

**Close-out Audit of USAID Resources Managed
by the Ghana Social Marketing Foundation (GSMF) under
Cooperative Agreement No. 641-A-00-00-00079
for the Period December 1, 1999 through September 30, 2004**

**Audit Report No. 7-641-06-001-D
November 15, 2005**

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Dakar, Senegal



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 15, 2005

MEMORANDUM

TO: USAID/Ghana Director, Sharon Cromer

FROM: Regional Inspector General/Dakar, Lee Jewell III

SUBJECT: Close-out Audit of USAID Resources Managed by the Ghana Social Marketing Foundation (GSMF) under Cooperative Agreement No. 641-A-00-00-00079 for the Period December 1, 1999 through September 30, 2004; (Audit Report No. 7-641-06-001-D)

Attached for your information and use is the Defense Contract Audit Agency's (DCAA) audit report No. 2191-2005U17900004, dated November 2, 2005. This report presents the results of an audit of the fund accountability statements of the Ghana Social Marketing Foundation (GSMF) under Cooperative Agreement No. 641-A-00-00-00079 for the Period December 1, 1999 through September 30, 2004. The audit was contracted by USAID and was conducted by DCAA.

The GSMF was incorporated in Accra on May 20, 1993 as a private non-profit organization and was registered in 1995 as a local private voluntary organization by USAID/Ghana. Its mission is to improve the quality of life through the provision of affordable and accessible family planning and child health services and products. On January 27, 2000, USAID/Ghana, under its Strategic Objective Agreement (SOAG) #641-0140 issued a Cooperative Agreement (#641-A-00-00-00079) of \$2,334,851 to the GSMF, with the purpose of enabling GSMF to undertake activities aimed at increasing the demand for reproductive health services including family planning and HIV/AIDS/Sexually Transmitted Diseases (STDs) prevention.

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Through a series of modifications the amount obligated under the Cooperative Agreement was increased to \$6,978,209 and the completion date extended from 10 January, 2001 to 30 September, 2004. The audit covered costs totaling \$6,778,792.

DCAA was engaged to conduct the audit in accordance with U.S. Government Auditing Standards. The objectives of the audit were to: (1) express an opinion on whether direct costs included on GSMF's fund accountability statements for the USAID-funded activities present fairly, in all material respects, costs incurred by GSMF; (2) perform a limited review of GSMF's internal controls related to the USAID funds; and (3) perform tests of direct costs to determine whether GSMF complied, in all material respects, with agreement terms and applicable laws and regulations related to the USAID-funded programs.

DCAA reported that the scope of their audit was restricted due to following:

- GSMF's accounting system was not adequate for accumulating and reporting costs in accordance with OMB Circular A-110, Subpart C, Paragraph 21, "Standards for Financial Management Systems";
- Claimed costs were not adequately supported by documentation such as purchase orders, invoices, or proof of payment (e.g., cancelled checks) in accordance with OMB Circular A-110, Subpart C, Paragraph 21(b)(7);
- GSMF's timekeeping system was not adequate to support actual direct and indirect labor costs in accordance with OMB Circular A-122, Attachment B, Item 8m, "Support of Salaries and Wages";
- International travel was not coordinated with the awarding agency, in accordance with OMB Circular 122, Attachment B, Paragraph 51; and
- GSMF did not maintain USAID funds for this cooperative agreement in a separate bank account for the receipt and disbursement of all funds which resulted in commingled funds. Separate bank accounts are required by the Standard Provision 3.14 of the cooperative agreement, entitled "Payment Advance".

As a result, DCAA could not express an opinion on GSMF's fund accountability statements nor were they able to obtain sufficient competent evidential matter on which to base an opinion on the allowability, allocability or reasonableness of GSMF's claimed costs.

However, DCAA noted during their evaluation of GSMF certain matters related to GSMF's noncompliance with the Office of Management and Budget Circulars A-110 and A-122 and the cooperative agreement, which resulted in \$2,389,951 unallowable and unsupported costs. Although DCAA was not able to provide an opinion on these costs due to the restrictions mentioned above, we are questioning those costs and are making a recommendation to address them.

Regarding internal controls, DCAA noted many weaknesses which included the lack of adequate support for costs incurred, direct costs being allocated to agreements based on management discretion, outdated written policies and procedures, and the lack of familiarity of GSMF's staff regarding USAID accounting requirements for cooperative agreements. We are not making any recommendations regarding the internal control weaknesses because the agreement has expired.

However, USAID/Ghana should ensure the weaknesses have been corrected by GSMF prior to any future collaboration with GSMF.

Based on our review of the report and additional communication with DCAA, we are making the following recommendation for inclusion in USAID's Consolidated Audit Tracking System (CATS).

Recommendation No. 1: We recommend that USAID/Ghana: 1) make a management decision with regard to the questioned costs of \$2,389,951; and 2) recover from the Ghana Social Marketing Foundation any amounts determined to be unallowable.

A management decision for Recommendation No. 1 will be recorded when USAID/Ghana determines the amount of questioned costs, if any, to be recovered from GSMF or upon issuance of a bill for collection. A determination of final action for the recommendation will be made by the Bureau of Management's Office of Management Planning and Innovation (M/MPI/MIC) when planned actions are completed.

This report is being transmitted to you for your action. Please advise my office within 30 days of actions planned or taken regarding the above recommendation. If you have any questions related to this report, please contact Lee Jewell III, Regional Inspector General, Nancy Toolan, Audit Manager, or Cheikh Talla, Financial Audit Coordinator at RIG/Dakar.



