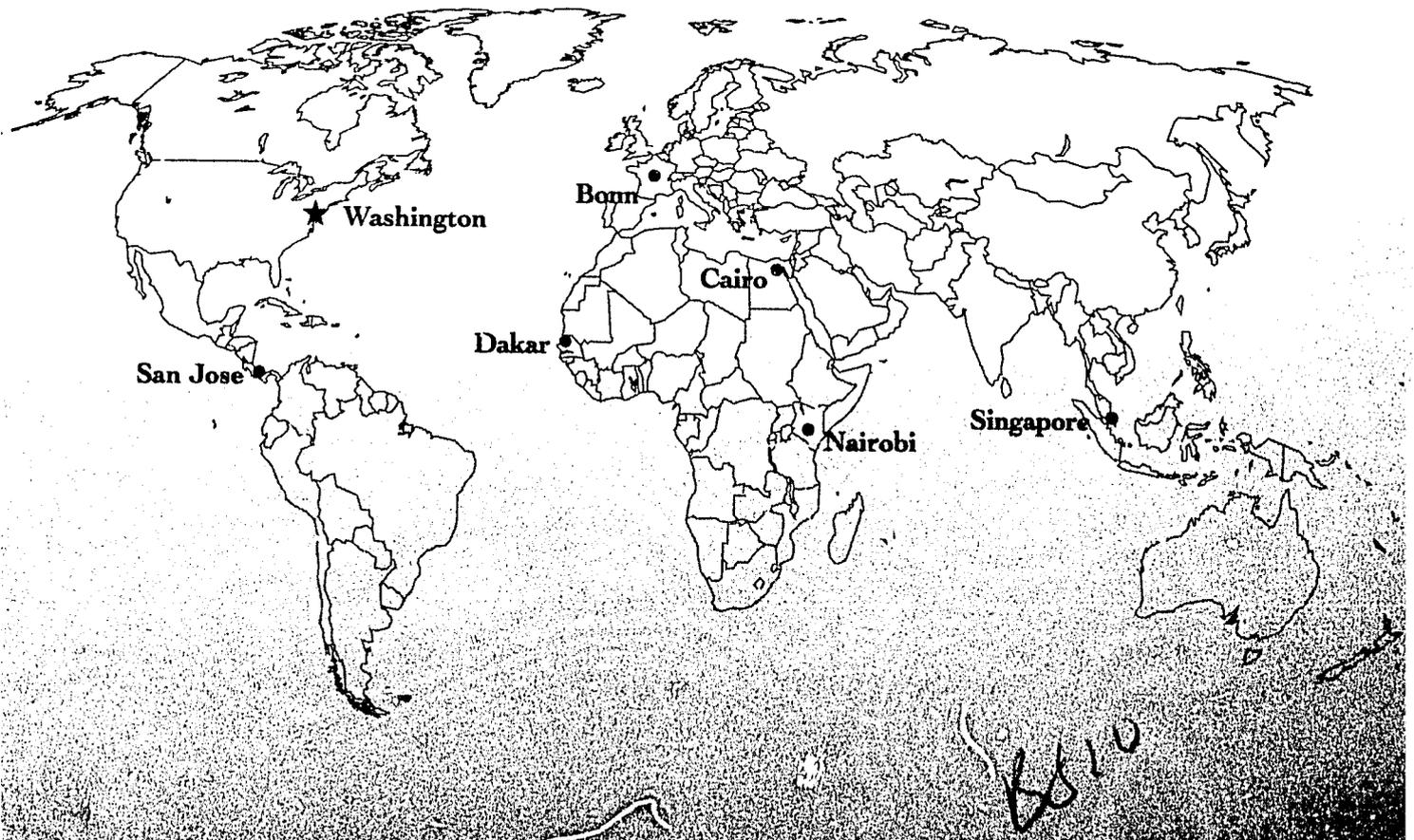


Financial Audits

Audit of RCG/Hagler, Bailly, Inc.
Direct Cost for the Period
January 1, 1992 to December 31, 1993

