

PD-ABR-613

102290

GRANT AUDIT OF
THE NATIONAL ASSOCIATION OF THE PARTNERS
OF THE ALLIANCE (NAPA)

GRANT NOS AID/LA-G-1099, AID/LAC-G-1402
AID/LAC-G-1406, and AID/LAC-G-1407

AUDIT REPORT NO 0-000-82-98

August 12, 1982

Grant Audit of
THE NATIONAL ASSOCIATION OF THE PARTNERS
OF THE ALLIANCE (NAPA)
Grant Nos AID/1a-G-1099, AID/LAC-G-1402
AID/LAC-G-1406, and AID/LAC-G-1407

Audit Report No 0-000-82-98

Introduction

The Office of the Regional Inspector General for Audit/Washington has reviewed a report issued by the Defense Contract Audit Agency (DCAA), Audit Report No 6261-2C160 302, dated May 26, 1982, on an examination of the subject grant(s) with The National Association of the Partners of the Alliance (NAPA)

The purposes of the examination were to determine the propriety of expenditures incurred by the Grantee under the terms of the grant and to ascertain the degree of compliance with generally accepted accounting standards and principles.

Grant Information

A summary of grant information is shown in Exhibit A

The status of grant funds is shown in Exhibit B

Grant Costs

There were no questioned costs.

Copies of this report have also been sent to the offices shown on the attached list of report recipients

EXHIBIT A

THE NATIONAL ASSOCIATION OF THE PARTNERS OF THE ALLIANCE (NAPA)
Summary Of Grant Information

Grant Number	AID/1a-G-1099	Grant Number	AID/LAC-G-1402
Grant Ceiling	\$2,516,666	Grant Ceiling	\$570,000
Expiration Date	September 30, 1980	Expiration Date	June 30, 1983
Project Number	598-0436	Project Number	598-0436
Project Title	. Organizational Development	Project Title	. Organizational Development
Audit Period	1/1/78-9/30/80	Audit Period	1/1/78-12/31/80
Type of Audit	Final	Type of Audit	Interim

Grant Number	AID/LAC-G-1406	Grant Number	AID/LAC-G-1407
Grant Ceiling	\$300,000	Grant Ceiling	: \$622,000
Expiration Date.	September 30, 1983	Expiration Date	December 16, 1982
Project Number	598-0436	Project Number	598-0436
Project Title	Organizational Development	Project Title	Organizational Development
Audit Period	1/1/78-12/31/80	Audit Period	1/1/78-12/31/80
Type of Audit	Interim	Type of Audit	Interim

EXHIBIT B

THE NATIONAL ASSOCIATION OF THE PARTNERS OF THE ALLIANCE (NAPA)
Status of Grant Funds

	<u>AID/1a-G-1099</u>	<u>AID/LAC-G-1402</u>
Grant Ceiling	\$2,516,666	\$570,000
Approved Prior Audit	\$ -0-	\$ -0-
Approved Current Audit	2,516,666	36,000
Unaudited Costs	<u>-0-</u>	<u>174,199</u>
Subtotal	\$2,516,666	\$210,199
	<u>2,516,666</u>	<u>210,199</u>
Amount Questioned	<u>-0-</u>	<u>-0-</u>
Total Reimbursed	<u>\$2,516,666</u>	<u>\$210,199</u>
Grant Balance	<u>\$ -0-</u>	<u>\$359,801</u>

	<u>AID/LAC-G-1406</u>	<u>AID/LAC-G-1407</u>
Grant Ceiling	\$300,000	\$622,000
Approved Prior Audit	\$ -0-	\$ -0-
Approved Current Audit	5,000	154,000
Unaudited Costs	<u>60,975</u>	<u>289,047</u>
Subtotal	\$65,975	\$443,047
	<u>65,975</u>	<u>443,047</u>
Amount Questioned	<u>-0-</u>	<u>-0-</u>
Total Reimbursed	<u>\$65,975</u>	<u>\$443,047</u>
Grant Balance	<u>\$234,025</u>	<u>\$178,953</u>

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REPORT ON AUDIT OF INCURRED COSTS
UNDER U S GOVERNMENT GRANT AGREEMENTS
CALENDAR YEARS 1973 THROUGH 1980
THE NATIONAL ASSOCIATION OF THE PARTNERS
OF THE ALLIANCE (NAPA)
WASHINGTON, D C

The Defense Contract Audit Agency has no objection to the release of this report at the discretion of the Contracting Officer, to the duly authorized representatives of The National Association of the Partners of the Alliance

Under the provisions of Title 32, Code of Federal Regulations, Part 290 26 (b)(2) (as amended August 10, 1977), all Freedom of Information Act requests for audit reports received by DCAA will be referred to the cognizant Contracting Officer who will determine releasability and respond to the requestor

