I on all equipment purchased under the Contract on forms supplied and required by USAID/I.

Auditor's Rebuttal
Had a listing of equipment and supplies been regularly submitted to USAID/I, we should not have experienced a long delay waiting for the listing to be provided to us. Some necessary details of the equipment and supplies were not available. We were also unable to find evidence that physical checks were performed on a regular basis.

15.w

INDEPENDENT AUDITORS' REPORT

ON

COMPLIANCE WITH THE TERMS OF THE CONTRACT,
APPLICABLE LAWS AND REGULATIONS

- 16 -

Hans Tuanakotta & Mustofa

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Mr. Richard C. Thabet
Regional Inspector General
for Audit/Singapore
United States Agency for International Development
111 North Bridge Road
No. 17-03 Peninsula Plaza
Singapore 0617

Dear Mr. Thabet,

FINANCIAL AUDIT OF
STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE TERMS OF THE CONTRACT, APPLICABLE LAWS AND REGULATIONS

We have audited the Statement of Expenditures of STV pertaining to its Contract with the USAID/I for the RRMS Project for the period June 19, 1989, to March 31, 1992. The Statement and the notes thereon are set out on pages 7 to 9. We have issued our report thereon dated December 16, 1992.

We conducted our audit in accordance with generally accepted U.S. Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Expenditures is free of material misstatement.

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

Material instances of noncompliance are violations of laws, regulations, contract or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Statement of Expenditures. The results of our tests of compliance disclosed several material instances of noncompliance, the effects of which have not been corrected in the

Statement of Expenditures as set out on page 7. These instances have resulted in costs questioned on the basis of allowability and due to deficiencies noted (including reasonableness) amounting to US$ 79,790 and US$ 1,276,614, respectively. The related findings are set out in detail as Finding Nos. 1 to 9 on pages 18 to 27, and summarized in Appendix 1 on page 34.

We considered these material instances of noncompliance in forming our opinion on whether STV's Statement of Expenditures is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and we have accordingly provided a qualified opinion in our report dated December 16, 1992 on the Statement of Expenditures due to the questioned costs identified.

Two other instances of noncompliance with the terms of the Contract relating to costs incurred by STV in the United States have also been noted. As these do not form part of our audit scope (as stated in Notes 2 and 3 on pages 8 and 9 of this report), we have not considered its effect on the Statement of Expenditures that was audited. The noncompliance has been included in the report as Finding Nos. 11 and 12.

The results of our tests indicate that with respect to the items tested, based on the instances of noncompliance referred to above, STV did not comply, in all material respects, with the terms of the Contract, applicable laws and regulations. With respect to items not tested by us, nothing came to our attention that caused us to believe that STV had not complied, in all material respects, with those provisions.

This report is intended for the information of STV/Lyon Associates, Inc. and USAID. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record and its distribution is not limited.

HANS TUANAKOTTA & MUSTOFA

Drs. Irwanta Wanatirta
Registered Accountant No. D-4118

December 16, 1992

STV/LYON ASSOCIATES, INC.'S CONTRACT (NO. AID 497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

COMPLIANCE ISSUES

AUDIT FINDINGS AND RECOMMENDATIONS

1. INCLUSION OF TAX ALLOWANCES IN SALARY REIMBURSED BY USAID/I

Condition
Salary reimbursement by USAID/I included tax allowances for a local employee amounting to about Rp 113,000 per month.

Criteria
It is not STV's policy to bear personal income taxes. STV withholds these taxes from the employee's salary and remits them to the government. The Contract also does not provide for the reimbursement of such taxes by USAID/I.

Effect
The inclusion of tax allowances in salary resulted in overclaim of local salaries of US$ 2,437.

Cause
Early in the start-up process, the first Chief of Party employed the secretary in question and indicated the company would pay her taxes, apparently as her former employer had been doing.

Recommendation
We recommend that USAID/I resolve the above questioned cost with STV and recover the amounts determined to be unallowable.

Management Comments
An adjustment to the overclaim had been made through STV's Invoice No. 44, and processed by USAID/I on April 14, 1993.

2. REIMBURSEMENT OF MOVING COST OF TEMPORARY PERSONNEL AND PERSONNEL WHO RESIGNED PRIOR TO ONE YEAR OF SERVICE

Condition
Moving costs for some STV and subcontractors' personnel who worked on the project for less than a year and resigned prior to the termination of the contract were charged to USAID/I. Documentation justifying these claims was not available, and no USAID/I approval was obtained.

Criteria
AIDAR No. 752.7002 (b) provides "If a regular employee does not complete one full year at post of duty (except for reasons beyond his/her control), the cost of going to and from the post of duty for that employee and his/her dependents are not reimbursable hereunder."

Section B.5.1.2 of the Contract between STV and USAID/I also stipulates that no compensation for consultants will be reimbursed unless their use under the Contract has the advance written approval of the cognizant AID Contracting Officer.

Effect
Total moving cost reimbursed by USAID/I for personnel who resigned prior to one year of service amounted to US$ 7,070. The details are as follows:

Invoice No.	Date	Name	Position	Amount
				US$
4	Oct'89	Thomas Leinbach	Local Government Specialist	2,500
4	Oct'89	Dr. Jack Von Dornum/STV	Training Advisor	1,363
7	Jan'90			1,412
16	Oct'90	Mr. Felipe Rau	Transport Planner/ Economist	1,795
	Total			7,070

Cause
STV was unaware of the one-year rule. The letter of approval by USAID/I for Dr. Leinbach's moving cost has yet to be obtained.

Recommendation
STV should recover these amounts from its former employees or subcontractors, where appropriate, and refund all unallowable costs to USAID/I.

Management Response
Management generally agrees with the finding on the mattei of Mr. Rau for US$ 1,795 and Mr. Leinbach for US$ 2,500. For Dr. Leinbach, management agrees to return the travel cost subject to locating the approval letter. Management disagreed on the matter of Dr. Jack Von Dornum's expenses since they believe it was disallowed by USAID/I when they invoiced it so no payment was then received.

Auditor's Rebuttal
The expense disallowed by USAID/I was for the emergency leave of Dr. Dornum on July 1990 with voucher No. 13 in the amount of US$ 1,308.96. It is different from the above mentioned expenses which were paid by USAID/I through vouchers 4 and 7.

3. LIVING ALLOWANCES FOR U.S. PERSONNEL PAID TO THE EMPLOYEES

Condition
In 3 of 5 instances tested, U.S. employees' temporary lodging allowances (TLA) were paid to the employees instead of the lodging providers, based on a fixed monthly amount. The allowance of US$ 2,300 per month is based on the maximum allowable housing allowance within the contract.

Criteria
Pursuant to Section B.2.1. of the Contract, the budget has set forth the fixed fee and reimbursement of dollar costs for individual line items of cost. Therefore, STV should bill USAID/I only for actual costs incurred and supported by external documents, and the maximum amounts billed should not exceed the budget.

Effect
Allowances in the amount of US$ 6,516 are questioned. These costs were unsupported and refer to the following details:

Name	Period	Amount
Mr. J. Von Dornum	Jan - Feb 1990	US$ 2,300
Mr. Whitfield	Sept - Oct 1990	2,300
Mr. Whitfield	Oct - Nov 1990	1,916
		US$ 6,516

Cause
According to management, it was difficult for an employee to stay in a four star hotel in Jakarta on a tight string budget of US$ 2,300 per month. However, this was not impossible as evidenced by supporting documents for one instance.

Recommendation
We recommend that USAID/I resolve the above with STV and recover the unallowable amounts.

Management Response
Management believes that this was done with the knowledge of USAID/I and approved on various invoices as a practice acceptable under the conditions, and no amount should be returned to USAID/I. The employee was utilized to transmit money to the hotel for payment of the monthly charges after he presented to STV a hotel invoice for the amount charged.

Auditor's Rebuttal
Receipts showed that funds went to Mr. Von Dornum and Mr. Whitfield rather than to the provider of accommodations.

4. IDLE LEASED HOUSES

Condition
Due to the high turnover of the U.S. subcontractors' and STV's personnel, some leased houses were idle and the lease fee paid in advance could not be recovered. The replacements for departed employees were not assigned in the unoccupied houses.

Criteria
STV should exercise prudence in following USAID/I housing policy to minimize losses suffered as a result of resignations of employees.

Effect
The periods in which the leased houses were idle are as follows:

STV/Subcontractor	Name	Excess month	Amount
STV	Mr. Dela Fuente	6 months	US$ 10,800
Indec	Mr. Andi Asrahi	5.5 months	1,187
Indec	Mr. Nasrullah	7 months	2,241
			US$ 14,228

Cause
These houses were not subleased during the idle periods and no recoveries of costs incurred were made because it was difficult to find a lessee who is likely to lease a house on short-term basis.

For the house leased for Mr. Dela Fuente, it was management's intention that the funds beyond February would be refunded. However, in the process of changes in Chief of Party, changes in several positions in the field, etc., this was not properly conveyed to the bookkeeping section and was not accomplished.

Recommendation
We recommend that USAID/I resolve these questioned costs with STV and recover the amounts determined to be unallowable.

Management Response
Management agreed that the amount of US$ 10,800 is refundable to USAID/I but reserves their right to recoup the amount later. Management, at this time, cannot agree to the return of the amount of US$ 3,428 since USAID/I has already deducted large amounts of housing allowance from both Indec and STV payments. Management requested that this item be set aside with the other Indec items for later decision.