Report No. 0-000-95-013-N
December 9, 1994



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 9, 1994

MEMORANDUM FOR M/OP/OD, Marcus L. Stevenson

FROM: *JL* IG/A/FA, *Francis K. Buige*, Acting

SUBJECT: Audit of Agreed-Upon Procedures Related to Direct Costs Incurred under USAID Contracts by RCG/Hagler, Bailly, Inc. For the Period January 1, 1992 to December 31, 1993

The accounting firm of Clifton, Gunderson & Company performed certain agreed-upon procedures to selected incurred direct cost expenditures by RCG/Hagler, Bailly, Inc. (RCG) under its cost plus fixed fee contracts with USAID. Five copies of the report are enclosed for your action.

RCG helps corporations, governments, and multilateral development banks to design, implement, and evaluate energy resource management strategies. On behalf of USAID, RCG carries out several projects in district heating systems and combined heat and power stations in Eastern European countries. RCG claimed \$7.8 million on the USAID contracts during the two year period January 1, 1992 to December 31, 1993. The audit objective was to determine whether RCG's direct federal contract cost expenditures as incurred under USAID contracts were allowable, allocable, and reasonable in accordance with the terms of the contracts.

Clifton, Gunderson & Company reviewed \$653,724 in direct costs incurred in Calendar Years 1992 and 1993 on one of RCG's cost plus fixed fee contracts with USAID. The review found \$122,457 in questionable (\$50,308 ineligible and \$72,149 unsupported) direct costs on the contract. However, the auditors believe that RCG's incurred costs are generally accurate and the accounting system adequately accounts for both allowable and unbillable costs. (See pages 2 through 12.)

RCG generally disagreed with the findings noting that USAID's Project Office had stated that documentation supporting some of the questioned costs could be made available for audit purposes. However, Clifton, Gunderson & Company's repeated attempts to contact the USAID Project Office to discuss issues or obtain documentation were unsuccessful.

Recommendation No. 1: We recommend that M/OP/OD resolve the \$122,457 (\$50,308 ineligible and \$72,149 unsupported) in questioned costs identified in the audit report (page 3).

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

Attachments: Appendix A Distribution List

Clifton, Gunderson & Co. Report on Agreed Upon Procedures

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

REPORT ON AGREED-UPON PROCEDURES

RCG/HAGLER, BAILLY, INC.
Arlington, Virginia

For the Period January 1, 1992 to December 31, 1993

4

November 29, 1994

Mr. Reginald Howard
Director of Financial Audits
IG/A/FA
Room 514, SA-16
Washington, D.C.
20523-0107

Dear Mr. Howard:

Clifton, Gunderson and Company and our subcontractor, Irving Burton Associates, Inc., have performed certain agreed-upon procedures to selected incurred direct cost expenditures by RCG/Hagler, Bailly, Inc. (RCG) under its cost plus fixed fee contracts with the United States Agency for International Development (USAID). This report presents the results of our procedures related to direct costs under Contract EUR-0030-C-00-2053-00 (D070) for the two-year period from January 1, 1992 to December 31, 1993. Work was performed at RCG's office in Arlington, Virginia from July 18 to August 8, 1994.

We conducted our procedures in accordance with standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards* (1988 revision) issued by the Comptroller General.

BACKGROUND

RCG helps corporations, governments, and multilateral development banks to design, implement, and evaluate energy resource management strategies. On behalf of USAID, RCG carries out several projects in district heating systems and combined heat and power stations in Eastern European countries. It receives a large portion of its funding from USAID under contracts for specific projects.

For the two calendar years, 1992 and 1993, RCG claimed direct costs totaling \$2,686,943 and \$5,063,974, respectively, plus indirect costs on its cost plus fixed fee contracts with USAID. Contract D070 was selected for detailed review because it was the largest single contract during the two year period. RCG claimed direct costs of \$676,523 in 1992 and \$1,742,363 in 1993, which represented 31 percent of the total USAID contract costs billed (see Attachment 1).