Grantee information contained in this audit report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public

This report may not be released to any Federal agency outside the Department of Defense without the approval of Headquarters, DCAA, except to an agency requesting the report for negotiating or administering its contract

DEFENSE CONTRACT AUDIT AGENCY
PHILADELPHIA REGION
DISTRICT BRANCH OFFICE
ARLINGTON, VIRGINIA

AUDIT REPORT NO 6261-2C160 302

DATE OF REPORT 26 May 1982

**OFFICIAL USE
ONLY**

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Per GC Memo
of 11/21/67
Initial *[Signature]*

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DEFENSE CONTRACT AUDIT AGENCY

PHILADELPHIA REGION
District BRANCH OFFICE
COMMONWEALTH BUILDING 10TH FLOOR
1300 WILSON BOULEVARD
ARLINGTON VIRGINIA 22209

IN REPLY REFER TO

SUBJECT Audit Report on Costs Incurred
Under U S Government Grant Agreements
With the National Association of the Partners
of the Alliance (NAPA)
During the Calendar Years 1973 through 1980
Washington, D C
Audit Report No 6261-2C160 302

TO Office of the Regional Inspector General
for Audit/Washington
Agency for International Development
Washington, D C 20523

ATTN Mr Charles Brown

I PURPOSE AND SCOPE OF AUDIT

The purpose of our review was to determine that the expenditures made by the grantee under Government grants and agreements were in accordance with the terms and conditions of the grant agreements, applicable Federal Procurement Regulations, generally accepted accounting principles and consistently applied cost accounting practices. During the period 1973 to 1980, the grantee received 39 Government grants from various Federal Agencies, primarily from the Agency for International Development (AID) and the International Communications Agency (ICA). These grants were to assist NAPA in promoting technical assistance projects and exchanges between the United States and Latin America. The total amount of these grants is \$6.2 million, of which approximately \$4.5 million were expended through December 31, 1980.

The review was performed in accordance with generally accepted auditing standards and included such tests of the grantee's data and records and such other auditing procedures as were considered necessary in the circumstances. The requirements contained in OMB Circular A-110, the applicable Federal cost principles, and the specific terms, conditions and provisions of the grants were used as criteria in determining the allowability, allocability and reasonableness of costs applied to the grants.

II SPECIAL CIRCUMSTANCES AFFECTING THE EXAMINATION

The significant audit effort required to perform comprehensive reviews of every grant, each with its own unique provisions and limitations, was not considered commensurate relative to the benefits to be derived from such reviews. In lieu thereof, we limited our review to a sampling of the Federal grants to determine the overall effectiveness of the grantee's financial management system and internal procedures to meet the terms and conditions of the grants.

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Similarly, the scope of our review was adversely affected by the grantee's inconsistent methods of recording and reporting costs, caused for the most part by limitations on individual cost elements placed on the grantee by the sponsoring Agencies. The particular problem areas encountered during our review are summarized as follows:

a Computation of Indirect Cost Rates Prior to 1979, indirect costs were not addressed in any of the grant agreements with the Government, and the grantee's accounting system did not identify, accumulate and allocate expenses as indirect or overhead. Since early 1979, most Government grants issued to the grantee included funding to defray indirect expenses. The resulting amount of allowable indirect expense chargeable to these grants reduced the "Administrative" costs identified and allowable under the AID "core" grant in effect at the time. Although this procedure of reducing the "Administrative" pool of cost funded by the AID grant by the corresponding amount of indirect expense charged to another grant is considered adequate, this methodology does not fully comply with generally accepted accounting principles and Federal Procurement Regulations with respect to indirect/G&A type costs.

In attempting to compute actual indirect cost rates, the following must be considered:

(i) The contractor's accounting system does not separately identify and accumulate indirect/G&A expenses.

(ii) Certain direct costs are derived based on allocations of pools of such cost, using a labor distribution base. A portion of these pools is charged to the "Administrative" pool, which in turn is allocated as indirect expense using a total cost allocation base.

(iii) Fringe benefits were costed using an estimated rate, with no year end reconciliation and adjustment to actual fringe benefit expense.

(iv) A number of the Government grants specify a predetermined "fixed" indirect rate applicable to certain direct costs and also a different "provisional" indirect rate applicable to certain other direct costs.

(v) All ICA grants provide for final indirect rate negotiations between ICA and the grantee, "out in no event shall the Agency reimburse the Partners for any costs in excess of the amount awarded under this agreement."

(vi) Negotiations between the grantee and the Department of Health and Human Services in August, 1981 resulted in final indirect cost rates higher than the respective provisional rates specified in the grant agreements effective during 1979 and 1980.