Auditor's Rebuttal
We are not in the position to check whether the deduction of housing allowance by USAID/I in 1993 included the leased houses for Mr. Andi Asrahi and Mr. Nasrullah in the amount of US$ 3,428.

5. DEFICIENCIES IN LOCAL SUBCONTRACT

Condition

a) In the copy of the US$ 1,678,000 subcontract with the local subcontractor, Indec, we noted the following specific deficiencies:

   (i) the subcontract was not signed by the INDEC witness,
   (ii) the names of the representatives of STV, the subcontractors, and their witnesses, who signed the contracts were not stated in the executed subcontracts;
   (iii) the subcontracts were not dated;
   (iv) the first amendment, which contained several pertinent revisions to the subcontracts, was not signed by any parties concerned.

b) Paragraph 2 of the subcontract provides, "The terms of this subcontract and payments due are listed below and together with the related pages of the contract attached constitute the complete subcontract agreement." These missing attachments were not made available to us for audit. These attachments include :

   i. Related Clauses from the Prime Contract

   Item 5 of the subcontract referred to "related clauses from the contract between Lyon and USAID are attached and made part of this subcontract." This item also required that the respective subcontractors "will comply with the contract clauses applicable to the subcontract between Lyon and Indec."

   ii. Attachments A and B of the Contract

   Attachments A and B, and related parts of the contract between STV and USAID/I are mentioned in the details of the scope of work to all the subcontracts. According to item 6 of the subcontract, Attachment A relates to the "amount of funds available for the (subcontractor) services" to be provided, including the amounts for overheads and fringe benefits.

Attachment B relates to "Additional funds to be administered by Lyon", i.e., it outlines the miscellaneous reimbursable costs and required support costs that Lyon will directly administer. These costs include the travel, local administrative and office costs in Indonesia, vehicle operating costs, and housing etc. Further, item 1 of the subcontracts makes reference to "additional details of the scope of work" that are included as "attached related parts of the contract between Lyon and USAID."

Aside from the above, the subcontracts did not include certain pertinent provisions as required by USAID/I. These included the following:

i. Audit provisions, audit rights of the U.S. Government, and the requirement to maintain books, records, etc., relating to all costs incurred under the subcontracts.

ii. Provisions relating to arrangements for the finalization and negotiation of provisional indirect costs rates that are included in the subcontracts (see Finding No. 12).

iii. The subcontracts did not clearly specify whether they were the cost reimbursable type or the fixed price type.

iv. The requirement for subcontractors to certify on their vouchers to STV that all costs billed under the subcontract have been incurred, whether paid or not (FAR 52.216-7).

v. Provisions regarding contract termination and settlement of disputes.

There was no cost pricing data although this was required for contracts exceeding US$ 100,000. Clauses to include certification that to the best of their knowledge and belief, the data submitted were accurate, complete and current as of the date of the agreement (FAR 52.215.-24) were also not found.

Criteria

Written contracts serve as useful, legally binding management tools in transacting business. Subcontract agreements should be prepared so as to enable them to be legally valid, enforceable and binding to the parties. This would include dating them, having all parties' representatives sign them and be appropriately witnessed. All amendments should be properly done (evidenced by signing the amendments as acknowledgement of agreement with the amended provisions as applicable) by all parties concerned. This includes the proper drafting and review of the contracts to ensure that they include all pertinent and required provisions, relevant terms and conditions.

Paragraph 2 of the subcontracts states "The terms of this subcontract and payments due are listed below and together with the related pages of the contract attached constitute the complete subcontract agreement."

According to the subcontracting provisions of FAR 52.215-2(d) that have been incorporated into the main contract between STV and USAID/I, "the contractor shall make available... the materials described in paragraphs (a) and (b) above (..(a)..books, records, documents and other evidence and accounting procedures and practices... sufficient to reflect properly all costs claimed to have been incurred ... (b).. books records... in order to evaluate the accuracy, completeness and currency of cost pricing data)... for audit..., until 3 years after final payment." Paragraph (f) further requires the Contractor to "insert a clause containing all the terms of this clause... in all subcontracts over $ 10,000 under this contract."

FAR 52.215-1 provides for the Government to "have access to the right to examine any of the contractor's books... The contractor agrees to include in... subcontracts... a clause to effect that the (Government) until 3 years after final payment under the subcontract... have access to and the right to examine any of the subcontractor's books, documents,... records involving transactions related to the subcontract."

Sections C.6.2 of the Contract incorporates FAR 52.244-2 that requires the contractor, when subcontracting, to among other things, (i) identify the "type of subcontract to be used", (ii) include information on the subcontract "price and cost or price analysis," (iii) "the subcontractor's... Certificate relating to Cost Accounting Standards", (iv) a negotiation memorandum reflecting the extent, if any, to which the Contractor did not rely on the subcontractor's cost pricing data... in negotiating the final price".

FAR 52.216-7 (b) states "for the purpose of reimbursing costs, the term "costs" includes only - (i) those recorded costs that at the time of reimbursement, the Contractor has paid by cash, cheque, or other form of actual payment... (ii) When the Contractor is not delinquent in paying costs... cost incurred but not necessarily paid for (allowable indirect costs as shown in the records)... (iii)the amount of progress payments that have been paid to the subcontractors under similar cost standards."

FAR 52.215-24 requires the Contractor to "before entering into any subcontract exceeding $ 100,000... require subcontractor to submit cost pricing data" including a certification that, "to the best of its knowledge and belief, the data submitted were accurate, complete and current as of the date of the agreement."

Effect

Due to the exclusion of certain required provisions as outlined above, the expenditures reimbursed under the local subcontract amounting to US$ 1,276,614, may not be in accordance with the terms and conditions of the Contract between STV and USAID/I. In addition, the flowthrough provisions such as FAR 52.215-1 on "Examination of records by Comptroller General" have also been omitted but should have been included in the subcontracts.

Cause

STV kept complete copies of the subcontracts except in several cases where the attachment is the USAID/I-STV prime Contract. To save on reproduction costs, STV elected not to make extra copies of the document for each and every subcontract file copy.

Recommendation

We recommend that STV (1) review all subcontracts under its prime Contract with USAID/I and include all pertinent applicable provisions in all of the subcontracts in accordance with the subcontracting requirements provided in its Contract with USAID/I, including obtaining necessary approval from USAID/I; (2) require subcontractors to comply with all subcontract provisions and incur expenses in accordance with these provisions; and (3) establish and implement adequate procedures to comply with all USAID/I requirements when subcontracting.

Management Response

According to management, the subcontracts were reviewed several times by the responsible USAID/I Contracting Officer and modified per his directions. Further, management notes that nowhere in the USAID/I-STV Contract is there a requirement to maintain exact files of every document in Jakarta. The Jakarta function is bookkeeping and the accounting function is in Pottstown, PA., U.S.A. Management believes that they have submitted all data as required and it is in the files of the USAID/I or the STV Group, Pottstown office.

Auditor's Rebuttal

We agree that there is no requirement for management to keep a complete file both in Head and Field Office. However, we will accept certified and complete copies of necessary documents for our review.

6. RENTED VEHICLES NOT SUPPORTED BY USAID/I APPROVAL LETTER

Condition
Three to eight vehicles were rented by STV for approximately 3 years. The approval letter from the USAID/I for one rented vehicle was obtained, but not for the other vehicles. Approval is required since the Contract does not provide that costs for rental of vehicles can be reimbursed.

Criteria
Pursuant to Section B 3.2.2. of the Contract, vehicles will be provided from project loan funds and will be purchased directly by USAID/I. Section B.3.4 further provides that USAID/I approval is required to utilize an amount of budgeted US dollars to cover critical and short-term emergency logistic support.

Effect
Approximately US$ 43,272 of vehicle rental expense are questioned as these were not supported by approval letters from the USAID/I.

Cause
Leasing of vehicles was approved in the initial negotiations and in the signed contract for the period between start of contract and the date when USAID/I completed the purchase of the vehicles were delivered to the contract. The further leasing of vehicles was negotiated into Amendment No. 3 and approved by USAID/I at the time it issued the signed contract amendment.

Recommendation
USAID/I should resolve the above with STV and recover the rental costs determined to be unallowable.

Management Response
Management maintains that the leasing of vehicles was approved by the USAID/I.

Auditor's Rebuttal
Neither approval letters nor confirmed approval letters from USAID/I were available to us during the audit.

7. VAT PAID BY STV AND REIMBURSED BY USAID/I

Condition
Value Added Tax (VAT) was included in the cost of airfares reimbursed by USAID/I.

Criteria
FAR No. 52.229-8 section (a) states that "any tax or duty from which the United States Government is exempt by agreement with the Government of Indonesia (GOI),... shall not constitute an allowable cost under this contract."

Effect
From the items tested, USAID/I reimbursed VAT included in travel and transportation costs amounting to US$ 1,567.

Cause
Management was unaware that they were expected to prepare a summary of VAT charges so that USAID/I could request reimbursement from the GOI.

Recommendation
We recommend that STV prepare a list of all VAT paid and reimbursed by USAID/I, attached with the related supporting documents, and submit to USAID/I for recovery from the GOI.

Management Response
The list has been made and submitted to USAID/I.

Auditor's Rebuttal
The Finance Office (Fin/A) of USAID/Indonesia has not yet received a list of all VAT paid and reimbursed by USAID/I from STV.