OBJECTIVE OF AGREED-UPON PROCEDURES

Our objective was to determine whether RCG's direct federal contract cost expenditures as incurred under U.S. Government-financed Contract D070 are allowable, allocable, and reasonable in accordance with the terms of the contracts, the Federal Acquisition Regulations, USAID Acquisition Regulations and OMB Circulars (as applicable).

5

PROCEDURES PERFORMED

The procedures covered a sample of direct costs incurred for Contract D070 during the two year period. Agreed upon procedures included a cursory review of the internal control structure relative to government contracts. This provided a basis for determining our procedures including testing of sampled transactions in the areas of salaries, subcontractor/consultant costs, and other selected direct expenses. Specifically, our procedures included:

Salaries: Examination of employees' time sheets made to determine the propriety of amounts charged to the contract.

Subcontractor/Consultant Costs: Evaluation of the support for and reasonableness of charges incurred by subcontractors/consultants and the allowability of those charges within the terms of the contract.

Other Direct Costs: Examination of documentation supporting selected expenses to determine allowability of supplies, equipment, telephone, data acquisition and per diem expenses.

RESULTS

INTERNAL CONTROL STRUCTURE

We performed a cursory review of RCG's internal control structure relative to accounting for government contract expenditures for the purpose of determining procedures for reviewing incurred direct contract costs but not to provide assurance on RCG's internal control structure taken as a whole.

We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined under generally accepted auditing standards and the *Government Auditing Standards* (1988 revision) issued by the United States Comptroller General.

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

INCURRED DIRECT COSTS

We reviewed nine categories of direct costs incurred in Calendar Years 1992 and 1993 on one of RCG's cost plus fixed fee contracts with USAID. Except for certain questionable direct costs on the contract, as discussed below, we believe that RCG's incurred costs are generally accurate and the accounting system adequately accounts for both allowable and unbillable costs.

Our procedures related to nine categories of direct costs incurred by RCG on Contract D070 showed that claimed expenditures totaling as much as \$122,457 are questionable.

COSTS QUESTIONED IN REVIEW

| <u>Cost Category</u> | <u>Amount Tested</u> | <u>Amount Questioned</u> | |
|-----------------------------------|----------------------|--------------------------|---|
| 1. Payroll | \$24,368 | \$ - | |
| 2. Travel | 79,660 | 77,554 | |
| 3. Subcontractors and consultants | 277,451 | 38,903 | * |
| 4. Supplies | 6,482 | - | |
| 5. Commodities and rental | 114,989 | - | |
| 6. Telephone, fax, etc. | 622 | - | |
| 7. Other direct costs | 92,278 | 6,000 | |
| 8. Per diem | 43,532 | - | |
| 9. Subcontractor and other | <u>14,342</u> | <u>-</u> | |
| | <u>\$653,724</u> | <u>\$122,457</u> | |

Attachment 2 provides detailed identification of the questioned costs.

* The \$38,903 does not include a possible payment for one task under two separate invoices that must be resolved (see Bulgarian conference payment).

Certain of these costs may be reimbursable if the USAID Project Officer certifies that they were approved. Attachment 3 provides the details of direct costs associated with Contract D070 as well as ineligible and unsupported amounts in categories of travel, consultants/subcontractors, equipment, and other selected direct costs. Also, as of year-end 1993, several budgeted line items were overrun by as much as \$439,975 (27 percent) without USAID authorization (see Attachment 4). Further, we believe USAID could save millions of dollars in future international travel costs by changing certain travel procedures. The results of our procedures are summarized below:

1. Payroll: We identified \$650,533 as charged to direct cost categories 39, 40, 41, and 42 (payroll) during the two year period. We reviewed and accepted as correct charges of \$24,368.
2. Travel: We identified \$351,773 as charged to direct cost category 43 (travel). Of this amount, we tested \$79,660. Unsupported and ineligible costs equalled \$45,394 and \$32,160, respectively. For the sampled costs, we accepted \$2,106.