DEFENSE CONTRACT AUDIT AGENCY



REPORT NO. 2191-2005U17900004

November 2, 2005

PREPARED FOR: Office of the Regional Inspector General (RIG) Dakar
U.S. Agency for International Development
ATTN: Mr. Lee Jewell, III
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SUBJECT: Fund Accountability Statements, Including Direct Costs Incurred
December 1, 1999 through September 30, 2004

REFERENCES: USAID Appropriation: 724/51095
Relevant Dates: See Page 5

RECIPIENT: Ghana Social Marketing Foundation
Don Levy House #255
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Accra, Ghana

REPORT RELEASE RESTRICTIONS: See Page 6

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SUBJECT OF AUDIT

We were requested in your letter dated June 17, 2005, to examine Ghana Social Marketing Foundation's (GSMF) direct costs incurred under USAID Cooperative Agreement No. 641-A-00-00-00079 for the period December 1, 1999 through September 30, 2004. The purpose of the examination was to:

- express an opinion on whether direct costs included on GSMF's fund accountability statements for the USAID funded activities present fairly, in all material respects, costs incurred by GSMF;
- perform a limited review of GSMF's internal controls related to the USAID funds; and
- perform tests of direct costs to determine whether GSMF complied, in all material respects, with agreement terms and applicable laws and regulations related to the USAID funded programs.

As discussed with your office on July 21, 2005, we expanded the scope of our audit to include an evaluation of GSMF's Fund Accountability Statements (FAS) to determine whether the FAS for USAID funded activities present fairly in all material respects revenues received and costs incurred.

GSMF is responsible for preparing the fund accountability statements (FAS) to comply with the requirements in USAID "Guidelines for Financial Audits Contracted by Foreign Recipients." GSMF is also responsible for establishing and maintaining an adequate internal control structure, and for compliance with the requirements of the laws, regulations, contracts, and grants applicable to the USAID funded programs.

SCOPE RESTRICTIONS

Due to GSMF's inadequate accounting records, and noncompliances with Office of Management and Budget (OMB) Circulars A-122 and A-110, and the cooperative agreement, we were not able to obtain sufficient competent evidential matter on which to base an opinion on the allowability, allocability or reasonableness of the claimed costs. For these same reasons, we are unable to express an opinion on the fund accountability statements (FAS). Our scope of audit was restricted because of numerous noncompliances with OMB Circular A-110, Subpart C, Paragraph 21, "Standards for Financial Management Systems"; OMB Circular A-122, Attachment B, "Selected Items of Cost"; and Cooperative Agreement Standard Provision 3.14, "Payment Advance". The restrictions are summarized as follows:

- GSMF's accounting system was not adequate for accumulating and reporting costs in accordance with OMB Circular A-110, Subpart C, Paragraph 21, "Standards for Financial Management Systems";

- Claimed costs were not adequately supported by documentation such as purchase orders, invoices, or proof of payment (e.g., cancelled checks) in accordance with OMB Circular A-110, Subpart C, Paragraph 21(b)(7);
- GSMF's timekeeping system was not adequate to support actual direct and indirect labor costs in accordance with OMB Circular A-122, Attachment B, Item 8m, "Support of Salaries and Wages";
- International travel was not coordinated with the awarding agency, in accordance with OMB Circular 122, Attachment B, Paragraph 51; and
- GSMF did not maintain USAID funds for this cooperative agreement in a separate bank account for the receipt and disbursement of all funds which resulted in commingled funds. Separate bank accounts are required by the Standard Provision 3.14 of the cooperative agreement, entitled "Payment Advance".

RESULTS OF AUDIT

Due to the limitations discussed in the Scope Restrictions Section, the scope of our examination was not sufficient to enable us to express, and we do not express, an opinion on whether the recipient's fund accountability statements (FAS) under Cooperative Agreement Award No. 641-A-00-00-00079 present fairly in all material respects revenues received and costs incurred based on Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Nonprofit Organization", FAR, AIDAR and USAID "Guidelines for Financial Audits Contracted by Foreign Recipients". In our September 1, 2005 communication with USAID RIG/Dakar, we notified Mr. Cheikh Talla, Financial Audit Coordinator, that we were unable to perform a satisfactory evaluation because the support for the claimed costs was insufficient.

During our evaluation of GSMF's fund accountability statements, certain matters related to the organization's noncompliance with OMB Circulars A-110 and A-122 and the cooperative agreement came to our attention. In addition, we noted internal control weaknesses over financial reporting that we consider to be reportable conditions. Due to limitations discussed in the Scope Restrictions, above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these matters. However, we believe that these matters should be communicated to USAID and the management of GSMF. Therefore, they are detailed in the Appendix, Page 7 of this report.

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We discussed factual matters concerning our findings with the following representatives of USAID Ghana and GSMF in an exit conference held on July 28, 2005.

<u>Organization</u>	<u>Name</u>	<u>Title</u>
GSMF	Alex Banful	Managing Director
GSMF	Kojo Lokko	Deputy Managing Director
GSMF	Kwame Adjei	Sr. Accountant
GSMF	Angela Akani	Accountant
USAID	Julie Wallace	Acting Health Officer
USAID	James Gultry	Controller

Mr. Banful stated that GSMF needs to change its accounting system. Mr. Banful also stated that he views the audit of GSMF as a teaching and learning experience, and that GSMF would like to take what they have learned and move forward.

RECIPIENT ORGANIZATION AND SYSTEMS

1. ORGANIZATION

Ghana Social Marketing Foundation (GSMF) is a private, non-profit organization with its headquarters in Ghana, West Africa. GSMF grew out of a social marketing program supported by USAID under a bilateral agreement with the Government of Ghana in 1985. GSMF currently receives funding from USAID, British Department for International Development, Population Action International and Danish Development Agency. GSMF markets contraceptives and other health products. The organization provides technical assistance in social marketing, research and financial management. Programs include HIV/AIDS prevention campaigns, malaria prevention and oral rehydration therapy for children, fertility management and adolescent reproductive health. The organization has 61 direct and 18 indirect employees.

2. ACCOUNTING SYSTEM

We did not examine GSMF's accounting system during the period of performance of the cooperative agreement, fiscal years (FYs) 2000 through 2005. During our evaluation of the fund accountability statements for those years, we found that GSMF did not have an adequate accounting system in place for accumulating and reporting costs. Claimed costs were not adequately supported, and an adequate timekeeping system was not in place. For further details, see Scope Restrictions, on Page 1 of this report.