8. BSN INSURANCE COVERAGE PAID BY STV AND REIMBURSED BY USAID/I

Condition
BSN is one of the STV's U.S. based subcontractors. Insurance policy documents for BSN's employees state that the type of insurance purchased is general liability insurance. The insurance premium was charged to STV and reimbursed by USAID/I. The correspondence between STV and BSN disclosed that such insurance is not a general liability insurance, but a specific insurance that is required by contracts with USAID/I.

Details of the insurance premiums are follows:

Voucher No.	Date	Period of Insurance	Amount
5	Nov 1989	Aug 1989 - Aug 1990	US$ 1,500
18/19	Dec 1990/Jan 1991	Aug 1990 - Aug 1991	1,500
26	Sept 1991	Aug 1991 - Aug 1992	1,700
			US$ 4,700

Criteria
The supporting documents should be adequate and should specifically describe the details of the services or goods procured to ensure that all payments comply with approved procurement requirements and are properly recorded under the budgeted item.

Effect
STV may have claimed and USAID/I may have reimbursed double payment for general liability insurance expenditures of US$ 4,700, which is unallowable.

Cause
BSN does not agree that this DBA insurance was included in their overhead negotiated in the basic contract. Other firms had agreed that the DBA was included in the overhead rates submitted to USAID/I in the initial financial proposal.

Recommendation
We recommend that USAID/I resolve the above questioned cost with STV and recover any amounts determined to be unallowable.

Management Response
Insurance paid to BSN is DBA insurance which is not covered under the overhead rates as stated in the letter of BSN to management.

Auditor's Rebuttal
The supporting documents provided to us show that the insurance is a general liability insurance. No further details that can be interpreted as DBA insurance.

9. INDIRECT COST PAID TO LOCAL SUBCONTRACTOR, INDEC

Condition
During the period from the inception of the contract until March 31, 1992, total indirect costs and fees claimed by Indec amounted to US$ 680,989 and US$ 116,055, respectively. These indirect costs and fees were billed based on rates as set out in the subcontract budget. The relevant amounts, rates and bases are as follows:

	Rate	Amount	Base
Social charges	52%	US$ 249,376	Direct salary
Overhead	92%	431,613	Direct salary
	142%	680,989	
Fee	10%	US$ 116,055	

The rates included in the Indec subcontract budget were based on cost pricing data submitted by Indec as part of the contract negotiation process. STV did not require Indec to certify that the rates were accurate, current and complete as required by FAR 52.215-24. As a result, Indec was paid for expenses that it did not actually incur (please refer to Finding No. 11).

Further, STV did not require Indec to negotiate final indirect cost rates as required by the STV prime contract. As such, STV cannot ensure that the indirect costs billed to date are based on current cost data.

Criteria
FAR 52.215-24 provides that the contractor "before entering into any subcontract exceeding US$ 100,000 .... require subcontractor to submit cost pricing data" including a certification that "to the best of its knowledge and belief, the data submitted were accurate, complete and current as of the date of the agreement."

FAR 52.215-22 paragraph (a) provides that "if any price, including profit or fee, negotiated in connection with this contract, was increased by any significant amount because of (1) the contractor or subcontractor furnished cost pricing data that was not complete, accurate and current as verified in its Certificate of Current Cost Pricing Data .... or (2) any of these parties furnished data of any description that were not accurate, the price or cost shall be reduced accordingly and the contract shall be modified to reflect the reduction."

Section B.6 of the Contract provides the establishment of provisional indirect cost rates for the Contractor. This section incorporated FAR 52.216-7, Allowable Cost and Payment, paragraph (d) (2) which states, " the Contractor shall, within 90 days after the expiration of each of its fiscal years ... submit to the Cognizant Contracting Officer responsible for negotiating its final indirect cost rates ... proposed final indirect costs rates for that period and supporting cost data specifying the contract and/or subcontractor to which the rates apply."

Effect
Indirect costs and fees billed by Indec for a total of US$ 797,044 (US$ 690,989 and US$ 116,055) may not have been actually incurred and are potentially unallowable. These costs are questioned and have been included as part of questioned costs in Finding No. 5 set out in Appendix 1. Part of these amounts also included the questioned costs identified in Finding No. 13. Due to the complications in the computation of these indirect cost amounts, we did not attempt to separate the amounts included in Finding No. 13 from the total overhead claimed. This should be done when finalizing the indirect cost rates.

Cause
STV did not properly include provisions on the Indec subcontract to require:
(1) audits to be performed on an annual basis
(2) indirect cost rates to be finalized and negotiated in a timely manner.

Recommendation
We recommend that USAID/I resolve the above questioned costs with STV and Indec and recover any amounts determined to be unallowable.

Management Response
Management requests that all Indec funded problems be settled later since Indec was on fixed rates not reimbursable costs for man-months.

OTHER MATTERS

10. SALARY AND HOUSING COSTS PAID FOR SUBCONTRACTOR'S (INDEC) PERSONNEL REIMBURSED BY USAID/I WAS IN EXCESS OF AMOUNTS ACTUALLY INCURRED BY US$ 224,633 AND US$ 87,978, RESPECTIVELY

From the results of an investigation on Indec, a subcontractor for STV, by other auditors, we have also noted that certain expenses claimed, namely salary and housing costs, were in excess of the amounts actually incurred. The finding has been incorporated within this report since the expenses were claimed by STV and are presented in the Statement of Expenditures.

Condition
Indec and Associates Limited (Indec), the local subcontractor of STV, billed the salary of its personnel to STV in excess of the amount actually paid to its employees. The amount charged to STV was reimbursed by USAID/I. These amounts were billed based on the budgeted salary amounts included in the Indec subcontract. The budgeted amounts were included in the cost pricing data submitted to USAID/I as part of the contract negotiation process between USAID/I and STV.

Indec also leased approximately 24 (twenty four) houses for its employees in Ujung Pandang and Kupang. Lease costs billed to STV and reimbursed by USAID/I for each employee was Rp 7.2 million per year. However, only Rp 3 million per year was paid to each employee for housing allowance, and in certain cases, even lesser amounts were actually paid by the employees to the lessors. The amounts billed by Indec were also based on the amounts budgeted for in the Contract, as negotiated between USAID/I and STV.

Criteria
Section B.2.1 of the Contract states that "the budget sets forth the fixed fee and the estimates for reimbursement of dollar costs for individual line items of cost." This includes reimbursable subcontract costs of US$ 4.3 million. It further clarifies that only "the fee is fixed."

FAR 52.215-22 (a) provides that "if any price, including profit or fee, negotiated in connection with this contract, was increased by any significant amount because (1) the contractor or subcontractor furnished cost pricing data that was not complete, accurate and current as verified in its Certificate of Current Cost Pricing Data...or (2) any of these parties furnished data of any description that were not accurate, the price or cost shall be reduced accordingly and the contract shall be modified to reflect the reduction."

Effect
Based on the results of the investigations carried out by the Inspector General's Office of Investigation, Singapore, working with USAID/I Finance Office staff, approximately US$ 224,633 has been determined to be in excess of amounts actually incurred for salaries, indirect costs and fees, and an amount of US$ 87,978 in excess of lease costs, for the period from the inception of the Contract through September 1992. The bases used in the determination of these amounts are as follows:

(1) All employees were paid Rp 3 million housing allowance per year.
(2) The effect of idle houses was not taken into account. (See finding No. 4).
(3) Effect of overheads, social charges and fees on actual direct salaries were based on the provisional indirect cost rates included in the subcontract.

The excessive amount of US$ 312,611 (US$ 224,633+ US$ 87,978) has been billed by Indec to STV and has been reimbursed by USAID/I. The investigators also found that falsified/fabricated lease agreements and receipts were maintained by Indec in support of the amounts billed.

Cause
It was Indec's understanding that billings under the subcontract were based on the salary rates included in the subcontract budget. These subcontract rates were negotiated based on the cost pricing data submitted in the negotiation process and was not based on the actual amounts that Indec was expected to pay specific individuals. The housing allowance of a fixed amount for each individual was also billed based on predetermined budget rates (negotiated) and not on the basis of the actual cost of leasing the houses for its employees.

Recommendation
We recommend that USAID/I resolve the costs questioned above with STV and Indec and recover amounts determined to be unallowable.

Management Response
All Indec funded problems to be settled later since Indec was on fixed rates not reimbursable costs for man-months.

11. DEFICIENCIES IN U.S. - BASED SUBCONTRACTS

Condition
Three subcontractors that we were provided had similar deficiencies with local subcontracts as mentioned in Finding No. 5. Those U.S. - based subcontracts are:

Subcontractor	Subcontract Amounts (US$'000)
1. Globetrotters Engineering Corporation, Illinois, U.S.A. (GEC)	938
2. Bergstralh-Shaw-Newman, Maryland, U.S.A. (BSN)	920
3. Daniel, Mann, Johnson & Mendenhall, California, U.S.A. (DMJM)	722
Total	2,580

Specific deficiencies of the U.S. - based subcontracts are:
- The subcontracts with GEC and DMJM were not signed by the subcontractors and their witnesses;
- Item 6a of the three subcontracts listed above states that the provisional overhead and fringe benefits rates were established in the negotiations as discussed in Item B.7 and B.7.2 on page B.9 of the RFP (Request for Proposal). However, these relevant sections of the RFP (whether it was USAID/I's RFP to STV or STV's RFP to the subcontracts) were not incorporated into the subcontracts, nor were they attached to the subcontracts.