We noted that USAID procedures related to international travel allow the use of business class airfare. We believe travel expenses could be reduced by requiring RCG to use coach or government class airfare on future international flights. Further, we believe millions of travel dollars could be saved by USAID if procedures were implemented to require all contractors to use coach or government class airfare on all future international flights.

7

International Travel Approval: Section H. 1.(a) and (b) of the contract eliminates the USAID requirement to obtain a 3 week prior approval for USAID funded international travel. This procedure was replaced with a blanket travel authorization plus a requirement that USAID be advised of travel dates and flights. RCG was unable to provide documentation to support the sending of required notification to USAID for at least \$45,394 of international travel claimed under this contract. Such costs are considered unsupported.

Association of Energy Engineers (AEE) Conference Travel: Contract D070 incurred travel expenditures for AEE meetings held in 1992 and 1993. Sixteen engineers from Eastern European countries were flown to Atlanta, Georgia to attend annual AEE conferences. The European engineers were also flown to Washington, D.C., to meet with RCG counterparts, public officials and representatives of private energy-related firms. International travel under this contract requires a particular form of notification to USAID per contract clause H.1.(a) and (b). There was no such documentation provided.

Therefore, the \$32,160 charged to Contract D070 for AEE travel is considered ineligible.

Business Class Airfare: USAID was paying substantially more for international air travel because business class airfares were used through the RCG contract.

Our tests of flights to Poland, Romania, and Bulgaria (the countries most often visited using contract D070 funding) showed that travel time is less than 14 hours in duration. USAID Handbook 22 provides that business class airfare may be utilized when the flight duration exceeds 14 hours. However, RCG often allowed both its employees and consultants/subcontractors to fly business class. Business class airfares to these countries averaged \$1,070 per round trip more than coach class fares.

While it is not possible to reconstruct times and costs for travel occurring during the two year period, we did analyze current schedules to these countries. This analysis was not performed to question previous costs, but rather to provide USAID with data that may be useful in considering procedural changes to save future government funds.

A review of current airline schedules and costs from Washington, D.C., to the three above-mentioned destinations using unrestricted fares and U.S. flag carriers for all overseas travel is summarized below. USAID could save about 32 percent, or \$1,070, for each international trip by using coach instead of business class fares.

| <u>Destination</u> | <u>Airline</u> | <u>Hours of Flight Duration</u> | <u>Business Class Fare</u> | <u>Coach Class Fare</u> | <u>Travel Cost Savings</u> | <u>Percent of Costs Saved</u> |
|--|----------------|---------------------------------|----------------------------|-------------------------|----------------------------|-------------------------------|
| Warsaw | Delta | 10.00 | \$2,940 | \$1,432 | \$1,508 | 51 |
| Bucharest | United | 10.30 | 3,592 | 2,762 | 830 | 23 |
| Sofia | Delta | 10.75 | <u>3,594</u> | <u>2,722</u> | <u>872</u> | <u>24</u> |
| <u>Average cost and savings by using coach versus business class fares</u> | | | <u>\$3,375</u> | <u>\$2,305</u> | <u>\$1,070</u> | <u>32</u> |

Next we determined cost savings for Contract D070 had coach class been used by applying the above average cost savings to identified overseas trips.

| | |
|---|-----------------|
| Number of overseas trips | 11 |
| Average cost savings | <u>\$ 1,070</u> |
| Cost savings had coach airfares been used | <u>\$11,770</u> |

USAID Could Save Millions of Dollars if Contractors Obtained Government Airfare Rates: While testing travel costs during our procedures, we noted that coach airfares incurred were significantly higher than available government fares. A review of current airline schedules and costs from Washington, D.C. shows the following potential cost savings are available if contractors were required to use government airfares.