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General information on audit matters is available at <http://www.dcaa.mil>.

RELEVANT DATES

Request for Audit Date: June 17, 2005
Entrance Conference Date: July 18, 2005

AUDIT REPORT AUTHORIZED BY:

/s/ Robert C. Hazlewood
/for/ Donna Peltomaki
Branch Manager
DCAA European Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

OTHER MATTERS TO BE REPORTED

During our evaluation of GSMF's fund accountability statements, certain matters related to the organization's noncompliance with OMB Circulars A-110 and A-122, and the cooperative agreement came to our attention. In addition, we noted internal control weaknesses over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control over financial reporting. These conditions could adversely affect GSMF's ability to record, process, summarize and report financial data in the fund accountability statements. Due to limitations discussed in the Scope Restrictions, Page 1, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these matters. However, we believe that they should be communicated to USAID and the management of GSMF. These matters are detailed below.

A. NONCOMPLIANCES1. System for Segregating Costs by Agreement/Contract

GSMF does not have accounting policies and procedures to document and substantiate costs incurred under USAID Cooperative Agreement No. 641-A-00-00-00079 in accordance with Item 3.2.a, Accounting, Audit and Records of the Cooperative Agreement dated January 27, 2000 which states:

“The recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the U.S., the cooperating country, or the International Accounting Standards Committee...to sufficiently substantiate charges to this award.”

During our field work, we noted that GSMF has had three different accounting systems since the inception of the agreement with USAID. None of these systems included a methodology to identify and allocate costs by agreement or grant. GSMF has set up a separate account code for the USAID agreement, but does not have written policies and procedures regarding the allocation of costs to this account. Supporting documents such as invoices, purchase orders, and work orders do not indicate the job or project to be charged. Management determines where costs are charged after the costs are incurred. This is considered a noncompliance with Item 3.2 of the Cooperative Agreement, entitled Accounting, Audit and Records. Item 3.2 requires the recipient to maintain adequate accounting records to document revenues received, as well as funds expended in support of the cooperative agreement.

As a result of the described noncompliance, the Government may have been billed for costs that were not incurred on this cooperative agreement. However, we were unable to conclusively determine from GSMF's books and records whether (and to what extent) this may have occurred.

2. Commingling of Funds

We could not reconcile the beginning or ending bank account balances with the accounting records or the fund accountability statements because GSMF did not open a separate bank account for the agreement. GSMF used U.S. Dollar and Cedi bank accounts that were already in use. In addition, GSMF used funds from numerous bank accounts to pay for expenses under the USAID cooperative agreement.

GSMF established a “project creditor” account to fund the agreement while waiting for USAID advances. However, we noted that GSMF used USAID funds for other projects and currently owes money to the USAID project. We were advised that the funds are being kept until an alleged dispute is settled with USAID. We requested support for the project creditor account, but none was provided. We are unable to determine the validity of this account and whether or not it depicts the actual amount of money owed to USAID.

This condition is a violation of Standard Provision 3.14 of the cooperative agreement, entitled Payment Advance, which states, “USAID funds shall not be commingled with other recipient owned or controlled funds; the recipient shall deposit all USAID cash advances in a separate bank account and shall make all disbursements for goods and services from this account.”

3. Timekeeping System

During the course of this cooperative agreement, GSMF did not consistently maintain timekeeping records to support actual direct and indirect labor costs as required by OMB Circular A-122. Employees did not consistently utilize timesheets or other records to indicate those agreements/grants to which labor costs should be charged. Labor costs were allocated by management based on the cooperative agreement budget.

This allocation does not report the actual labor costs incurred for a project as required by OMB Circular A-122, Attachment B, Item 8m, Support of Salaries and Wages, which states:

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.)

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

GSMF does not have a timekeeping system meeting these standards. As stated above, GSMF’s allocation is based on budgeted amounts and management discretion and not the actual

labor costs incurred for a project. As a result, GSMF's timekeeping procedures are not in accordance with OMB Circular A-122 and the risk of potential labor mischarging to its agreements increases and may result in inappropriate charges to the Government.

4. Procurement

During the course of this cooperative agreement, GSMF did not solicit bids for goods and services in order to assure that costs were reasonable. Subcontracts were awarded at the commencement of the agreement based on prior performance. GSMF's written procurement policies state the following requirements for all subcontracts:

1. A scope of work (SOW) which clearly defines the deliverables with all explicit directions which will apply to the tasks to be performed is prepared.
2. Letters are sent out to prospective bidders who indicate their interest.
3. A Request for Proposal (RFP) which is developed from the SOW is then sent out to prospective bidders who indicate they are interested.
4. Upon receipt of the RFPs, a committee is set up to evaluate the various proposals.

Additionally for Purchase Orders under \$1,000:

"..you do not need competitive quotations provided that the price is considered reasonable. Purchases should be distributed equitably among qualified suppliers and if practical, a quotation should be solicited from suppliers other than the previous suppliers, before a repeat order."

"For purchases \$1,000 and over, you should solicit quotations from a reasonable number (minimum three) of sources to promote competition."

GSMF's representatives indicated that because they were satisfied with prior work performed by the subcontractors, no bids were sought for this agreement. As a result, there is no assurance that costs charged to the Government were at reasonable prices. This condition may have resulted in additional costs charged to the cooperative agreement.

5. Cost Sharing

Section 1.13 of the cooperative agreement requires GSMF to expend an amount not less than 21 percent of the total Federal contribution. GSMF's claimed cost sharing contributions are not verifiable from its records as required in Paragraph 3.2(c)(1) of the cooperative agreement which states:

"All contributions, both cash and in-kind, shall be accepted as part of the recipient's cost sharing (matching) when such contributions meet all of the following criteria:

- (1) Are verifiable from the recipient's records..."