Aside from the above, the subcontracts did not include certain other pertinent provisions as required by USAID/I. These include the following:

i. Audit provisions, audit rights of the U.S. Government, and the requirement to maintain books, records etc. relating to all costs incurred under the subcontracts.

ii. Provisions relating to arrangements for the finalization and negotiation of provisional indirect costs rates that are included in the subcontracts (see Finding No. 12).

iii. The subcontracts did not clearly specify whether they were the cost reimbursable type or the fixed price type.

iv. The requirement for subcontractors to certify on their voucher to STV that all costs billed under the subcontract have been incurred, whether paid or not (FAR 52.216-7).

v. Provisions regarding contract termination and settlement of disputes.

There was no cost pricing data although this was required for contracts exceeding US$ 100,000. Clauses to inclu . certification that to the best of their knowledge and belief, the data submitted were accurate, complete and current as of the date of the agreement (FAR 52.215.-24) were also not found.

Criteria
Written contracts serve as useful, legally binding management tools in transacting business. Subcontract agreements should be prepared so as to enable them to be legally valid, enforceable and binding to the parties. This would include dating them, having all parties' representatives sign them and be appropriately witnessed. All amendments should be properly done (evidenced by signing the amendments as acknowledgement of agreement with the amended provisions as applicable) by all parties concerned. This includes the proper drafting and review of the contracts to ensure that they include all pertinent and required provisions, relevant terms and conditions.

Paragraph 2 of the subcontracts states "The terms of this subcontract and payments due are listed below and together with the related pages of the contract attached constitute the complete subcontract agreement."

According to the subcontracting provisions of FAR 52.215-2(d) that has been incorporated into the main contract between STV and USAID/I, "the contractor shall make available... the materials described in paragraphs (a) and (b) above (..(a)..books, records, documents and other evidence and accounting procedures and practices... sufficient to reflect properly all costs claimed to have been incurred... (b).. books records... in order to evaluate the accuracy, completeness and currency of cost pricing data.)... for audit..., until 3 years after final payment... "Paragraph (f) further requires the Contractor to "insert a clause containing all the terms of this clause... in all subcontracts over $ 10,000 under this contract."

FAR 52.215-1 provides for the Government to "have access to the right to examine any of the contractor's books... The contractor agrees to include in.. subcontracts... a clause to effect that the (Government) until 3 years after final payment under the subcontract ... have access to and the right to examine any of the subcontractor's books, documents,... records involving transactions related to the subcontract."

Sections C.6.2 of the Contract incorporates FAR 52.244-2 that requires the contractor, when subcontracting, to among other things, (i) identify the "type of subcontract to be used", (ii) include information on the subcontract "price and cost or price analysis", (iii) "the subcontractor's... Certificate relating to Cost Accounting Standards", (iv) a negotiation memorandum reflecting the extent, if any, to which the Contractor did not rely on the subcontractor's cost pricing data...in negotiating the final price."

FAR 52.216-7 (b) states "for the purpose of reimbursing costs, the term "costs" includes only - (i) those recorded costs that at the time of reimbursement, the Contractor has paid by cash, cheque, or other form of actual payment.....(ii) When the Contractor is not delinquent in paying costs...cost incurred but not necessarily paid for (allowable indirect costs as shown in the records)...(iii)...the amount of progress payments that have been paid to the subcontractors under similar cost standards."

FAR 52.215-24 requires the Contractor to "before entering into any subcontract exceeding $ 100,000... require subcontractor to submit cost pricing data" including a certification that, "to the best of its knowledge and belief, the data submitted were accurate, complete and current as of the date of the agreement."

Effect
Due to the exclusion of certain required provisions as outlined above, the expenditures reimbursed under the U.S. - based subcontracts amounting to US$ 2,232,689 may not be in accordance with the terms and conditions of the contract between STV and USAID/I. In addition, the flowthrough provisions such as FAR 52.215-1 on "Examination of records by Comptroller General" has also been omitted that should have been included in the subcontracts.

Cause
STV kept complete copies of the subcontracts except in several cases where the attachment is the USAID/I-STV prime Contract. To save on reproduction costs, STV elected not to make extra copies of the document for each and every subcontract file copy.

Recommendation
We recommend that STV (1) review all subcontracts under its prime Contract with USAID/I and include all pertinent applicable provisions in all of the subcontracts in accordance with the subcontracting requirements provided in its Contract with USAID/I, including obtaining necessary approval from USAID/I; (2) require subcontractors to comply with all subcontract provisions and incur expenses in accordance with these provisions; and (3) establish and implement adequate procedures to comply with all USAID/I requirements when subcontracting.

Management Response
According to management, the subcontracts were reviewed several times by the responsible USAID/I Contracting Officer and modified per his directions. Further, management notes that nowhere in the USAID/I-STV Contract is there a requirement to maintain exact files of every document in Jakarta. The Jakarta function is bookkeeping and the accounting function is in Pottstown, PA., U.S.A. Management believes that they have submitted all data as required and it is in the files of the USAID/I or the STV Group, Pottstown office.

Auditor's Rebuttal
We agree that there is no requirement for management to keep a complete file both in Head and Field Office. However, we will accept a certified and complete copies of necessary documents for our review.

12. FINALIZATION OF PROVISIONAL INDIRECT COST RATES

Condition
The Contract between STV and USAID/I provided that provisional indirect cost rates are to be used for both the prime Contract and the subcontracts. STV did not comply with this provision of the Contract as follows:

a. STV did not submit proposed final indirect cost rates within the time frame specified in the Contract.

b. STV did not require that the three 3 U.S. - based subcontractors negotiate final indirect cost rates as required by the subcontracts and the prime Contract.

Criteria
Section B.6 of the Contract provides the establishment of provisional indirect costs rates for the Contractor. This section incorporates FAR 52.216-7 Allowable Cost and Payment, paragraph (d) (2) which states, "the Contractor shall, within 90 days after the expiration of each of its fiscal years... submit to the Cognizant Contracting Officer responsible for negotiating its final indirect cost rates... proposed final indirect cost rates for that period and supporting cost data specifying the contract and/or subcontract to which the rates apply."

Effect
STV did not comply with the Contract terms and did not include provisions relating to the finalization and negotiation of provisional indirect cost rates into the subcontracts (resulting in subcontractor's noncompliance). As a result, none of the subcontractors have finalized these rates as required by the FAR provisions included in the contract between STV and USAID/I. The nature and amount of the U.S. - based subcontracts' indirect costs budgeted and billed as of March 31, 1992 are as follows:

Contractor	Prov. Rates (%)	Budgeted Base Used	Amount (US$)	Amount Billed (US$)
STV				
Fringe Benefits				
-home office	35.64	Total US personnel's direct salary	203,051	173,785
-field office	43.16	Total local personnel's direct salary	97,122	80,551
Overheads	54.10	Total direct salary	308,223	263,798
G & A	5.96	Total cost	488,044	399,964
Total of local costs			1,096,440	918,098
GEC				
Fringe benefits	39.00	Total direct salary	123,492	103,005
Overheads	138.00	Total direct salary	436,973	364,479
Sub Total			560,465	467,484
DMJM				
Fringe benefits	32.00	Total direct salary	86,746	69,622
Overheads	116.90	Total direct salary	316,893	254,338
Sub Total			403,639	323,960
BSN				
Fringe benefits	24.60	Total direct salary	88,618	83,873
Overheads	114.00	Total direct salary	410,668	388,678
Sub Total			499,286	472,551
Total of U.S. based costs			1,463,390	1,263,995
Grand Total			2,559,830	2,182,093

A total amount of US$ 2.182 million in indirect costs have been billed by STV and reimbursed by USAID/I since 1989. These amounts have not been finalized to date.

Cause
STV has made a good faith effort to comply with USAID requirements. As USAID/I and USAID Washington, DC are aware, all data has been submitted to USAID for audit, but they cannot finalize until USAID decides to accept the submittal or performs an audit. Management cannot finalize the rates by themselves.

Recommendation
We recommend that (a) STV finalizes indirect cost rates with its subcontractors for all applicable fiscal years; and (b) USAID/I finalizes STV's indirect cost for all applicable fiscal years.

Management Response
STV has submitted accounts to the Contracting Officers of USAID/I and USAID Washington per instructions, and USAID has the audit responsibility.

Auditor's Rebuttal
The management proved a submission of indirect costs rates beyond the time frame and up to the date of drafting this report, the indirect cost rates has not yet been finalized.