| <u>Destination</u> | <u>Airline</u> | <u>Coach Class Fare</u> | <u>Govt Class Fare</u> | <u>Travel Cost Savings</u> | <u>Percent of Costs Saved</u> |
|--|----------------|-------------------------|------------------------|----------------------------|-------------------------------|
| Warsaw | Delta | \$1,432 | \$1,072 | \$360 | 25 |
| Bucharest | United | 2,762 | 2,326 | 436 | 16 |
| Sofia | Delta | <u>2,722</u> | <u>2,078</u> | <u>644</u> | <u>24</u> |
| <u>Average cost and savings by using govt versus coach class fares</u> | | <u>\$2,305</u> | <u>\$1,825</u> | <u>\$480</u> | <u>21</u> |

USAID could save an average of \$480 per overseas airline ticket by authorizing its contractors to obtain government airfares through USAID's travel agency. Other federal agencies do this as a cost savings measure. The United States Courts has designated a travel agency that contractors must use to obtain government airline tickets at government rates. See Attachment 5 for an example of the Courts' contractor travel authorization to obtain government discounts.

9

3. Subcontractors and Consultants

We identified \$760,763 charged to direct cost category 44/45 (subcontractor/consultant). We examined \$277,451 of this and accepted costs of \$238,277. Documentation supporting \$38,903 in costs was insufficient for us to determine if the costs met contract requirements.

Support Documentation: Over 80 percent of the costs were incurred by four companies: Bechtel, Latham and Watkins, Omnitech International and K&M Engineering. RCG requires through its subcontracting and consulting agreements that documentation be maintained to support charges, but such documentation need not be forwarded to RCG. Apart from budget category amounts set up for the four largest subcontractors, RCG requires only that invoices include hours, rates and services performed for professional service contracts. Weak documentation requirements sometimes lead RCG to make payment based on poor quality of substantiation received. As a result, it is not possible to determine that:

- the business class, American carrier, and per diem travel provisions are followed.
- FS-1 pay caps for cost type subcontracts are followed.

Since subcontract costs should be subject to a DCAA audit, we did not question these costs.

Subcontractor Approval: FAR 44.201-2 requires that all cost reimbursement subcontracts must be approved by the Government. One fixed labor rate contract was awarded for \$12,148 without USAID approval. This cost for invoice number 21962 is questioned.

Subcontract International Travel Approval: RCG was unable to provide notification documentation for subcontract international travel totaling \$26,755. (see "International Travel Approval," above). These costs are considered unsupported.

Bulgarian Conference Payment: Our procedures showed what appears to be a payment for one task paid under two separate invoices. The first task to which the payment relates was a fixed price subcontract for \$25,000 in professional fees plus expenses for travel dated May 3, 1993. In item "g" under the Statement of Work (SOW) the contractor is required to "Prepare and deliver a presentation at a workshop to take place in Bulgaria at the conclusions of the analysis resulting from other tasks." In addition, an introduction to the SOW states, "Mr. Lalor (principal of the subcontracting firm) will participate in a two day workshop in Bulgaria, tentatively scheduled for late June."

10

On June 5, 1993, the same parties entered into another fixed price subcontract of \$6,000 in professional fees plus expenses. The SOW called for the contractor to "travel to Bulgaria between June 20th and 25th... for a two day workshop in Bulgaria." The amount of the unsupported expenses remains to be determined by the USAID Project Officer.

4. Supplies

We identified \$44,359 as charged to direct cost category 46 (supply, postage, xerox/FEDX) during the two year period. Of this amount, we tested 1993 incurred costs of \$6,482. All costs were accepted as correct.

5. Commodities and Rental

We identified \$150,227 as charged to direct cost category 47 (commodities and rental). We tested and accepted \$114,989 of these charges.

Energy audit equipment was shipped to Bulgaria in 1993. The Bulgarian Government would not allow transfer to the end user organization without imposition of a duty fee of \$6,000. RCG decided to retain title and told the Bulgarian Government that the audit equipment would be exported back out of the country at the end of the year. This is a potential violation of AIDAR 752.245.71, concerning title to and care of property. See Other Direct Costs below for questioned amount.