We have weighed the effect of the special conditions presented in (1) through (vi) above, with particular emphasis on (v) and (vi) We also have reviewed the audit report and negotiation documents of DHHS and consider the results to be adequate All of these factors were discussed with Mr Don Dickey, Special Cost and Overhead Branch, AID, who concurred in our opinion that calculating actual indirect cost rates for 1979 and 1980 would not be beneficial relative to the intensive audit effort required and the special grant provision referenced in (v) above As a result of this understanding, the calculation of indirect cost rates is waived for this audit period

b Review of Labor Costs Prior to June 1980, the grantee did not require employees to keep timesheets or other time records Labor cost identified to the various grants/programs was merely a judgemental determination performed at the end of each month We recognize that labor cost represents a legitimate expense, however, our opinion on the acceptance of labor cost is qualified to the extent that labor cost is not supported by adequate documentation

III RESULTS OF AUDIT

A complete listing of the Government grants issued to the grantee is included in Exhibit A The detailed discussion of the grantee's accounting system, its weaknesses and our recommendations thereon are included in Appendix 1 Subject to our comments on deficiencies in the accounting system included elsewhere in this report, we are of the opinion that the grantee's financial management system and internal procedures in effect during the period covered by the audit did for the most part produce realistic representations of expenditures in accordance with terms and conditions of each of the grants

We discussed our audit findings with Mr Alan Rubin, President, Mr David Luria, Senior Associate Director and Ms Kathryn Wilson, Controller On 11 March we sent NAPA a letter detailing deficiencies in its procedures and accounting system A copy of the letter is attached as Appendix 2 By letter dated 29 April 1982, the grantee responded to our letter A copy of NAPA's letter is attached as Appendix 3

The information contained in this report should not be used for purposes other than that intended without prior consultation with this office concerning its applicability

For accounting counsel or additional audit service, please contact Mr John P Blaine, Supervisory Auditor Our telephone number is (202) 694-8543

DEFENSE CONTRACT AUDIT AGENCY


CLYDE S DeHOFF, JR , Branch Manager

Audit Report No 6261-2C160 302

National Association of the Partners of the Alliance
Washington, D C

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National Association of the Partners of the Alliance
Washington, D C

Schedule of U S Government Grants and Results of Audit (Note 1)

Grant No	Agency	Period of Grant		Amount of Grant	Amount Incurred @ 12/31/80	Questioned Cost	Ref
		Start	Complete				
AID/1A-G-1099	AID	6/75	9/80	\$2,516,666	\$2,516,666		
AID/LAC-G-1402	AID	9/80	6/83	570,000	36,000		
AID/LAC-G-1406	AID	9/80	9/82	300,000	5,000		
AID/LAC-G-1407	AID	9/80	12/81	622,000	154,000		
598-6587325	AID	5/78	12/78	21,000	21,000		
1069-387141	ICA	4/73	12/73	10,000	10,000		
1069-487068	ICA	10/73	9/75	65,560	65,560		
1069-487079	ICA	10/73	12/74	5,000	5,000		
1069-487080	FCA	11/73	1/76	35,000	35,000		
1069-487097	ICA	12/74	5/75	23,500	23,500		
1069-487242	ICA	6/74	5/75	25,000	25,000		
1069-587038	ICA	9/74	12/75	15,000	15,000		
1069-587039	ICA	9/74	9/74	8,750	8,750		
1069-687043	ICA	9/75	9/77	112,940	112,940		
1069-687082	ICA	10/75	1/77	35,000	35,000		
1069-687083	ICA	11/75	1/77	45,000	45,000		
1069-687257	ICA	8/76	10/76	8,500	8,500		
1069-787001	ICA	10/76	12/77	45,000	45,000		
1069-787002	ICA	10/76	12/77	35,000	35,000		
1069-787271	ICA	9/77	12/78	40,000	40,000		
1069-787272	ICA	9/77	2/79	45,000	45,000		
1069-787273	ICA	9/77	12/78	57,500	57,500		
1069-887254	ICA	9/78	3/80	62,000	62,000		
1069-887270	ICA	9/78	10/79	61,950	61,950		
1069-887271	ICA	9/78	12/79	55,000	55,000		
1A-18678-19-G	ICA	10/78	9/79	76,500	76,500		
1A-18882-19-G	ICA	4/79	3/80	83,594	83,594		
1A-18976-19-G	ICA	8/79	10/79	5,000	5,000		
1A-19073-19-G	ICA	9/79	1/80	32,557	32,557		
1A-10129-19-G	ICA	10/79	12/80	195,100	189,736	6,467	2
1A-19183-19-G	ICA	1/80	8/80	114,990	114,990		
1A-19226-19-G	ICA	12/79	1/81	60,000	60,000		
1A-19268-19-G	ICA	3/80	12/80	114,049	106,308	(3,339)	3
1A-19364-19-G	ICA	6/80	5/82	23,850	7,000		
1A-19620-19-G	ICA	11/80	4/82	383,940	70,000		
SCC-41489	ICA	6/72	6/75	20,000	20,000		
R80-54-1	NEA	10/77	9/78	25,000	25,000		
A-172262-79	NEA	10/79	9/80	10,000	10,000		
22-P-59068/3	HEW	10/77	9/80	225,000	225,000		
				<u>\$6,189,946</u>	<u>\$4,549,051</u>	<u>3,128</u>	