Appendix 1

STV/LYON ASSOCIATES, INC.'S CONTRACT NO. (497-0353-C-00-9108-00)
WITH THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT IN INDONESIA
FOR THE RURAL ROADS MAINTENANCE SYSTEMS PROJECT
FOR THE PERIOD JUNE 19, 1989, TO MARCH 31, 1992

SUMMARY OF NONCOMPLIANCE ISSUES

NONCOMPLIANCE ISSUES INCLUDED IN THE STATEMENT OF EXPENDITURES

Finding No.	Nature of Cost	Amount in US$	Basis
1.	Personal income tax	2,437	Unallowable
2.	Moving cost (tickets only)	7,070	Unallowable
3.	Living allowances	6,516	Unallowable
4.	Cost of idle leased house	14,228	Unallowable
6.	Car rental cost not covered under the budget	43,272	Unallowable
7.	VAT expenditures	1,567	Unallowable
8.	Insurance for subcontractor	4,700	Unallowable
	Total unallowable costs	79,790	
5.	Deficiencies in local subcontract (The amount includes unreasonable costs of local subcontractor's social charges and overhead of US$ 797,044 which is questioned in Finding No. 9.)	1,276,614	Deficiencies noted
	Total cost questioned due to deficiencies	1,276,614	
9.	Indec social charges and overhead costs (This unreasonable cost in the amount of US$ 797,044 is included as part of the questioned cost in Finding No. 5.)	-	Unreasonable
	Total questioned costs	1,356,404	

STV/LYON ASSOCIATES, INC.
RESPONSE TO
"TENTATIVE" DRAFT AUDIT REPORT
DATED SEPTEMBER 13, 1993
UNDER USAID (INDONESIA)
CONTRACT NO. 497-0353-C-00-9108-00
RURAL ROAD MANAGEMENT SYSTEM

by STV/Lyon Associates, Inc.
Dated October 29, 1993

STV/LYON ASSOCIATES

ENGINEERS ARCHITECTS PLANNERS

Jakarta Office : Jl. Kramat VI No. 18, Jakarta 10430 Indonesia
Tel. (021) 390-9907, 390-5148 Fax (021) 310-6715,
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October 29, 1993

Mr. Paul E. Armstrong
Deputy RIG /A/Singapore
USAID, Office of the Regional
Inspector General
111 North Bridge Road, No 17-01
Peninsula Plaza
Singapore 0617

Ref : USAID (Indonesia) Contract No. AID 497-0353-C-00-9108-00, Rural Roads Maintenance System; HANS, TUANAKOTA + MUSTAFA Audit Report dated 13 Sept 1993.

Dear Sir,

We received the referenced "Tentative Draft" of the financial audit of STV/Lyon Associates' ("STVL") contract with USAID Indonesia on September 16, 1993. This is approximately eight (8) months after the so called "Preliminary Draft Audit Report" dated February 25, 1993 to which we responded with our "Response to Preliminary Draft Audit Report" dated April 8, 1993. The initial draft labeled "Preliminary" included 21 Findings which disallowed or questioned a total of $7,405,064.00 or 91.8% of the total value of our invoices for the period audited to 31 March 1992. STVL's response of April 8, 1993 contested the validity, in whole or in part, of each of the 21 "Findings" contained in the initial report. Several findings were recognized as having some validity by STVL due to the fact they identified minor discrepancies in billings which, in most cases, had already been recognized and corrected by STVL. The total value of these recognized and agreed to items was $17,532, 0.2% of all that the auditors had questioned or disallowed.

Two items in the original report accounted for a substantial portion of the total amount questioned or disallowed and these related to problems associated with STVL's subcontractor, INDEC. The value of these items was $1,109,656.00. In the "Preliminary Draft" STVL declined comment on INDEC related findings for lack of information pointing out that INDEC had refused to allow further audit activities after its contract was summarily terminated at the direction of USAID (USAID may disagree with this characterization but we submit the facts speak for themselves). If those two INDEC items were eliminated from the original list of questioned or disallowed costs, the value thereof would be reduced to $6,295,408.00. If the comparable amount related to INDEC were extracted from the total of the questioned or disallowed costs in the second or "Tentative" draft audit report, the total amount questioned would become $151,790.00. On its face, therefore, and setting aside INDEC items for the moment, between the Preliminary and the Tentative Drafts, the auditors reduced the disallowed or questioned costs by $6,143,618.00. Put another way, the second draft audit report implicitly recognizes that $6,143,618.00, or 97.6%, of the original disallowances were erroneous. Yet, nowhere in the "Tentative Report" is this acknowledged. This entire amount, when originally identified as being questioned in the original audit required substantial reaction, review, analysis, and investigation on the part of STVL staff, management and outside counsel. The fact is that this extensive and time consuming effort was, in fact, expended to compensate for the inadequacies of this original audit which is now totally ignored.

Simply stated, during the past eight (8) months while management was trying to run the RRMS project, participate in repeated negotiation sessions to extend the contract on a piecemeal basis, and respond to repeated extraordinary demands, our efforts were constantly distracted by being forced to deal with the highly inaccurate and misleading data and accusations which formed the major portion of the Preliminary Draft Audit Report. STVL was forced to face and correct $6,143,618 worth of false and misleading claims of improper or questioned billings. STVL was forced to defend itself from baseless accusations of mismanagement and false claims of poor contract management which now, in the "Tentative" draft, are not so much as referred to in passing. The auditors continue their course of misleading and irresponsible audit practice and procedure which has seriously damaged STVL in its performance of this contract as well as in other more general ways.

STVL's Response to Preliminary Audit Report dated 8 April 1993 clearly establishes in abundant detail the numerous errors and mistaken assumptions of the first audit report, but unfortunately, with the "Tentative" draft the process continues and STVL is again unfairly compelled to correct the erroneous claims of another equally misleading audit report albeit substantially reduced in magnitude. We submit that this process was never contemplated as being part of our contractual obligation and warrants an adjustment of our contract value for extraordinary costs associated with our efforts to do the work which should have been done by the auditors.

Continuing with our specific comments concerning the audit, as we noted above, once the issues relating to INDEC are set aside, the "Tentative" second draft audit only questioned $151,790.00 of costs audited. This amount warrants careful examination and dissection. It is itself grossly inflated by nearly 47% since it includes $72,000.00 of "questioned costs" for which STVL has absolutely no responsibility. The costs in question, "termination fee of subcontractor's employee", Finding No. 9, are said to be "unreasonable". These costs, however, are the sole responsibility of USAID Washington and arise out of the negotiated settlement of a lawsuit the details of which are discussed below. Unbeknownst to STVL after the settlement was concluded, USAID Washington elected to make the payment for which it agreed it was responsible by a payment to STVL under the contract. STVL cannot and will not assume any responsibility for these actions of USAID Washington.

When this amount is deducted from the "questioned costs" there remains a balance of $79,790.00 of questioned costs. Of this $2,437.00 was previously refunded as an acknowledged minor billing error on the part of STVL. The same is true of $4,295 relating to moving costs and another $10,800.00 relating to housing costs which STVL agreed was its responsibility. When these non-issues are eliminated, the amount in question becomes $62,258. Of this $43,272.00 relates to car rental costs for which USAID itself was responsible due to delays in processing paperwork, leaving only a balance of $18,986 as the amount of actual questioned costs in the audit. Over a year has been spent by the auditors to come up with this amount which, under any circumstancies, STVL continues to believe are legitimate costs and to which it will respond in detail in the following pages.

Simply stated, this audit has forced STVL to consume substantial time and money to respond to allegations and charges which are now proven to be baseless and unfounded just as STVL claimed upon initial review of the "Preliminary" audit report in February 1993. That report irresponsibly protrayed STVL as improperly charging USAID $7,405,064 or 91.8% of its then current billings.

The audit (aside from Indec issues) now comes down to identifying $18,986 or 0.2% of then total contract billings at time of audit being, in the opinion of the auditors, questioned. But nowhere does the audit acknowledge the errors and misleading information contained in the Preliminary Report.

STVL submits that it is owed a commendation for its accurate and efficient contract administration rather than the unsupported, continuing insinuation that its billing practices are in some way questionable.

STVL reserves the right to seek vindication and redress in whatsoever manner as may be available under the contract and at law.

Yours Very Truly

Andrew F. Dempsey, Jr.
Counsel, STV/Lyon Associates, Inc.

cc: Mr. Peter Shirk

<u>Attachments</u>

1 FINDING NO. "PRELIMINARY" 2/25/93	2 NATURE OF COST	3 AMOUNT "PRELIMINARY" AUDIT	4 STV/L POSITION (DUE BACK TO USAID	5 No. "TENTATIVE" AUDIT 13/9/93	6 AMOUNT "TENTATIVE" AUDIT	7 INDEC	8 USAID RESPONS-IBILITY	9 STV AGREED	BALANCE AFTER DEDUCTING COLS # 7,8,9 OR IN DISPUTE
1	Personnal Income Tax	1,695	2,437	1	2,437			2,437	
2	STV Local Fringe Benefit	24,513	- 0 -	Dropped					
3	Travel Expense	47,821	- 0 -	Dropped					
4	Moving Cost	18,330	4,295	2	7,070			4,295	2,775
5	Equipment/Non-expandable Property (NEP)	118,000	- 0 -	Dropped					
6	INDEC Salary/ Housing	224,633 87,978	HOLD HOLD	5	1,276,614	1,276,614			
7	INDEC Social Charges	797,045	HOLD						
8	Temporary Lodging Allowance	8,816	- 0 -	3 Living Allowance	6,516				6,516
9	Idle Leased House Costs	89,042	10,800	4	14,228			10,800	3,428
10	Leased House Not for Project	14,400	- 0 -	Dropped					
11	Deficiencies in Subcontractor	3,509,303	- 0 -	Dropped					
12	STV+Subcontractor Indirect Cost	2,182,093	- 0 -	Dropped					
13	Car Rental Cost Not in Budget	38,517	- 0 -	6	43,272		43,272		
14	Car Rental Cost Conflict of Int'est	19,258	- 0 -	Dropped					
15	Communication & Other Direct	97,817	- 0 -	Dropped					
16	Termination Fee Subcont'or E'	72,000	- 0 -	9	72,000		72,000		
17	Joint Cost	-	- 0 -	Dropped					
18	Salary + Trans. F.E. Lyon	13,656	- 0 -	Dropped					
19	VAT	1,567	- 0 -	7	1,567				1,567
20	Subcontractor Insurance	4,700	- 0 -	8	4,700				4,700
21	Temporary Lodging Allowance	33,881	- 0 -	Dropped					
Col. Total		7,405,065			1,428,404	1,276,614	115,272	17,532	
Net Amount after deleted items :					1,428,404	151,790	36,518	18,986	18,986