For CFY 2004, GSMF claimed volunteer services valued at \$216,612 as matching contributions. The organization's records include only estimates of volunteer hours attributable to the agreement. These estimates were based on discussions between GSMF's management and volunteer organizers. No written documentation supporting these discussions or estimates is available. As a result, claimed contributions are not verifiable.

6. Equipment Inventory

During our evaluation, we requested GSMF's inventory schedule of equipment purchased under this agreement with value greater than \$5,000. We noted that the inventory list was not complete. Cost claimed on the contract included equipment valued at greater than \$5,000 that was not included on the inventory list. Section 3.17 (c) of the Cooperative Agreement states:

"With respect to property having an acquired value of \$5,000 or more, the recipient agrees to report such items to the Agreement Officer as they are acquired and to maintain a control system which will permit their ready identification and location."

Based on the schedule provided, the recipient's inventory record keeping is not in accordance with the terms of the agreement.

7. Schedule of Costs

We performed a nomenclature review of GSMF's detailed schedules of incurred costs provided as supporting documentation for costs included on its Fund Accountability Statements. The schedule below is a summary of costs identified during our fieldwork as ineligible (in accordance with the cooperative agreement), unsupported, or unallowable based on our review (in accordance with OMB Circular A-122). Detailed descriptions of the transactions included in the summary are included as Appendixes 2 through 4, Pages 20 through 22. These costs are not identified as questioned costs, because we were unable to express an opinion regarding the fund accountability statements as a whole, or the related direct and indirect costs. See the Results of Audit section of this report on Page 2 for additional comments regarding our disclaimer of opinion.

Schedule of Identified Unallowable and Unsupported Costs

GSMF Fiscal Year	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total	Notes
	Jan 00 - June 00	July 00 - June 01	July 01- June 02	July 02 - June 03	July 03 - June 04	July 04 - Sept 04		
Cost								
Interest	\$ 1,077			\$ 77	\$ 137		\$ 1,291	a
Cost Sharing	968	\$ 89,218	\$ 29,730				119,916	b
Unsupported Salary	10,819	6,622	48,897		256,141	\$ 73,457	395,936	c
Personal and Gifts	5,872	9,647	4,130				19,649	d
Indirect Costs	1,546	18,212	1,329				21,086	e
Unauthorized Travel		36,301	117,048	29,840	1,301		184,490	f
Donations		364	3,719	7,465	569	2,017	14,134	g
Entertainment			4,710	8,202			12,912	h
Customs Duties			12,574				12,574	i
Unsupported Costs					62,844	29,382	92,226	j
Projected Subcontract	77,450	156,642	292,904	287,039	68,108	31,865	914,008	k
Capital Improvements	2,400	31,020					33,420	l
Unsupported Transportation	22,225		130,579				152,804	m
Unallowble Fuel	2,773	8,562	10,285	10,992	2,602		35,214	n
Board Allowance			2,395	2,548			4,943	o
Meals			8,450				8,450	p
Home Allowances			5,766	6,587	1,533		13,886	q
Other Costs				149,463			149,463	r
Personnel			144,946				144,946	s
Contractual Other Costs				11,654			11,654	t
Project Creditor Account						46,949	46,949	u
Total	<u>\$ 125,130</u>	<u>\$ 356,588</u>	<u>\$ 817,462</u>	<u>\$ 513,866</u>	<u>\$ 393,235</u>	<u>\$ 183,670</u>	<u>\$ 2,389,951</u>	
Total Activity Results	\$ 524,763	\$ 1,229,457	\$ 2,164,307	\$ 1,708,245	\$ 914,071	\$ 237,948	\$ 6,778,792	v
Percent of Total	24%	29%	38%	30%	43%	77%	35%	

Explanatory Notes:

a. Interest

GSMF claimed interest costs of \$1,291 paid on bank overdrafts. Details of the transactions included are available at Appendix 2, Page 20. OMB Circular No. A-122, Attachment B, Paragraph 23, "Interest" states:

Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-profit organization's own funds, however represented, are unallowable.

Bank overdrafts are a form of interest on borrowed capital; therefore, these costs are unallowable.

b. Cost Sharing

GSMF claimed \$119,916 as project costs that, per the cooperative agreement, should have been considered cost sharing expenses. Details of the transactions included are available at Appendix 2, Page 20. Our nomenclature review disclosed that the recipient claimed costs for travel and annual leave allowance incurred from May 2000 through August 2001. The recipient's document entitled "Year 1 Budget Justification" used as a basis for the agreement, cited travel costs including accommodation, feeding costs and overnight allowances for project coordinators and drivers as part of its cost sharing contribution. Also included under cost sharing were fringe benefits including annual leave allowance. Our review of the cooperative agreement and subsequent modifications disclosed that these costs remained allocable to cost sharing until Modification 3, dated September 27, 2001. Accordingly, since these costs were claimed as direct costs to the project and not to cost sharing prior to the issuance of Modification 3, they are not in accordance with the cooperative agreement.

c. Unsupported Salary

Our nomenclature review disclosed that GSMF claimed costs of \$395,936 for salaries and related fringe benefits for warehouse and other non-management staff from January 2000 through September 2004. Details of the transactions included are available at Appendix 2, Page 20. As discussed in Noncompliance Note 3, Page 8, GSMF does not have an adequate timekeeping system. Accordingly, these costs are unsupported.

d. Personal and Gifts

GSMF included costs of \$19,649 for gifts and other personal use items which are specifically unallowable in OMB Circular A-122. Details of the transactions included are available at Appendix 2, Page 20. OMB Circular A-122, Attachment B, Paragraph 19, "Goods and Services for Personal Use" states:

“Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.”

e. Indirect Costs

GSMF claimed costs of \$21,086 that included services and equipment benefiting the organization as a whole that should have been charged as indirect costs. Details of the transactions included are available at Appendix 2, Page 20. The cooperative agreement specifically disallows indirect costs. Article 1.7 of the cooperative agreement states:

“No indirect costs shall be charged to the Cooperative Agreement. The Recipient understands and agrees the Indirect Costs attributable to this Cooperative Agreement will be absorbed by the Recipient and considered as Cost Sharing.”