() Denotes Upward Adjustment

Government Participation in Funding

<u>CFY 74</u>	<u>CFY 75</u>	<u>CFY 76</u>	<u>CFY 77</u>	<u>CFY 78</u>	<u>CFY 79</u>	<u>CFY 80</u>
65%	83 6%	77 4%	80 5%	77 3%	66%	68 7%

Explanatory Notes

1 The results of audit are qualified to the extent that labor costs incurred prior to June 1980 are not supported by adequate documentation Refer to Paragraph 2, Special Circumstances Affecting the Examination, in the narrative of this report for a more detailed discussion of the grantee's lack of adequate timekeeping procedures

2 The questioned cost of \$6,467 against ICA Grant No 1A-19129-19-G is computed as follows

a Direct Cost.

<u>Artists-In-Residence and Cultural Leaders Program -</u>		
Administrative Costs Booked and Reported	\$39,918	
Not-To-Exceed Amount Per Grant Agreement	<u>36,932</u>	
Administrative Cost Questioned		\$2,986
<u>Mexico Program -</u>		
Administrative Costs Booked and Reported	\$34,655	
Not-To-Exceed Amount Per Grant Agreement	<u>28,009</u>	
Administrative Cost Questioned		6,646
Total Direct Cost Questioned		<u>\$9,632</u>

b Indirect Costs The following upward adjustment to indirect expense is made considering that the \$9,632 questioned direct cost reduces the allowable expenditures below the funding ceiling of the grant

Total Direct Cost Booked	\$166,826	
Direct Cost Questioned	<u>9,632</u>	
Allowable Direct Cost	157,194	
Reviewed and Accepted Indirect Rate	<u>x 20%</u>	
Allowable Indirect Cost	31,439	
Indirect Expense Booked & Charged	<u>28,274</u>	
Total Indirect Cost Questioned-		
Upward Adjustment		<u>\$(3,165)</u>
Total Questioned Cost		<u>\$ 6,467</u>

3 The upward adjustment of \$(3,339) to costs incurred under ICA Grant No 1A-19268-19-G is computed as follows

	<u>Participant</u>	<u>Administrative</u>
Direct Cost Booked	\$50,646	\$46,003
Accepted Indirect Rates	<u>x 7 5%</u>	<u>x 20%</u>
Allowable Indirect Cost	3,798	9,200
Indirect Cost Booked	<u>3,798</u>	<u>5,861</u>
Questioned Indirect Cost	<u>\$ -0-</u>	<u>\$(3,339)</u>

In the final financial report to the grantor agency, the grantee reported \$41,913 rather than \$46,003 booked as administrative expense. The amount booked represents the expenses covered by the grant funding and therefore this figure is used to compute the adjustment. Considering that the total expenditures were less than the total funding of the grant, the upward adjustment represents the additional cost allowable under the terms of the grant agreement.

National Association of the Partners of the Alliance
Washington, D C

Grantee's Accounting System

The grantee maintains an accrual accounting system which segregates cost among the various grants/programs. However, this job order cost accounting system is not considered totally acceptable for recording costs to Government grants. The deficiencies and weaknesses disclosed during our review, along with our recommendations, are discussed in the following paragraphs.

1 System Documentation The accounting system description and procedures were not adequately documented. During the period of our review, 1973 through 1980, the grantee's accounting procedures and methodologies were changed and improved in an attempt to more effectively and accurately record the ever increasing number of transactions and grant expenditures. However, fully documented procedures and revisions to the procedures were not prepared.

We recommend that the systems and procedures be reviewed and that documented descriptions be prepared. In light of the grantee's current conversion to an automated data processing system, particular emphasis should be directed in preparing a detailed description of this new system and its related procedures.

2 Timekeeping As previously discussed in Paragraph 2 b in the narrative of this report, official time records have been kept only since June 1980. Our review of the grantee's present timekeeping procedures disclosed certain correctable weaknesses. The most glaring was the employees' failure to document his/her daily activities on the official timesheet. The normal practice is to wait until the day the timesheet is due and then record the previous two weeks activities. Also, the timesheets are not countersigned by a supervisor or other authenticating official. Our interviews with the office staff disclosed that some of the personnel were unsure as to how their time should be charged.