INTRODUCTION

The following are Management Comments to a series of statements handed to us by the firm of Hans Tuanakotta & Mustofa (HTM). This document is called, in their transmittal letter, "the draft report of the Financial Audit".....and stamped on each page "Tentative Draft". We consider this the <u>second draft report</u> as we previously were presented with virtually all of the identical findings and conclusions in a document dated Feb 25, 1993 provided to us at a meeting attended by both HTM staff and USAID staff on February 26, 1993 and replied to in considerable written detail in our Response to Audit Report dated April 8, 1993. We find this "tentative" document has many comments identical to those in the "Preliminary Draft" and many of the same faulty findings and while we must reply and respond to them we object to this substantial waste of legal, management and staff time and effort. Moreover, we strenuously object to the absence of reference to the fact that the preliminary draft contained numerous errors and faulty findings which the contractor correctly exposed and auditor subsequently deleted from its second "Tentative" draft. Nowhere does the "Tentative" audit acknowledge that the auditors wrongfully assessed the status of STVLs contract and grossly overstated the amount of so-called "questioned" or "unallowable" costs.

We are mystified by the term "Tentative Draft" not having heard this before in the context of U.S. Government audits, and also the complete lack of recognition by HTM of its responsibility for the draft audit report forced on the contractor in February 1993 requiring extensive work by the contractor to prepare the response given USAID and HTM on April 8, 1993. How can this other piece of work be ignored?

This other audit report which is now being treated as though it never existed prompted major reaction activities by STV/Lyon which resulted in a 21 page, 21 attachment document dated 8 April, 1993. This document responds in detail to all of the findings contained in this report plus many items which were not carried forward from the "Preliminary" to the "Tentative" draft and, thus, were dropped due to auditor error. We submit this document forms an important part of the audit trail and we, accordingly, incorporate it herein by reference.

We note, for example, that we have been delivered a second draft audit report of 36 pages, total of 40 pieces of paper and only 17 pages actually deal with results from an audit. The only significant numbers are results of an audit by the Inspector General at INDEC, a major separate issue to the audit of the books and procedures of STV/Lyon Associates, Inc. We also note a few paragraphs in this 36-page document that are repeated and repeated to make it look detailed and extensive.

We also note that this second tentative draft audit report only deals with funds dispensed in Indonesia in accordance with the agreement reached with the audit leader in August 1992 and completely ignored in the <u>first</u> draft report submitted in February 1993 causing untold STV labor to be wasted.

This second "Tentative" draft report would disallow the entire INDEC invoicing for the life of the contract prior to audit since INDEC refused to permit a completion of this audit. However, part of the comments on INDEC are based on an audit which was relied on by USAID Jakarta for reducing the INDEC payments (by deducting STV/Lyon and INDEC funds from current invoices). HTM totally ignores the fact their audit confirmed substantial amounts paid by INDEC for salary and housing; nevertheless they disallowed 100% of both.

GENERAL COMMENTS

The following management comments relate to general statements and findings discussed in the pages other than those listing specific Items that HTM made specific comments on.

1. INDEC: We have a major difference of policy and legal definition in this item and HTM has stated they disallowed the entire value of INDEC (payments made by STV/Lyon to INDEC) since they claim their audit was not completed. The USAID letter of January 11 which withheld substantial amounts of funds from STV/Lyon (and INDEC) for alleged problems and disallowances for the life of the contract did not disallow the entire INDEC invoiced amounts. This letter relied upon the same audit information that HTM quotes and were satisfied that substantial amounts of salary payments had been made.

   Regardless, this is a legal matter being handled by our attorneys and we expect to be prepared soon to present an entirely different story that will illustrate that the five days of audit that took place at INDEC with up to nine outside people in the INDEC office, was careless and not complete even in the areas they worked on.

2. The statement on page 3 under the title Results of the Audit mentions the figures of $31,818.00 and $1,396,586.00 without noting where these came from. We cannot locate anywhere else in the document the figures noted, especially on the summary sheet, page 35. We have assumed it is some combination that we are not being permitted to know.

3. The overall discussions on pages 4 and 5 restate the same arguments that were stated in the February Draft Report and discussed at great length in our response of April.

4. This audit continues to state that it is the contractors fault that indirect costs were never finalized despite the evidence in the files, in both USAID Indonesia and USAID Washington, D. C. that all data required and requested has been submitted to USAID for audit and that no final figures can be settled until these audits are complete. The Contractor cannot accomplish the audit of himself.

This argument and the related discussion covers approximately five pages of the pages in this document and are repeated in the findings and we assume are to show off HTM's knowledge of the FAR's.

SUMMARY

Second Draft Audit Report Comment	Management Comment Summary
A. Internal Control Structure	
1. Cash Advance	No loss suffered, no damage fuond.
2. Certain weekly expense reports were not approved	No fault can be located causing Government (or STV) loss.
3. Equipment and Supplies not properly managed	Same reply as provided in April 8, 1993 Response. STV/Lyon followed USAID regulations and policies.
B. Compliance Issues	
1. Inclusion of Taxes in Salary Reimbursed by USAID Audit Finding Feb $1,695.00 Audit Finding Sept $2,437.00	In April response STV/Lyon agreed to refund $2,437.42 and has done so.
2. Reimbursement of Moving Costs Audit Finding Feb $18,330.00(+) Audit Finding Sept $7,070.00	STV/Lyon agreed in April Response to refund $4,295.00 and will do so upon USAID acceptance.
3. Living Allowances for U.S. Personnel paid to Employee Audit Finding Feb $8,816.00 + $33,881.00 Audit Finding Sept $6,516.00	Receipts provided show funds went to provider of accommodations. No fault by contractor.
4. Idle Leased Houses Audit Finding Feb $89,042.00 + $14,400.00 Audit Finding Sept $14,228.00 (U.S. Personnel Portion $10,800.00 of Sept Finding)	April response agreed to refund $10,800.00. Remaining Sept amount is INDEC Housing Allowance and USAID has already withheld $80,000.00(+) on this item.

5.	Deficiencies in Subcontracts Audit Finding Feb $3,509,303.00 Audit Report Sept $1,276,614.00 (INDEC)	Subcontracts were approved by USAID and there is no Contractor fault causing fund loss. INDEC finding set aside for legal action.
6.	Rental "Cars" not Supported by USAID Approval Letters Audit Finding Feb $38,517.00 + $19,258.00 Audit Finding Sept $43,272.00	April response and now shows no fault of contractor.
7.	VAT paid by STV and Reimbursed by USAID Audit Finding Feb $1,567.00 Audit Finding Sept $1,567.00	April response and now is that amounts involved have been forwarded to USAID for reimbursement by GOI. No amount to be refunded by STV.
8.	BSN Insurance was paid by STV, etc. Audit Finding Feb $4,700.00 Audit Finding Sept $4,700.00	April Response and now is BSN claim this is DBA payment. No reimbursement due.
9.	Subcontractors Employee Termination Fee Audit Finding Feb $72,000.00 Audit Finding Sept $72,000.00	Per April Response and this response this was USAID Washington decision. No reimbursement due.
10.	Indirect Cost paid to Local Subcontractor INDEC Entire INDEC invoicing recommended disallowed	All INDEC funded problems to be settled later since INDEC was on fixed rates not reimbursable costs for manmonths.
11.	Allocation of Joint Costs not Clearly Defined	STV has a system for allocation of costs to various jobs and overhead accounts. No contractor fault.
12.	Finalization of Provisional Overhead No values sited	STV/Lyon has submitted accounts to Contracting Officer, USAID Indonesia and USAID, Washington per instructions. USAID has audit responsibility.

13. INDEC Salary and Housing — To be settled later.
See above

Summary
Total Contractor to Reimburse $17,532.42

INTERNAL CONTROL STRUCTURE

Audit Findings and Recommendations

1. Cash Advance.

Audit Comment: "Advances, amounting to about Rp 3,000,000 a month are made for certain operational expenses. However, we noted that proper books and records were not maintained to monitor these advances in the Ujung Pandang office. Some advances were due from people who had resigned."

Management Comments

It is unusual that this comment is made nine months after completion of the audit and not covered in the first draft report.

We have reviewed the comment and disagree with it. We cannot find any loss to USAID from advances not recovered and we have complete records of all advances made and when repaid. Perhaps a HTM accountant would have prepared the records differently and liked the procedure better when they reviewed it. One deduction made to one employee who departed was left open in the Ujung Pandang office due to a procedural matter although the funds were recovered from the employee by the Pottstown office at the Ujung Pandang/Jakarta office request.

The amount was refunded in the normal course of business by deduction from Globetrotters invoice 14 thus establishing that the system works.

Loss of money is the key to determining whether the system works and we do not believe USAID (or STV) has suffered any loss. We constantly review our procedures and paperwork and strive to maintain professional procedures at all times.

See also Management Comment Item 11 below.