This was not changed until Modification 3, dated September 27, 2001, when some indirect costs became allocable. Therefore, these costs are unallowable.

f. Unauthorized Travel

We identified \$184,490 of international travel and related costs that are unallowable because the travel was not authorized in compliance with OMB Circular A-122. Details of the transactions included are available at Appendix 2, Page 20. OMB Circular A-122, Attachment B, Paragraph 51 “Travel”, subparagraph “Foreign Travel” states:

“Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip must receive such approval. ... the term “foreign travel” for a non-profit organization located in a foreign country means travel outside that country.”

Based on discussions with both the Recipient and USAID/Ghana, the award agency prior approval was not received for the claimed foreign travel.

g. Donations

GSMF claimed \$14,134 for donation and sponsorship costs that are specifically unallowable under OMB Circular A-122. Details of the transactions included are available at Appendix 2, Page 20. OMB Circular A-122, Attachment B, Paragraph 12 states, “Contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable.”

h. Entertainment

GSMF claimed costs of \$12,912 for entertainment costs that are specifically unallowable under OMB Circular A-122. Details of the transactions included are available at Appendix 2, Page 20. OMB Circular A-122, Paragraph 14, "Entertainment" states:

"Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable."

i. Customs Duties

GSMF claimed costs of \$12,574 for custom duties paid for imported materials. Details of the transactions included are available at Appendix 2, Page 20. OMB Circular A-122, Paragraph 47, "Taxes" states:

"In general, taxes which the organization is required to pay and which are paid or accrued in accordance with GAAP,...are allowable, except for (i) taxes from which exemptions are available to the organization directly."

According to the general provision of the bilateral agreement between USAID/Ghana and the Government of Ghana, development assistance program funds are exempt from all taxes in Ghana. Because exemption from the customs duty taxes was available to GSMF, these costs are unallowable.

j. Unsupported Costs

Our nomenclature review disclosed significant costs claimed from October 2003 through September 2004 whose transaction descriptions were limited to "Overheads", "Salaries and Overheads", "Other Direct Costs", "Program Staff Per Diem" and "Direct Overhead Costs." The recipient was unable to provide support for these costs. The recipient's representatives indicated that a formula was applied to calculate the claimed costs based on the budgeted amount. It was indicated that there was no direct correlation between the claimed costs and actual costs incurred. These costs are, therefore, unsupported. A breakdown of costs by line item is available at Appendix 3, Page 21.

k. Projected Subcontract

We attempted to review a statistical sample of costs claimed for GSMF's nine major subcontractors. During the course of our analysis, we determined that the sample universe provided by GSMF was inadequate. The universe of subcontract costs contained transactions that were budgeted but not claimed against the cooperative agreement, as well as duplicate transactions. As a result, only 74 percent of our sample was traceable to the costs actually claimed against the cooperative agreement. Of the costs that we were able to analyze and trace to the cooperative agreement, 37.18 percent were identified as unallowable or

unsupported costs. The unallowable and unsupported costs and the methodology used to project costs to the subcontract universe follow. Details of the transactions used as the basis for our projections are available at Appendix 4, Page 22.

Results of Transaction Test		Total Costs	Percentage of	74% of Total Costs	Total Projected	Weighted Average	Total Projected	
Costs Identified as Unallowable/Unsupported	Subnotes	In Cedis	Evaluated in Sample	Evaluated Costs	In Sample Universe	Costs in Cedis	Conversion Factor	Costs
		(a)	(b)	(a) - (b) = (c)	(d)	(c) x (d) = (e)	(f)	(e) - (f) = g
Taxes Paid	i.	1,161,068,524	10,673,674,999	10.88%	18,456,122,548.76	2,007,633,076	\$ 7,507.73	\$ 267,438
Refund	ii.	990,000		0.01%		1,711,834		228
Unallocable	iii.	100,518,030		0.94%		173,808,313		23151
Payment Unsupported	iv.	2,705,974,919		25.35%		4,678,969,963		623221
Total Identified As Unallowable/Unsupported		<u>3,968,551,493</u>		<u>37.18%</u>		<u>6,862,123,186</u>		<u>\$ 914,008</u>

Sub-notes:

- i. Value Added Taxes (VAT) and customs duties taxes comprised 10.88 percent of the subcontractor costs evaluated. As discussed in Note i., Page 14, an exemption from payment of these taxes was available to GSMF and therefore these costs are unallowable.
- ii. Supporting documents for one purchase included a letter indicating that a refund for overpayment was received in the form of credit. Our review disclosed that the costs charged to the cooperative agreement did not include this credit. OMB Circular A-122, Attachment A, General Principles, Basic Considerations requires that such refunds be credited to the Federal Government either as a cost reduction or cash refund, as appropriate.
- iii. GSMF included unallocable costs in its claimed subcontract costs. Included were costs directly allocable to other projects, or corporate costs that benefited the organization as a whole. Corporate costs are indirect costs and were allowable only as cost sharing until Modification 3, dated September 27, 2001. The related transaction is dated prior to that Modification. Since the costs are claimed as subcontract costs, and not as cost sharing, they are not allowable under the terms of the cooperative agreement.
- iv. We requested copies of all vouchers and checks to verify that the claimed costs had actually been paid. We were not provided with adequate supporting documentation for 25.35 percent of the claimed costs; therefore, we are unable to ascertain these costs have actually been paid. We consider those costs to be unsupported.