We recommend that employees be encouraged to record their activities on the timesheets in a current and up-to-date manner, that all timesheets should be verified and signed by an approving official, and the employees be provided specific instructions, preferably written, concerning how, and to what classification, their time is to be charged.

3 Cost Accounting Practices and Procedures The following observations and recommendations relate to the grantee's methods of allocating cost to its grants/programs.

a Code of Accounts/Expense Descriptions Expenditures should be classified and recorded consistent with the nature of the expense incurred. Expenses should also be identified in the accounting system consistent with the way they will be

reported Reporting costs differently than the way they are accumulated and identified in the accounting system requires additional review and reclassification of numerous transactions, and in our opinion this practice is unnecessary and conducive to clerical and mathematical errors, and therefore inaccurate report data

We recommend the grantee establish clear and concise expense titles and that these expense classifications be used in budget and report preparation

b Direct/Indirect Costs During the course of our review, we discovered that numerous methodologies are used to identify and allocate costs to the various grants and programs In most instances, direct costs, such as travel and salaries, are easily definable and consistently identified and recorded against the appropriate grant However, various other expenses, also considered to be direct costs, are not specifically identifiable to a grant/program, but are pooled and allocated using a direct labor base (Salaries, exclusive of fringe benefits) Examples of these allocated direct costs include Office Services and Secretarial Labor Although this method deviates slightly from the formal definition of direct costs, consistent application of such a method will not result in any significant misallocation of costs between grants

With respect to indirect/administrative costs, reference is made to FPR 1-15 203(a) and OMB Circ A-122, Attachment A, Paragraph c 1, " A cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose, in like circumstances has been assigned to an award as a direct cost"

The grantee's normal procedure for segregating direct and indirect costs is based on how such cost elements appear in the grant agreements One grant may consider a cost direct and another grant may not In attempting to comply with the specifics of each grant, the accounting system does not allow for the consistent accumulation of certain elements of cost As specified in the above FPR and OMB regulation, costs must be consistently identified among the various awards/grants The possibility of double counting must be eliminated, therefore we recommend that a determination be made concerning how certain elements of cost are to be classified, as direct or indirect, and that these cost elements be identified as direct or indirect in the code of accounts

c Allocation of Indirect Costs Although the indirect/administrative expenses are funded primarily by the AID "core" grant, these indirect costs should be allocated to all grants/programs The reason for this is to identify ALL costs to the grants/programs and to recognize that indirect costs have been incurred and are necessary for the continued operation of NAPA

Presently, the grantee identifies indirect cost to grants only to the extent that funds have been provided for "Indirect Expenses" Indirect expenses represent legitimate expenditures and therefore should be identified to all cost centers (grants/programs) regardless of the funding source to pay for such expenses

We recommend the grantee establish, as part of its accounting system, the necessary control account for indirect expenses along with the respective procedure for reconciling actual with applied indirect expenses at year end. In conjunction with the accounting treatment of indirect costs, careful consideration should be given to determining the most equitable distribution base for indirect expenses. Paragraph d of OMB Circular A-122, Attachment A contains general guidelines for selecting an allocation method.

d Fund Status Reporting The restricted funding sources, both Government and private, specify allowable expenditures chargeable to those particular funds. Under NAPA's current accounting system, these items of expenditure are recorded in the subsidiary ledger accounts which represent the various grants/funds. Likewise, the funding received should be recorded to the respective subsidiary ledger account, utilizing an appropriate descriptive, such as Revenue

However, in adopting the total cost concept, as discussed in Paragraph c above, costs elements may be identified that are not specified as allowable expenditures, i.e. indirect expense. The proposed data processing system will identify all elements of cost chargeable to specific grants, along with the respective revenues. In the event that total costs exceed total restricted revenue for any specific grant, other funds utilized to pay for such excessive costs must be identified. However, the excessive costs should not be transferred via journal entry to another grant or fund account, in order that the integrity of the initial charge be maintained.

We recommend that separate logs or fund status worksheets be used to determine fund status due to these unusual conditions. Memorandum entries should be made in the subsidiary ledger accounts to indicate when another funding source has been used for certain cost items.

e General Observations & Recommendations The grantee's method of handling non-productive labor costs—holidays, sick leave, vacations, etc. — does not allow for segregation of such expenses to separate accounts. Total labor is charged to "Salaries and Wages". However, at year end, an accrual is made to recognize vacation expense earned, but not used, during the past year. The computed amount is charged to the "Vacation Expense" account and a respective entry is made to "Salaries Payable". A reversing entry is recorded in the "Vacation Expense" account as the opening balance in the succeeding year, but no entries are made during the year to recognize vacation expense used.