6. Telephone, Fax and Telex

Telephone, Fax and Telex costs charged to direct cost category 48 totaled \$30,435. Costs reviewed and accepted were \$622.

7. Other Direct Costs

We identified \$155,179 charged to direct cost category 49 (other direct costs) during the two year period. Of this, we tested \$92,278. Ineligible costs equalled \$6,000 and accepted costs totaled \$86,278.

A wire transfer of \$6,000 was made for the purpose of getting the energy audit equipment (mentioned in the "commodities and rental" paragraph above) through Bulgarian customs. RCG subsequently decided that title would remain with them to avoid the duty charge. The \$6,000 was transferred to the local RCG Bulgarian representative to pay for incurred expenses. Such fund transfer does not appear in the accounting records. Since the duty was not paid the transferred funds are considered ineligible for reimbursement.

8. Per Diem

We identified \$219,123 as charged to direct cost category 53 (per diem, hotels and meals). Of this, we tested and accepted \$43,532.

9. Subcontractor-Other Expenses

We identified \$16,012 as charged to direct cost category 56 (Subcontractor-Other Expenses). Of this, we tested and accepted \$14,342.

Note: \$187 was charged to category 55 (subcontractor-travel and per diem). None of this cost was reviewed.

LINE ITEM BUDGET OVERRUNS

As early as the third quarter 1993, RCG was experiencing line item budget overruns in excess of the contractually mandated limit of 15 percent of the budget. The overruns were reported to USAID in mandatory periodic status reports for 2 of 11 reportable contract line items (consultants and other direct costs). By the end of 1993, three other line items also experienced overruns (payroll, fringe benefits, and travel/per diem).

Despite the fact that these costs were by definition unallowable, USAID paid them. Because USAID reimbursed RCG for the costs, even though notified by RCG as early as July 1993 that overruns were occurring and others were expected, applying the 15 percent cost overrun cap retrospectively might not be practicable.

RECOMMENDATIONS

We recommend that:

1. The USAID Contracting Officer resolve the \$77,554 in questioned travel costs.
2. Contracting Officer obtain a ruling on whether contractors should be required to use coach class airfare for all international travel. For very long trips exceeding 14 hours in duration, an overnight stay could be directed to enable the use of coach class.
3. The Contracting Officer:
 - a. Resolve the \$38,903 in questioned subcontractor/consultant expenses.
 - b. In coordination with the Defense Contract Audit Agency, determine the extent to which subcontractor and consultant costs will be audited and prescribe cost documentation which should be maintained.
 - c. Determine if the two invoices for a June 1993 workshop in Bulgaria are duplicative and, if so, the amount of funds that should be repaid to USAID.

12

4. The Contracting Officer determine if a violation of AIDAR 752.245.71 regarding the titling of property exists (see commodities and rental expenses).
5. The USAID Contracting Officer request repayment of the \$6,000 fund transfer that was supposed to be used to pay duty for the energy audit equipment.
6. The Contracting Officer determine whether actions should be taken to disallow overrun of budget line items.

MANAGEMENT RESPONSE

We discussed the matters in this report with RCG management throughout the performance of our procedures. On August 8, 1994, we were provided with the two memos dealing with international travel authorizations and AEE Conferences. RCG's comments are summarized as follows:

INTERNATIONAL TRAVEL APPROVAL

The system in use for international travel under Contract D070 is as follows:

- Contractor notifies USAID Project Officer of pending travel, at least 30 days in advance, as part of the Contractor's monthly reports and also in regular project review meetings.
- USAID Project Officer provides his concurrence with the assignment, and requests that the Contractor prepare a travel notification by EMAIL.
- Contractor prepares the EMAIL and transmits it to the USAID Project Officer.
- USAID Project Officer prepares a cable or EMAIL to USAID mission or representative, announcing the planned travel, and requesting mission clearance. The transmission of this cable or EMAIL to the USAID mission constitutes written concurrence of the USAID Project Officer for the travel.
- The mission responds with a clearance cable or return MAIL to the Project Officer.
- Following receipt of cable of EMAIL:
 - The USAID Project Officer provides verbal of EMAIL notification to the Contractor that travel is cleared. No travel can commence without such approval.
 - The cables listed above are filed in the Chronological Files at the USAID Project Office.