The projected subcontract costs included in the schedule above reflect our application of the unallowable and unsupported cost percentages to 74 percent of the subcontract universe provided by the recipient. Our statistical sample was based on a random selection of items

for evaluation. Therefore, we consider it appropriate to project the results of our evaluation to the portion of the universe costs that we were able to verify.

l. Capital Improvements

GSMF claimed capital improvement costs of \$33,420. Details of the transactions included are available at Appendix 2, Page 20. These costs represent payments for a dedicated electrical sub-station and generator for the building. The building houses other businesses, not just GSMF. The costs also represent expenses for office expansion that were incurred prior to the effective date of the cooperative agreement. These costs are specifically unallowable under OMB Circular A-122. OMB Circular A-122, Attachment B, Item 15, Equipment and Other Capital Expenditures, states:

“(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct costs except with the prior approval of the awarding agency.”

Because the costs were incurred prior to the effective date of the agreement, they did not receive prior approval from the awarding agency as required by OMB Circular A-122.

m. Unsupported Transportation

GSMF claimed costs of \$152,804 for transportation of junior and senior staff. Details of the transactions included are available at Appendix 2, Page 20. We requested support and explanation for these costs. No explanation was provided for the costs. Supporting data provided by GSMF did not establish the reasonableness, allowability, or allocability of the costs in accordance with OMB Circular A-122. Therefore, the costs are considered unsupported.

n. Unallowable Fuel

GSMF billed USAID for all vehicle fuel, for both private and official use. Details of the transactions included are available at Appendix 2, Page 20. Fuel for private use is an unallowable cost under OMB Circular A-122, Attachment B, Item 8h. GSMF did not have the costs segregated between private and official use. GSMF stated that staff members usually use their private cars for official work when official vehicles are unavailable. GSMF does not provide a maintenance allowance. GSMF asserts that the fuel reimbursement is used as motivation to encourage staff to perform their activities when official cars are not available.

We requested that GSMF pull several invoices and calculate the percentage of private and official use of the vehicles. We identified unallowable fuel costs of \$35,214 based on an estimated percentage of private use provided by GSMF.

o. Board Allowance

GSMF claimed \$4,943 for board meeting allowance. Details of the transactions included are available at Appendix 2, Page 20. These costs are allowable under OMB Circular A-122, Attachment B, Item 33, Participant support costs, only when prior approval is received from the awarding agency. No documentation was provided to show that these costs were approved by USAID/Ghana prior to the board meetings. Therefore, these costs are unallowable.

p. Meals

GSMF claimed \$8,450 for meals at the main office. Details of the transactions included are available at Appendix 2, Page 20. These costs are expressly unallowable in OMB Circular A-122. OMB Circular A-122, Attachment B, Paragraph 19, "Goods and Services for Personal Use" states:

"Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

q. Home Allowances

GSMF claimed \$13,886 for home utility costs for senior management. Details of the transactions included are available at Appendix 2, Page 20. GSMF billed a fixed amount each month for electricity for each of their senior staff employees. For the managing director, they also billed for water and phone. There was no supporting documentation provided with the payment vouchers. The individual payment voucher showed the bank account and check number written to the employee. These costs are expressly unallowable under A-122, Attachment B, Item 20, Housing and Living Expenses, which states:

"Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.) housing allowances and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies."

There is no evidence that GSMF received approval from the awarding agency for these costs.

r. Other Costs

GSMF claimed Other Costs of 4,028,975,630 Cedis (\$491,638). The accounting records supported recorded costs of only 2,804,122,352 Cedis (\$342,175). We requested supporting documentation for the remaining costs claimed, but it was not provided. Therefore, the

difference between the amount claimed, and the amount recorded in the books and records (1,224,853,278 Cedis or \$149,463) is considered unsupported.

s. Personnel

Our nomenclature review disclosed that GSMF claimed costs of \$144,946 for salaries and related fringe benefits for personnel staff from July 2001 through June 2002. As discussed in Noncompliance Note 3, Page 8, GSMF does not have an adequate timekeeping system. Accordingly, these costs are unsupported.

t. Contractual Other Costs for Family Planning

GSM claimed Contractual Other Costs for Family Planning of 262,465,319 Cedis (\$32,027). The accounting records supported 166,958,658 Cedis (\$20,373). Therefore, the difference between the amount claimed, and the amount recorded in the books and records (95,506,661 Cedis or \$11,654) is considered unsupported.

u. Project Creditor Account

GSMF established a "project creditor" account to fund the agreement while waiting for USAID advances. However, we noted that GSMF used USAID funds for other projects and currently owes money to the USAID project. GSMF claimed 419,022,270 Cedis (\$46,949) as funds owed to USAID. We were advised that the funds are being kept until an alleged dispute is settled with USAID. We requested support for the project creditor account, but none was provided. We are unable to determine the validity of this account and whether or not it depicts the actual amount of money owed to USAID.

As discussed in Note 2, Page 8, this is not in accordance with Standard Provision 3.14, Payment Advance, in the cooperative agreement, which states, "USAID funds shall not be commingled with other recipient owned or controlled funds; the recipient shall deposit all USAID cash advances in a separate bank account and shall make all disbursements for goods and services from this account."

v. Total Activity Results

Total activity results are the expenses claimed on the fund accountability statements for each fiscal year.

B. INTERNAL CONTROL WEAKNESSES

During our evaluation, we noted certain internal control weaknesses related to financial reporting that we consider to be reportable conditions. Due to limitations discussed in the Scope Restrictions of the report on Page 1, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these matters. However, we believe that they

should be communicated to USAID and the management of GSMF. These matters are summarized below.