We recommend that accruals for earned vacation, and the resulting reverse entry for the next accounting period, be recorded in the "Salaries and Wages" account. By so doing, the expense is identified consistent with the accounting methodology adopted for recognizing non-productive labor cost.

Our review also disclosed that supporting documentation was not adequate in some cases. Many of the checks examined were only supported by a written request to the Controller to make a payment to some specified third party, without any invoice or adequate explanation. Staff travel expense reports were very poorly prepared and difficult to understand. Supporting receipts did not fully substantiate the claimed expense.

We recommend that employees submit all supporting documentation - vendor invoices, receipts, etc - when requesting payments and all related disbursements and documentation be maintained in a common file or location.



DEFENSE CONTRACT AUDIT AGENCY
PHILADELPHIA REGION
DISTRICT BRANCH OFFICE
COMMONWEALTH BUILDING - 10TH FLOOR
1300 WILSON BOULEVARD
ARLINGTON VIRGINIA 22209

IN REPLY REFER TO

6261-2C160 302

11 March 1982

National Association of the Partners
of the Alliance, Inc (NAPA)
2001 S Street, N W
Washington, D C 20009

Attention Ms Kathryn Wilson, Controller

Dear Ms. Wilson

During the past several months, we have been conducting a review of the costs incurred under the 39 Government grants received from various federal agencies in the years 1973 to 1980. The results and recommendations of our review are based upon the reliance in the financial statements attested to by Certified Public Accounting firms, prior audits by other Government agencies and descriptions and documentation of NAPA's operating policies and procedures as supplied by yourself and other NAPA staff.

The majority of Government grants were negotiated with the State Department, specifically with the Agency for International Development (AID) and the International Communication Agency (ICA), for the purpose of promoting various cultural exchange programs between the United States and Latin American and Caribbean countries. The total amount of these 39 grants is \$6.9 million, of which approximately \$4.5 million was incurred through December 31, 1980.

We have reviewed and analyzed the internal procedures and accounting methodologies used by NAPA, and although considered basically adequate for identifying and documenting expenditures chargeable to Government grants, certain weaknesses and inconsistencies were noted with respect to generally accepted accounting principles, internal policies & procedures and applicable Federal Procurement Regulations. These weaknesses, along with our recommendations, are discussed in the following paragraphs:

1. Documented Policies and Procedures Certain operating policies and procedures were not fully documented. Among the procedures not sufficiently documented are the accounting system description and travel procedures. The need for such documentation is most evident should the employees responsible for these specific functions resign or go on extended leave and some new employee be required to assume the new duties. A fully documented system/procedure description will facilitate the learning of the job function and aid in the day-to-day maintenance of the system. As an internal control feature, test checks of the system(s) can be performed by employees not normally assigned to such functions.

We recommend that the systems and procedures be reviewed and that documented descriptions be prepared. Particular emphasis should be placed on the anticipated conversion to an automated data processing system from the present manual accounting procedures. Changes to any operating procedure should be fully documented and incorporated into the formal system description.

2 Timekeeping Our review of the timekeeping procedures disclosed certain correctable weaknesses. The most glaring was the employees' failure to document his/her time on the official timesheet. The normal practice seems to be to record daily activities on a calendar or in a notebook and then to fill out the timesheet the day it's due. Also, the timesheets are not counter signed by a supervisor or other authenticating personnel. Our interviews with the office staff disclosed that some of the personnel were unsure as to how their time should be charged.

We recommend that employees be encouraged to record their activities on the timesheets in a current and up-to-date manner, that all timesheets should be verified and signed by an approving official, and that employees be provided specific instructions, preferably written, concerning how, and to what classification, their time is to be charged.

3 Cost Accounting Practices & Procedures In addition to our previous discussion concerning full documentation of the accounting system, we offer the following specific observations and recommendations:

a Code of Accounts/Expense Descriptions Expenditures should be classified and recorded consistent with the nature of the expense incurred. Expenses should be identifiable in the accounting system in the same manner as they will be reported. Reporting costs differently from the way they are accumulated and identified in the accounting system requires additional review and reclassification of numerous transactions, and in our opinion this practice is unnecessary and conducive to clerical and mathematical errors, and therefore inaccurate report data.

b Direct/Indirect Costs During the course of our review, we discovered that numerous methodologies are used to identify and allocate costs to the various grants and programs. In most instances, direct costs, such as travel and salaries, are easily definable and consistently identified and recorded against the appropriate grant. However, various other expenses, also considered to be direct costs, are not specifically identifiable to a grant/program, but are pooled and allocated using a direct labor base (Salaries, exclusive of fringe benefits). Examples of these allocated direct costs include office Services and Secretarial Labor. Although this method deviates slightly from the formal definition of direct costs, consistent application of such a method will not result in any significant misallocation of costs between grants.