13

Mr. Reginald Howard
November 29, 1994
Page 10

The USAID Project Officer has stated that the Chronological files can be made available for audit purposes.

BUSINESS CLASS AIRFARE

The times shown for flights to Warsaw, Bucharest and Sofia are for actual flight time only, and do not include time spent for connecting flights. The auditor's data, which was quoted using the most expeditious route available in August 1994, should show the flight time as follows (time of departure until time of arrival):

| | |
|-----------|-------------|
| Warsaw | 12.30 hours |
| Bucharest | 12.50 hours |
| Sofia | 14.00 hours |

The flights quoted were for weekdays, and perhaps only certain weekdays. RCG has been formally requested by USAID to travel on weekends so that we can spend full weeks in-country. There are far fewer available flights on weekends, a constraining factor that leads to increased travel time.

RCG would also like to note that travel is becoming easier and faster with each passing year to these countries. The flights quoted have used recent flight schedules and connections, those in 1992 and 1993 were not nearly as good.

Most importantly, RCG is sensitive to the USAID 14 hour rule and we follow it to the best of our ability. In fact, on numerous occasions, our employees have flown economy class even though the flight was in excess of 14 hours.

AEE CONFERENCE APPROVAL

RCG does not agree with the report's finding that this cost is "considered ineligible." RCG was specifically asked to organize this effort by USAID. This task was specifically included in RCG's workplan, and a separate accounting sub-budget was established for the activity. Monthly invoices specifically documented costs for this task separately. All participants went through rigorous visa and approval processes with USAID and the US Embassy in their home countries. All participants met USAID officials in Washington, in the State Department building.

Under Contract D070, RCG coordinated international travel by delegations of Eastern European experts to the U.S. for training and professional development in October 1992 and November 1993. These delegations attended the World Energy Engineering Congress (WEEC) in Atlanta, where they had the opportunity to be part of a conference of 2,000 energy professionals from around the world. At WEEC, they saw exhibits of more than 400 U.S. energy efficiency and environmental technologies and heard professional papers from more than 500 U.S. energy efficiency experts, and participated in round table meetings and professional sessions organized by RCG on energy efficiency in Eastern Europe. In addition to the WEEC, the delegation also toured an award-winning, energy efficient U.S.

14

industrial plant, participated in a seminar on energy efficiency in Eastern Europe held in Washington, and held meetings with energy efficiency organizations, electric power companies, engineering companies, and USAID.

These tasks had USAID approval, as follows:

- These training programs were included in the project work plan, which was approved by the USAID Project Officer.
- The travel for each member of these delegations was cleared by the USAID Project Officer, and by local USAID representatives, using the normal cable traffic system.
- The agencies for these delegations were approved by the USAID Project Officer.
- The USAID Project Officer participated in meetings, seminars, and conferences held during the delegation visits.

The USAID Project Officer has stated that the Chronological Files can be made available to document the travel clearances for audit purposes.

SUBCONTRACTORS SUPPORT DOCUMENTATION

RCG does not agree with the audit finding that some costs were insufficiently supported by documentation and that "weak documentation requirements sometimes led RCG to make payment based on poor quality of substantiation received." RCG requires its subcontractors to maintain such documentation support of such costs, in case of audit. This audit did not ask us to request any such documentation from the subcontractors in question.

SUBCONTRACTORS/CONSULTANTS

RCG awarded a fixed rate subcontract to ACEEE for Poland DSM project for \$12,143. We misinterpreted the terms of the contract to mean that USAID approval was required only for subcontracts over \$25,000. We subsequently discovered this misinterpretation, and have since corrected our error by only awarding fixed price contracts, or obtaining contract officer approval.