- During the course of the evaluation, the organization's representatives were unable to provide consistent, reliable reports or other support for costs incurred.
- Indirect costs are allocated based on budget rather than actual costs incurred;
- Direct costs are allocated to agreements and grants based on management discretion;
- The staff lacks adequate training regarding USAID accounting requirements for cooperative agreements;
- GSMF has had three accounting systems in the five years of this cooperative agreement;
- GSMF stated that they have no visibility to accounting data from prior years of the agreement because the accounting system licenses have expired;
- The previous accounting systems utilized during the period of the cooperative agreement do not allow easy extraction of data for auditing or cost comparisons (e.g. no audit trail);
- The accounting system was recommended and provided by GSMF's external auditors. This could be construed as a conflict of interest since the same firm provided both auditing and management advisory services;
- External auditors prepared and audited the fund accountability statements. However, GSMF did not certify to these statements;
- Written policies and procedures have not been updated since 1995 and are no longer considered current or adequate;
- Advance liquidations are based on budget rather than actual expenditures as required on the Standard Form 1034; and
- Bank accounts used to account for the funds received from USAID are still open and appear to be active.

**Detail of Costs Included In Appendix 1,
Schedule of Identified Unallowable and Unsupported Costs**

The spreadsheet below includes the detailed information in support of the Schedule of Identified Unallowable and Unsupported Costs (Appendix 1, Page 5 of 13). The spreadsheet is attached in the embedded file below. The spreadsheet can be opened for review and printing by double-clicking on the icon below.



Microsoft Excel
Worksheet

Schedule of Unsupported Costs - Appendix 1, Note j

Program	Unsupported Costs (In Cedis)				Total
	July 5, 2004	August 11, 2004	September 22, 2004		
Pharmacists Conference	606,173	606,173	606,173		1,818,519
Shop Assistants Contact Durba	1,010,289	1,010,289	1,010,289		3,030,867
Peer Educators Refresher	3,232,925	3,232,925	3,232,925		9,698,775
Tracking Studies	1,947,544	1,947,544	1,947,544		5,842,632
Monitoring Trips- Mine	-	-	1,217,216		1,217,216
Peer Educators Training - Mine	5,433,651	5,433,651	5,433,651		16,300,953
Quantitative Baseline survey - Mine	1,217,216	1,217,216	1,217,216		3,651,648
Advocacy W/shop - Toolguard	1,212,347	1,212,347	1,212,347		3,637,041
Apprentice Workshop	3,232,925	3,232,925	3,232,925		9,698,775
Peer Educators Training - HIV/AIDS	1,212,347	1,212,347	1,212,347		3,637,041
Peer Educators Training - Drive	2,828,809	2,828,809	2,828,809		8,486,427
Mystery Shopper Study	1,217,216	1,217,216	-		2,434,432
Tracking Studies	4,868,863	4,868,863	4,868,863		14,606,589
Packaging Staff Cost	11,638,142	11,638,142	11,638,142		34,914,426
Sales Personnel	27,322,523	27,322,523	27,322,523		81,967,569
Sales Vehicle Running & Maint	9,782,500	9,782,500	9,782,500		29,347,500
Trekking Expenses	10,647,000	10,647,000	10,647,000		31,941,000
Total	87,410,470	87,410,470	87,410,470		262,231,410
					8,925
					in Cedis
					Conversion Factor
					<u>\$ 29,382</u> (a)

Program	January 7, 2004	February 20, 2004	February 23, 2004	March 16, 2004	May 25, 2004	June 21, 2004	Total
Packaging Staff Cost	11,638,142	11,638,142	11,638,142	11,638,142	11,638,142	11,638,142	69,828,852
Sales Personnel	27,322,523	27,322,523	27,322,523	27,322,523	27,322,523	27,322,523	163,935,138
Sales Vehicle Running and Maintenance	9,782,500	9,782,500	9,782,500	9,782,500	9,782,500	9,782,500	58,695,000
Trekking Expenses	10,647,298	10,647,298	10,647,298	10,647,298	10,647,298	10,647,298	63,883,788
Pharmacists Conference	606,173	606,173	606,173	606,173	606,173	606,173	3,637,038
Shop Assistants Contact Durba	1,010,289	1,010,289	1,010,289	1,010,289	1,010,289	1,010,289	6,061,734
Condom Dist and Promotional Materials	4,062,579	4,062,579	4,062,579	4,062,579	4,062,579	4,062,579	24,375,474
Peer Educators Refresher	2,828,809	2,828,809	2,828,809	2,828,809	2,828,809	2,828,809	16,972,854
Peer Educators Refresher - Life	3,232,925	3,232,925	3,232,925	3,232,925	3,232,925	3,232,925	19,397,550
Tracking Studies - Life	1,947,544	1,947,544	1,947,544	1,947,544	1,947,544	1,947,544	11,685,264
Peer Educators	5,433,651	5,433,651	5,433,651	5,433,651	5,433,651	5,433,651	32,601,906
Quantitative Baseline Survey	1,217,216	1,217,216	1,217,216	1,217,216	1,217,216	1,217,216	7,303,296
Advocacy Workshops	404,116	404,116	404,116	404,116	404,116	404,116	2,424,696
Mystery Shopper Study	1,217,216	1,217,216	1,217,216	1,217,216	1,217,216	1,217,216	7,303,296
Trekking Studies	4,868,863	4,868,863	4,868,863	4,868,863	4,868,863	4,868,863	31,160,722
Advocacy Workshops	1,212,347	-	1,212,347	1,212,347	1,212,347	1,212,347	6,061,735
Apprentice Workshop	3,232,925	3,232,925	3,232,925	3,232,925	3,232,925	3,232,925	19,397,550
Peer Educators' Training	1,212,347	1,212,347	1,212,347	1,212,347	1,212,347	1,212,347	7,274,082
	91,877,463	90,665,116	91,877,463	91,877,463	91,877,463	93,825,007	551,999,975

Conversion 8,784

\$ 62,841.53 (b)

Total Unsupported

\$ 92,223.53 (a) + (b)

Schedule of Identified Costs Used as Basis for Projected Subcontract Costs - Appendix 1, Note k