With respect to indirect/administrative costs, reference is made to FPR 1-15 203(a) and OMB Circ A-122, Attachment A, Paragraph c 1, "A cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose, in like circumstances has been assigned to an award as a direct cost"

NAPA's normal procedure for segregating direct and indirect costs is based on how such cost elements appear in the grant agreements. One grant may consider a cost direct and another grant may not. In attempting to comply with the specifics of each grant, the accounting system does not allow for the consistent accumulation of certain elements of cost. As specified in the above FPR and OMB regulation, costs must be consistently identified among the various awards/grants. The possibility of double counting must be eliminated, therefore we recommend that a determination be made concerning how certain elements of cost are to be classified, as direct or indirect, and that these cost elements be identified as direct or indirect in the code of accounts.

c Allocation of Indirect Costs Although the indirect/administrative expenses are funded primarily by the AID 'core' grant, these indirect costs should be allocated to all grants/programs. The reason for this is to identify ALL costs to the grants/programs and to recognize that indirect costs have been incurred and are necessary for the continued operation of NAPA.

Presently, NAPA identifies indirect cost to grants only to the extent that funds have been provided for "Indirect Expenses". Indirect expenses represent legitimate expenditures and therefore should be identified to all cost centers (grants/programs) regardless of the funding source to pay for such expenses.

We recommend that NAPA establish, as part of its accounting system, the necessary control account for indirect expenses along with the respective procedure for reconciling actual with applied indirect expenses at year end. In conjunction with the accounting treatment of indirect costs, careful consideration should be given to determining the most equitable distribution base for indirect expenses. Paragraph d of OMB Circular A-122, Attachment A contains general guidelines for selecting an allocation method.

d Fund Status Reporting The restricted funding sources, both Government and private, specify allowable expenditures chargeable to those particular funds. Under NAPA's current accounting system, these items of expenditure are recorded in the subsidiary ledger accounts which represent the various grants/funds. Likewise, the funding received should be recorded to the respective subsidiary ledger account, utilizing an appropriate descriptive, such as Revenue.

However, in adopting the total cost concept, as discussed in Paragraph c above, costs elements may be identified that are not specified as allowable expenditures, i.e. indirect expense. The proposed data processing system will identify all elements of cost chargeable to specific grants, along with the respective revenues. In the event that total costs exceed total restricted revenue for any specific grant, other funds utilized to pay for such excessive costs must be identified. However, the excessive costs should not be transferred via journal entry to another grant or fund account, in order that the integrity of the initial charge be maintained.

We recommend that separate logs or fund status worksheets be used to determine fund status due to these unusual conditions. Memorandum entries should be made in the subsidiary ledger accounts to indicate when another funding source has been used for certain cost items.

e. General Observations & Recommendations. During the year, NAPA's method of handling non-productive labor costs—holidays, sick leave, vacations, etc. — does not allow for segregation of such expenses to separate accounts. Total labor is charged to "Salaries and Wages". However, at year end, an accrual is made to recognize vacation expense earned, but not used, during the past year. The computed amount is charged to the "Vacation Expense" account and a respective entry is made to "Salaries Payable". A reversing entry is recorded in the "Vacation Expense" account as the opening balance in the succeeding year, but no entries are made during the year to recognize vacation expense used.

We recommend that accruals for earned vacation, and the resulting reverse entry for the next accounting period, be recorded in the "Salaries and Wages" account. By so doing, the expense is identified consistent with the accounting methodology adopted for recognizing non-productive labor cost.

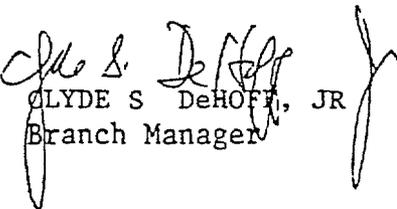
Our review also disclosed that supporting documentation was not adequate in some cases. Many of the checks examined were only supported by a written request to the Controller to make a payment to some specified third party, without any invoice or adequate explanation. Staff travel expense reports were very poorly prepared and difficult to understand. Supporting receipts did not fully substantiate the claimed expense.

We recommend that employees submit all supporting documentation — vendor invoices, receipts, etc. — when requesting payments and all related disbursements and documentation be maintained in a common file or location.

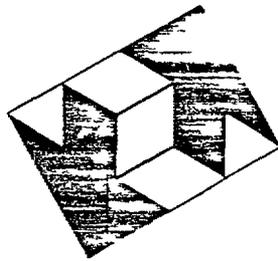
We recognize that improvements have been initiated in recent months to correct some of the system deficiencies discussed here. However, additional reviews and revisions of the various systems are considered necessary to increase the efficiency and reliability of NAPA's successful operation.