2. Certain weekly expense reports were not approved.

Management Comments

We have reviewed our procedures and cannot find examples of this noted problem. Due to the distances involved in this contract-1,000 miles Jakarta to Ujung Pandang and more to NTT plus the number of expatriates per the number of local staff-causes complex management problems which we feel are solved in a sound and reasonable manner. All expense reports are reviewed to assure approval has been granted and expenses invoiced are inaccordance with contract provisions prior to invoicing USAID and forwarding the report to corporate accounting.

No known management error.

3. Equipment and Supplies were not properly managed.

Management Comments

This item was reported in the first draft report and replied to in detail. Our reply is partly repeated herein:

Yearly non expendable property (NEP) reports have been regularly submitted to USAID on all equipment purchased under this contract on forms supplied and required by USAID. The auditor never asked for supporting documentation and this is an uncalled for comment. If the auditor was unable to find something their comment should so state; it is inappropriate to make a value judgement such as has been done. The audit responsibility does not include provision for subjective judgement of management. Nevertheless, files containing the reports, were available to the auditor. A detailed USAID RRMS inventory list was also available and provided to the auditors who then requested an additional cost column which was then prepared and provided to the auditor. In effect, rather than audit, the auditor embarked on a bookkeeping redesign program.

We used competitive procedures for purchase of materials and equipment where applicable. It should be noted USAID procured and supplied the vehicles.

The USAID auditors allege that this equipment was not properly inventoried. This is nothing short of irresponsible and represents a flagrant failure on the part of the auditors to do their work in a professional and competent manner. In the first place, STVL complied with procedures established by USAID relating to equipment purchases. Yearly NEP was prepared on a regulation basis and submitted to USAID all in accordance with procedures established by USAID. Rather than seek out this information that was readily available, apparently, USAID auditors elected to establish a subjective criteria for what they thought should be done and then, irresponsibly, found that STVL had failed to comply with their self-established system. Even beyond that action, is their exercise of an arbitrary method of operation that demanded STVL personnel enhance the existing records for their convenience by preparing a new composite document. Despite the unreasonableness of such demand, it is important to note that STVL Jakarta complied with this request. In the course of an audit, it is not appropriate to require the creation of new documents to make the auditors' job easier, but this was the repeated modus operandi.

Attachment No. A-3 in the April response contains samples of forms submitted.

No fault by the Contractor. If HTM recommendations are that USAID procedures and forms be changed we request they handle that directly with USAID, Indonesia.

AUDIT FINDINGS AND RECOMMENDATIONS

Compliance Issues

Item 1: Inclusion of Tax Allowance in salary reimbursed by USAID.

Management Comments Second Audit Report

This item was listed in the first draft report and we agreed to return the funds. In fact, we have returned the funds in the amount of $2,437.42, an amount larger than that amount the auditors reported in their first draft report. The first draft reported the tax paid as $1,695.00 and this was a completed item when the auditors were in our office and illustrates the poor quality of the entire audit.

The following is excerpted from our Response to Audit report dated April 8, 1993.

Management Comments First Audit Report

The auditors' analysis has located funds that have been returned to USAID in the February invoice in the value of $2,437.42. Early in the start-up process the first Chief of Party employed the secretary in question and indicated the company would pay her taxes, apparently as her former employer had been doing. There is an error in that lower taxes were paid on the employees's behalf than was billed and the firm has already taken action to return the amount noted above to USAID.

Item 2: Reimbursement of Moving Cost of temporary personnel and personnel who resigned prior to one year of service.

Management Comments

This item was also included in the first draft report and was considerably larger due to poor auditing procedures. The three items remaining in the repeat of this comment are valid with the exception of the first trip of Dr. Jack Von Dornum since he was negotiated into the contract schedule with a reporting date of January 1990 and the Project Officer requested his presence earlier in fall of 1989 even recognizing that Dr. Von Dornum had other obligations before he could report for long-term work.

Management, as noted below, generally agrees with the finding on the matter of Felipe Rau and Thomas Lienbach.

Mr. Rau missed a one-year contract work period by two months and we agree that the return travel cost should be refunded to USAID. Our subconsultant invoiced us for this travel and our bookkeeper did not realize the one-year rule applied, so invoiced USAID.

We believe Dr. Leinbach was approved for a short visit prior to assuming full-time position but letter on this cannot be located. Hence, we agree to return this travel cost subject to locating the letter authorizing a short trip or obtaining appropriate after the fact approval.

Only disallowances in the amount of $1,795.00 for Mr. Rau and $2,500.00 for Dr. Leinbach agreed and for Dr. Leinbach on a tentative basis.

Item 3: Living Allowances for U.S. personnel were paid to the employees.

Management Comments

This item was included in the first draft report in a much larger scope and in two "findings". We restate the comments edited from the STV/Lyon Response to the Draft Audit Report of April 8, 1993 for your information.

The HTM auditor's comments under this Finding demonstrates a misunderstanding of the contract requirements in that they seem to be confusing the temporary lodging allowance with the "quarters" or "housing allowance". Normal for the first days an employee is in country, and for special case temporary employees, we may have invoiced for the "temporary allowances" but this is limited to only a few days on arrival and a few days on departure except for Mr. Holle-Item No. 21. In any event the quarters allowance had a limit which the employee was required at all times to observe. With respect to one employee listed in the audit we have confirmed that no expenditure occured when alleged.

Employees arriving on this contract were expected to immediately start work and many of them were waiting for arrival of family members. Since the rates in hotels exceeded their total quarters allowances, $2,300.00, the employee and company typically negotiated leases for modest suites for the few months until their family arrivals were scheduled. This occurred at a time in Jakarta when expatriate housing was under considerable strain due to the influx of a large number of business expatriate staffs with dependents and at a time when the expatriate staffs under question in this item were waiting for the arrival of wives to assist in house selection. This was a cost saving to all since the leases were short-term and within the total negotiated allowances but under the total permitted by USAID regulations and no immediate long-term leases had to be signed and funded. There were also negotiations in progress concerning several positions which might be shifted to Sulawesi. This ultimately was accomplished in a USAID letter of mid-summer 1991, and this was also a factor in our deciding to avoid premature long term arrangements.

The employee was utilized as the courier to transmit money to the hotel for payment of the monthly charges after he presented to the company a hotel invoice for the amount charged. We are not clear whether the auditors perceive a violation in the handling of the money or the amounts expended.

In any event, this was done with the knowledge of USAID Indonesia and approved on various invoices as a practice acceptable under the conditions and no amount should be returned to USAID.

Item 4: Idle Leased Houses.

Management Comments

This item was also in the first draft audit report in several forms but the dollar value greatly reduced in the "Tentative" draft. We attach the discussion related to the housing of Mr. De La Fuente but have agreed to return the amount of $10,800.00.

At this time we cannot agree to the return of the amount of $3,428.00 suggested for the two INDEC staff since USAID has already deducted large amounts of housing allowance from both INDEC and STV/Lyon payments to cover alleged faults in the pricing of this item. We request this item be set aside with the other INDEC items for later decision since significant funds are retained by USAID.

The case of Sergio Dela Fuente deserves careful review. Mr. De La Fuente was on duty overlapping the incoming new Team Leader Clifford Whitmarsh until the end of January 1991 to assist in orienting him to the project. USAID did not approve nor pay for the last month of this overlap and STV absorbed the cost since it was deemed required for smooth turnover and for humanitarian standpoint. Also, at about this time, a lawsuit had been filed by a terminated employee, Misaelidis, and Mr. De La Fuente had suggested he too might have the same basis for a suit since USAID had dictated his replacement in the same letter.

Part of our informal negotiations with Mr. De La Fuente were that his family could remain in the house, since it was virtually impossible to recover the lost rent from the Indonesian landlord, if he did join the lawsuit. Hence, based on this and avoidance of another suit patterned after Misaelidis both STV and USAID may have saved significant funds.

It was our intention, and was mentioned to USAID, that the funds beyond February for the lease would be refunded. Apparently in the process of changes in Chief of Party, changes in several positions in the field, the Misaelidis lawsuit, etc., this was not properly conveyed to the bookkeeping section and not accomplished per our review of the accounts. We, therefore, agree that six months of lease payments at $1,800.00 per month or $10,800.00 is refundable to USAID but reserve the right to recoup this amount later.

Item 5: <u>Deficiencies in Subcontracts</u>

Management Comments

This item is identical to the one in the first draft report of February except it has been rewritten in improved English. Our reply in April is as it is now.

HTM auditors question this item because of alleged deficiencies in subcontract. The HTM auditors in effect spent four (4) pages criticizing subcontracts that have functioned without flaw, from a legal standpoint, for over 40 months and pursuant to which the subcontractors have performed ably and in some cases admirably, simply because the auditors found technical discrepancies such as missing signatures on witness lines of the subcontracts and despite the fact that USAID in all cases reviewed and approved the subcontract.

The simple response to this alleged deficiency should be to refer the auditors to their USAID counterparts. Nevertheless, a detailed comment is provided below.

1. The subcontracts were reviewed <u>several times</u> by the responsible <u>USAID Indonesia</u> Contracting Officer and modified per directions. A review of various drafts submitted and changed indicates several of the comments noted by the auditors were originally to be in the subcontracts and were deleted or modified by the Contracting's Officer's review.

2. All subcontracts are on file properly signed with one witness; one or two are missing the witness. Since Jakarta was a Project Office all original subcontractor documents were not retained in Jakarta. We cannot find in our contract with USAID any requirement to keep original, fully executed copies of these documents in Jakarta.