Identified Cost	Date	Vendor	Description	Total Claimed (In Cedis)	Unallowable/ Unsupported (In Cedis)	Description of Cost
Taxes Paid	October 4, 2001	DAPEG	Airing of Famplan Conum & Prting Mats	361,474,628	40,163,848	VAT Tax
	October 4, 2001	DAPEG	Airing of Famplan TV Commercials	363,468,712	40,383,412	VAT Tax
	May 23, 2003	AP LINTAS	Airing of Things We Do for Love	409,761,300	45,193,700	VAT Tax
	April 12, 2002	AP LINTAS	Prdn of Condoms & Corporate Ad	522,299,250	58,033,250	VAT Tax
	July 31, 2002	ORIGIN 8	Printing of Lifeshield Promo Mats,	509,441,625	56,604,625	VAT Tax
	November 17, 2000	AP LINTAS	Traditional Rulers AIDS Campaign	625,185,000	33,090,000	VAT Tax
	July 31, 2002	ORIGIN 8	TV & Radio Ad for Champion	865,979,384	38,254,712	VAT Tax
	June 29, 2001	AP LINTAS	TV, Radio & Mats for Smart Choices	1,557,659,812	173,073,312	VAT Tax
	September 13, 2002	AP LINTAS	Compassion Campaign	1,871,505,900	207,945,100	VAT Tax
	December 11, 2002	AP LINTAS	Things We Do for Love	177,118,316	19,679,813	VAT Tax
	March 5, 2002	BUSINESS HELPLINE	Famplan Packs & Materials	12,566,812	1,396,312	VAT Tax
	May 10, 2000	AP LINTAS	Panhter PSA Bookmarks	23,540,625	2,121,875	VAT Tax
	May 21, 2002	POLYTEX INDUSTRIES	Champion PVC Jars	36,000,000	4,000,000	VAT Tax
	January 21, 2000	AP LINTAS	Panther Specific	47,267,750	5,251,972	VAT Tax
	June 28, 2001	AP LINTAS	Panther Stops AIDS Campaign	55,186,104	6,131,789	VAT Tax
	April 30, 2001	SAKI PUBLICITY	Champion Stickers	56,250,000	6,250,000	VAT Tax
	April 10, 2002	SAKI PUBLICITY	Prting of Champion Stickers	61,650,000	69,000,000	VAT Tax
	May 29, 2000	AP LINTAS	Prdn, Orgn and Co- Ordn of Speakeasy	70,631,275	6,421,025	VAT Tax
	July 5, 2002	ORIGIN 8	Design & Printing of WK Plac	113,930,438	7,593,363	VAT Tax
	July 23, 2004	RESEACH INTERNATIONAL	Baseline Survey & Tracking Study	178,632,811	122,657,774	VAT Tax
	May 3, 2002	ORIGIN 8	TV Placement for Lifeshield	200,875,834	22,319,539	VAT Tax
	March 25, 2003	SAKI PUBLICITY	Prting of Secure & Bazuka Packs	202,144,298	162,500	VAT Tax
	March 25, 2003	SAKI PUBLICITY	Prting of Secure & Bazuka Packs	202,144,298	3,599,700	CEPS Charge - Customs Duty
	December 17, 2002	AP LINTAS	Protector Dare Activity	209,122,563	16,172,808	VAT Tax
	October 3, 2001	AP LINTAS	Secure Launch Prdt Mats	295,255,353	33,006,188	VAT Tax
	April 16, 2002	AP LINTAS	Lifecoices Campaign on TV	304,332,468	67,629,437	VAT Tax
October 4, 2001	DAPEG	Prodn of Champion Billboard	321,408,871	33,712,096	VAT Tax	
February 6, 2002	SAKI PUBLICITY	Prting of Secure Packaging Mats	333,370,683	37,214,374	VAT Tax	
					1,161,068,524 (a)	
Refund	May 10, 2000	AP LINTAS	Panhter PSA Bookmarks	23,540,625	990,000 (b)	Rebate per letter dated 5/4/00
Unallocable	September 3, 2001	MOTIVES CONSULTANCY	Various Brochures & Folders	99,460,000	52,713,800	53% of claimed costs allocable to Corporate and Malaria program
	July 23, 2003	MOTIVES CONSULTANCY	Corporate Brochures	299,415,000	38,546,000	Unallocable Materials
	July 23, 2003	MOTIVES CONSULTANCY	Corporate Brochures	299,415,000	4,818,250	Related Service Charge
	July 23, 2003	MOTIVES CONSULTANCY	Corporate Brochures	299,415,000	4,440,000	Related Freight Charge
					100,518,050 (c)	
Payment Unsupported	November 17, 2000	AP LINTAS	Traditional Rulers AIDS Campaign	625,185,000	280,720,000	Balance unsupported by voucher or check
	June 29, 2001	AP LINTAS	TV, Radio & Mats for Smart Choices	1,557,659,812	1,384,586,500	Balance unsupported by voucher or check
	May 10, 2000	AP LINTAS	Panther PSA Bookmarks	23,540,625	20,428,750	Balance unsupported by voucher or check
	June 28, 2001	AP LINTAS	Panther Stops AIDS Campaign	55,186,104	49,054,315	Balance unsupported by voucher or check
	March 1, 2000	AP LINTAS	Candle & Panther TV Ads	89,709,246	89,709,246	Balance unsupported by voucher or check
	October 12, 2001	AP LINTAS	Lifecoices Launch	98,886,096	98,886,096	Balance unsupported by voucher or check
	August 30, 2000	AP LINTAS	HIV/AIDS Radio & TV Ad	203,500,000	203,500,000	Balance unsupported by voucher or check
	December 17, 2002	AP LINTAS	Protector Dare Activity	209,122,563	129,382,462	Balance unsupported by voucher or check
	June 13, 2000	AP LINTAS	TV & Radio Ad of Panther	213,004,519	213,004,519	Balance unsupported by voucher or check
	April 16, 2002	AP LINTAS	Lifecoices Campaign on TV	304,332,468	236,703,031	Balance unsupported by voucher or check
					2,705,974,919 (d)	
Total Identified					3,968,551,493 (a) + (b) + (c) + (d)	

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