As your reaction to the results of our review must be included in our audit report, we would appreciate your immediate attention and plan of corrective action in response to the weaknesses and recommendations discussed above.

Should you require any additional information or accounting counsel, please do not hesitate to contact our office. The telephone number is (202) 694-8543.


CLYDE S. DeHOFF, JR.
Branch Manager

PARTNERS
OF THE AMERICAS



2001 S Street N W Washington D C 20009

Telephone 202 332 7332 Cables NAPAR Telc x 64261

April 29, 1982

Mr Clyde S DeHoff, Jr
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Arlington, VA 22209

Dear Mr DeHoff

We want to thank you and your associate, David Reed, for the professional and courteous manner in which the recent audit was conducted Mr. Reed made a thorough analysis of the Partners operations and developed some valuable suggestions for improvement We are indeed grateful for his concern

Responses to some of the recommendations stated in your letter of March 11 follow

1) Documented Policies and Procedures

As our accounting operations become more mechanized, there will be a need for better documentation We will endeavor to detail these systems so that a new employee would be able to learn the job easily The travel procedures, while at the moment explained in great detail, will also be revised as travel conditions change.

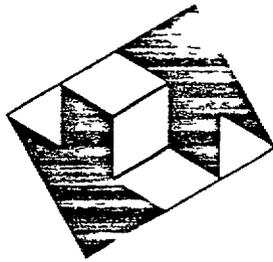
2) Time Keeping

We realize that time recording needs correction It is so clear to us who is working on which grant, that we tend to forget it is not so obvious to outsiders We started using time sheets last year and are in the process of refining these procedures

3) Cost Accounting Practices and Procedures

a) Code of Accounts/Expense Description The problem with expenditure classification is that each funding source seems to want a different system of reporting costs In order to accommodate all these requirements the chart of accounts needs to be greatly expanded Now that we will have these records on a computer, it should be easier to expand the chart of accounts to accommodate our various funding sources

b) Direct/Indirect Costs This is truly a problem area Since the terms of the grants vary so much, it seems logical to identify a cost as direct or indirect according to the terms of the grant The most conspicuous example is a community education grant



which will not allow our full percentage of indirect costs, but instead allows a flat dollar amount for indirect and also a dollar amount for rent as a direct charge. This may not coincide with government regulations or with most of our other private funding source interpretations.

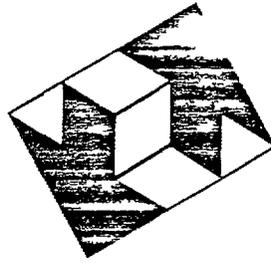
Also in almost every grant the same cost element may be either a direct or indirect cost depending on the purpose of the expenditure.

Volunteer travel may be either a direct or indirect cost depending on who is traveling and for what purpose. For instance, a member of the Executive Committee would have his travel charged as an indirect cost if he comes to an Executive Committee meeting, his travel would be a direct charge if he were going to his Partner area to start a rehabilitation program.

The same is true of most other costs: salaries, staff travel, telephone, printing, consultants, etc.

Therefore it seems to me that it would not be possible to say for instance that staff travel (or any of these costs) is always direct, nor is it correct that it always be indirect.

- c) Allocation of Indirect Costs. Partners charge indirect costs to those grants which allow recovery of indirect costs. We recognize that all programs generate indirect costs whether they allow these charges or not. We also realize that there should be a way to demonstrate this. However, our funders (especially the government) dislike seeing over-expenditures in their grants. They are interested in how we spent only the money from their grant, not the cost of the whole program. So for reporting purposes it would only tend to confuse the records, having one total cost appear on our books and another cost reported to our funders.
- d) At present, all funds received are posted to the subsidiary ledger for a specific grant. Costs are also posted. However, if there is an over expenditure in a grant, this must be paid for by our unrestricted funds. If a journal entry is not made transferring this over expenditure, the same problem as above arises -reporting costs to funders which bear no relationship to the ledgers. Your recommendation of keeping separate logs or fund status worksheets seems to be the best solution to this dilemma.
- e) The vacation expense account is now part of the salary account.



- 4) Supporting documentation for checks will be our first priority and staff travel reports will receive our immediate attention

Your letter of March 11 and a copy of this response to your letter will be discussed at the next meeting of the Executive Committee of the Partners

Thank you again for your valuable recommendations, for the care and understanding of your analysis of the Partners organization.

Sincerely yours,

Kathryn Wilson
Controller

KW·ba

THE NATIONAL ASSOCIATION OF THE PARTNERS
OF THE ALLIANCE (NAPA)

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