3. The single page subcontract amendment was required by the CO after submittal of the signed subcontract as the last modification to serve several CO comments.

4. File copies of the subcontracts were complete except in several cases where the attachment is the USAID/Lyon prime contract; to save on reproduction costs we elected not to make <u>extra copies</u> of this voluminous document for each and every subcontract file copy.

5. No where in the USAID/Lyon contract can we find a requirement to maintain exact files of every document the auditor would have liked in Jakarta. As noted the Jakarta function is bookkeeping and the accounting function is in Pottstown, PA., U.S.A.

   As noted in another part of the auditors first comments, STVL the prime contractor did require the subcontractors to abide by all clauses in the prime and provided them with copies of the prime contract which were incorporated in their subcontractors.

   All subcontractors provided pricing data that was reviewed, discussed with the subcontractors and submitted to the USAID Contracting Officer as part of the Financial Proposal and negotiations. Pursuant to those negotiations we assisted with telephone contacts with the subcontractors, to aid the Contracting Officer, going throughout USAID channels, to acquire sufficient data to accept the pricing data submitted.

   Further pricing data was requested by the USAID Contracting Officer for the years as they passed and it was provided for STV and the U.S. subcontractors. Later letters from the Contracting Officer required data on each year's pricing to be submitted to USAID Washington for audit of overhead. This has all been complied with and letters to Mr. Marcus Stevenson, Chief Contracting Officer, submitting pricing data are attached along with letters to the proper office in Washington, D. C.

   We have submitted all data as required and it is in the files of the USAID Indonesia, USAID Washington or the STV Group, Pottstown office as we advised Mr. Sambnami prior to the start of the audit.

In summary, the auditors' criticisms are without foundation in most instances and based upon a totally subjective judgment standard in others. It is also unprofessional and inaccurate based upon failure on the part of the HTM audit team to properly search for and obtain documents which were readily available to it based upon STVL's standard record keeping procedures. Simply stated, the auditors looked in the wrong place, Jakarta, and did not even bother to ask if there were better records anywhere else. In fact, they disregarded information provided at the outset of the contract relating to the location of many files being in Pottstown.

Item 6: <u>Rented Cars were not supported by USAID approval letters</u>.

Management Comments

This item was also included in the first draft report and we replied as noted below. We note these are not "cars" but various types of carryall vehicles for working staff.

Leasing of vehicles was approved in the initial negotiations and in the signed contract for the period between start of contract and the date when USAID completed the purchase of the vehicles and the vehicles were delivered to the contract. The further leasing of vehicles was negotiated into Amendment No. 3 and hence, approved by USAID at the time it issued the signed contract amendment.

No disallowance agreed.

Item 7: <u>VAT paid by STV and reimbursed by USAID</u>.

Management Comments

Again, this item was included in the first draft audit report and our response remains the same.

With respect to this item USAID auditors claim that Indonesia's value added tax assessed against airline tickets should have been the subject of reimbursement by GOI. This is really a question of time and the appropriate list and request for reimbursement has been prepared and submitted to USAID.

The HTM auditors found a gap between the incurrence of the cost and action required to treat it in its proper way for reimbursement purposes. We were unaware that we were expected to prepare a summary of VAT charges so that USAID could request reimbursement from the Government of Indonesia but this now has been accomplished and submitted to USAID.

No disallowance warranted.

Item 8: <u>BSN Insurance Coverage was paid by STV and reimbursed by AID</u>.

Management Comments

BSN does not agree that this DBA insurance was included in their overhead negotiated in the basic contract. Other firms had agreed that the DBA was included in the overhead rates submitted to USAID in the initial financial proposal. BSN letter of explanation is in Attachment No. B-8.

No disallowance agreed.

Item 9: Subcontractor's Employee Termination Fee.

Management Comments

Mr. Dempsey has addressed this issue several times and it is our position that this continues to be an internal USAID problem. Simply put, suit was filed by a Mr. Misaelidis against his employer, subcontractor BSN, Inc., for wrongful termination of his employment contract which was dictated by USAID. Counsel for Misaelidis also indicated intent to implead the United States of America for actions by USAID. The matter was fully discussed with counsel for USAID in Washington and a settlement reached pursuant to which USAID would pay a substantial portion of the settlement amount. We wish to emphasize that STVL Jakarta or Pottstown took no active part in these negotiations; they were conducted strictly by Mr. Dempsey representing STVL, counsel for USAID and counsel for the other parties (BSN and Misaelidis). Apparently, at some stage in the negotiation counsel for USAID indicated that the amount contributed to the settlement by USAID would come out of the contract and a mechanism was put in place to bring that about. Any further justification should come from USAID internal sources.

No disallowance warranted.

It is interesting to note that there seems to be a parallel between USAID's treatment of a subcontractor's employee, in this case Misaelidis, and a subcontractor, INDEC. In both cases USAID management summarily dictated the dismissal of the entity which it found to be offensive. It remains to be seen whether the parallel will continue.

Item 10: Indirect Cost to INDEC.

Management Comments

To be settled later. See discussions above.

Item 11: Allocation of Joint Costs not Clearly Determined.

Management Comments

In the first draft report this item was included along with another item, not mentioned in t "Tentative" draft. STV has a complete system of job numbers, overhead account numbers, t sheets, expense account forms, etc., that are standard practice. In the project in Jakarta, as as other locations, all funds are separated into the various accounts and charged per the c overhead account, job account, etc.

We have been very careful not to mix items and Mr. Lyon, when present in Jakarta, for example, has sent faxes relating to non USAID matters from the hotel rather than risk a mixup in having STV routine and other business faxes charged to the RRMS contract.

We do not know of any mischarged items and we believe our system is correct and well-monitored. All transactions are reviewed monthly when all the accounts are sent to the accounting office in Pottstown.

Management Comments, Accounting Office Pottstown, PA

We are not sure what the auditors have questioned with this item. STV has a complete accounting system which has been reviewed by numerous governmental agencies and has been found adequate to segregate and allocate costs for governmental contracting purposes. This system is reviewed by the Defense Contract Audit Agency (DCAA), our cognizant audit agency, and found adequate. We are unaware of any deficiency, nor has the audit pointed out any specific deficiency, with our accounting system.

This comment again ignores the fact that the central accounting office of STV has the final say for the proper accounting of costs.

Item 12: Finalization of Provisional Indirect Cost Rates.

Management Comments

In accordance with a letter from USAID Indonesia, USAID Washington is the responsible agent for overhead verifications. All data required had been submitted to USAID Indonesia earlier.

During initial negotiations on this contract, complete overhead data from STV/Lyon Associates, Inc. and all subconsultants was supplied to the USAID negotiating Contracting Officer. Assistance was rendered in obtaining names and phone numbers, etc., of responsible DCAA auditors and/or other audit authorities. Our understanding was that the negotiating Contracting Officer received, from some source, adequate data to permit USAID Indonesia to approve the submitted overheads and that USAID would then proceed on any audits, etc., required. The negotiator for STV/Lyon advised the STV home office and various U.S.A. subconsultants they could expect audits.

Since that time we have been reminded by the Chief Contracting Officer to submit overhead data and such overhead data has been submitted to both USAID Indonesia Contracting Officer staff and later under USAID Indonesia direction to USAID Washington.

Our staff discussions with USAID Washington are that USAID must initiate audits and the contractor has done all that is required.

We have not been negligent in setting overhead rates as the auditors must act before we can accomplish anything more. STV/Lyon Associates, Inc. has submitted indirect cost rate justifications to the Chief Contracting Officer for itself and subcontractors from the U.S.A. and also the same information has been submitted to Washington as instructed.

STV has made a good faith effort to comply with USAID requirements. This audit states that indirect cost rate have not been finalized and that USAID "requires STV to finalize the indirect cost rates." As USAID Indonesia and USAID Washington, DC are aware, all data has been submitted to USAID for audit but they cannot be finalized until USAID decides to accept the submittal or performs an audit. We cannot finalize the rates by ourselves.

See copies of letter transmitting indirect cost information to USAID Indonesia and USAID Washington, D. C. enclosed.

No disallowance agreed.

STV/LYON ASSOCIATES

ENGINEERS ARCHITECTS PLANNERS

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January 24, 1994

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Jakarta 10110

Ref: USAID (Indonesia) Contract No. AID 497-0353-C-00-9108-00,
Rural Roads Maintenance System; HANS, TUANAKOTA + MUSTOFA
Audit Report dated 13 September 1993.

Gentlemen;

This will respond to your letter dated December 22, 1993 concerning your audit of the referenced contract.

We have reviewed your request and the draft letter included with your letter. We are prepared to certify that the fund accountability statement presents fairly the expenditures of STV/Lyon Associates on the referenced contract for the period in question.

Further, our response dated October 29, 1993 to your "Tentative" Draft Audit Report dated September 13, 1993 accurately reflects our position with respect to that audit.

During the period beginning approximately in September of 1992 and extending into April of 1993, STV/Lyon provided you with full and complete access to all records and data, financial and otherwise, which were located in our Jakarta office. Other USAID representatives availed themselves of the access provided by STV at other locations. The records made available were true, complete and accurate and were what they purported to be.

Very Truly Yours,

Frank Lyon

Frank E. Lyon, Jr.
President

FEL/ee

rec'd 2.28.94

APPENDIX 4

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