Concerning the Bulgarian Conference payment, RCG's first subcontract to Commonwealth Power was for the independent power assessment, and participation in a workshop. Mr. Lalor of Commonwealth Power completed the assessment, and participated in the May workshop in Bulgaria, which was held ahead of schedule. The expenses budget included in the subcontract allowed for only one airline ticket to Bulgaria.

15

Mr. Reginald Howard
November 29, 1994
Page 12

During the course of the work, USAID and the Bulgarian authorities decided to expand the scope of the workshop, by following up with a second workshop, more like a formal conference. Mr. Lalor was invited to participate in this conference, and USAID approved this participation. Since he had already participated in a workshop under the original contract, and since the original contract had funds for only one airline ticket, a second contract was issued by RCG.

COMMODITIES AND RENTAL

Upon further discussion and investigation with appropriate RCG staff, it has been determined that RCG has not retained title to the audit equipment in Bulgaria, as was previously communicated to the auditors. The duty charge of \$6,000 was not imposed because the commodities in questions were considered by the Bulgarian Customs Office to be pollution prevention and control equipment, and therefore were exempt from the Bulgarian import duty.

OTHER DIRECT COSTS

In October 1993, an amount of \$6,000 was transferred to Mr. Zikatanov, an RCG consultant in Bulgaria, to cover the anticipated customs duty payment on imported project-related equipment. Since we had every expectation that the funds were to be used to pay the duty charge on the equipment, the amount of the transfer was charged directly to the project. However, due to a delay in communications, the fact that we were able to exempt the equipment from the duty charge was not realized until after the amount was charged and billed to USAID.

In light of the difficulties of transferring funds to or from Bulgaria, and based on our estimates of anticipated project expenses in the near future, the \$6,000 was left with Mr. Zikatanov to cover such expenditures. As a result, Mr. Zikatanov applied this \$6,000 against project related expenses invoiced to RCG from August 1993 to January 1994. These invoices were not charged or billed to USAID since they were paid out of the \$6,000 transfer. The support documentation for Mr. Zikatanov's expenses was made available to the auditors for their review.

RCG believes that although the \$6,000 amount may have been misclassified and billed to USAID before the expenses were actually incurred, Mr. Zikatanov did incur allowable project related expenses for the amount in question. RCG is very cognizant that advances are not allowable until the expenses are actually incurred due to the great deal of travel requested by USAID, and has set-up an intricate system to track, maintain and reconcile these advances to ensure that such amounts are not charged to projects until expenses are actually incurred and support documentation received. This advance was charged to the project only because of the original nature of the request.

16

Mr. Reginald Howard
November 29, 1994
Page 13

COMMENTS REGARDING MANAGEMENT'S RESPONSE

INTERNATIONAL TRAVEL APPROVAL

The criteria defining questionable costs includes not having a contracting officer's approval. Based on the fact that RCG was unable to provide any documentation demonstrating such required notification was ever sent to or received from USAID, we consider all international travel as unsupported. It should be noted that our repeated attempts to contact the USAID Project Officer to discuss this issue were unsuccessful.

SUBCONTRACTORS/CONSULTANTS

According to the FAR, RCG must obtain approval from the USAID Project Officer prior to the award of cost reimbursable contracts whether awarded in error or not.

USAID needs to determine if two task orders issued for the June 1993 workshop in Bulgaria included duplicative time. If a duplication exists, the contracting officer should request repayment from RCG.

OTHER DIRECT COSTS

The accounting records of RCG do not reflect the fact that \$6,000 was used as an advance for the local RCG agent. Therefore, this is considered as an ineligible expense.

We discussed the report with USAID's Office of the Inspector General. Their comments have been considered in preparing the draft audit report.

Sincerely,

CLIFTON, GUNDERSON & CO.



William H. Oliver
Partner

WHO/bak

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