

Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
the Arid Zone Research Institute  
International Center for Agricultural Research  
in the Dry Areas, Contract No. 391-0489-C-00-5042-00

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Report No. 3-391-93-07-N  
December 18, 1992



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memorandum

TO: John S. Blackton, Mission Director, USAID/Pakistan

FROM: *for* Everette B. Orr, RIG/A/Nairobi *Joseph Fainella*

SUBJECT: Audit of the Arid Zone Research Institute --a Project of the International Center for Agricultural Research in the Dry Areas Contract No. 391-0489-C-00-5042-00, Audit Report No. 3-391-93-07-N

Attached are five copies of an Agency-contracted audit of the International Center for Agricultural Research in the Dry Areas under Contract No. 391-0489-C-00-5042-00. The accounting firm of Price Waterhouse, Nairobi performed the audit.

The International Center for Research in the Dry Areas (ICARDA) is primarily involved in research for barley, lentil, fava bean, wheat, and chick pea. Much of the research is performed at the Tel Hadya research facility, located in Aleppo, Syria. Research is also performed in other countries in West Asia and Africa. The project has assisted the Pakistan Agricultural Research Council by strengthening the capability of the Arid Zone Research Institute located in Quetta, Pakistan.

Price Waterhouse to performed an Agency-contracted audit of ICARDA in accordance with generally accepted auditing standards. The audit covered \$545,819 of direct costs and \$196,892 of equipment costs.

The objectives of the audit were to:

- audit ICARDA's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the contract;

- consider ICARDA's internal control structure in order to determine the auditing procedures for the purposes of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses;
- test ICARDA's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances on noncompliance;
- examine and report on ICARDA's indirect costs/overhead calculations for 1989;
- examine and report on ICARDA's equipment (non-expendable) costs for 1985 - 1989; and
- report on the job descriptions and qualifications of ICARDA's staff involved in the financial management of USAID funds.

The auditors issued a qualified opinion on the Fund Accountability Statement. The auditors questioned \$33,982. This amount was made up of ineligible direct costs of \$7,283, ineligible equipment costs of \$1,544, and ineligible indirect overhead costs of \$25,155. A number of adjustments were made to ICARDA's calculation of the overhead rates. The auditors calculated an overhead rate of 32.57 percent for the on-campus rate and 22.28 percent for the off-campus rate. The report on the internal control structure identified reportable weaknesses in procurement procedures. The auditors also found that a formal register of fixed assets (non-expendable equipment) does not exist. The report on compliance noted two items of material noncompliance: (1) failure to obtain prior authorization for changes in budget line items, and (2) failure to comply with procurement procedures. Regarding equipment, the auditors found two items which were not for the exclusive use of the project. In addition, some non-expendable equipment was mis-coded. The related costs were treated as ineligible costs. Regarding job descriptions, the auditors found that staff undertaking key tasks have adequate capabilities but there may be too much reliance on the supervision provided by the Accounting Supervisor-General Ledger.

The draft audit report was submitted to ICARDA and USAID/Pakistan and their comments (Appendix I and Appendix II, respectively) were incorporated in the final report by Price Waterhouse. The auditee generally agreed with the audit findings. The Mission stated that it was satisfied with the report.

We are including the following recommendations in the Office of the Inspector General audit recommendation follow-up system.

**Recommendation No. 1:** We recommend that the Contracting Officer, USAID/Pakistan determine the allowability and recover, as appropriate, the following questioned costs from the International Center for Research in the Dry Areas:

- 1.1 ineligible direct costs of \$7,283,
- 1.2 ineligible equipment costs of \$1,544, and
- 1.3 ineligible indirect costs of \$25,155;

**Recommendation No. 2:** We recommend that the Contracting Officer, USAID/Pakistan finalize an on-campus indirect cost rate of 32.57 percent and an off-campus indirect cost rate of 22.28 percent for the International Center for Research in the Dry Areas for 1989; and

**Recommendation No. 3:** We recommend that USAID/Pakistan obtain from the International Center for Research in the Dry Areas a plan to improve its internal control structure, which would include the establishment and maintenance of a proper accounting system and its compliance with the terms of the contract.

We consider all recommendations unresolved. Recommendation No. 1 will be resolved when the Mission makes a final determination concerning the allowability of the questioned amounts. The recommendation will be closed when the Mission takes action appropriate to the determinations that are made. Recommendation No. 2 will be resolved and closed when the Contracting Officer finalizes the on-campus and off-campus indirect cost rates. Recommendation No. 3 will be resolved when we receive an acceptable plan for corrective action. The recommendation will be closed on implementation of the corrective action. Please respond to this report within 30 days indicating action planned or already taken to implement the recommendations.

Thank you for the cooperation extended to Price Waterhouse and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s



AUDIT OF THE  
INTERNATIONAL CENTER FOR AGRICULTURAL  
RESEARCH IN THE DRY AREAS  
CONTRACT NO. 391-0489-C-00-5042-00

ATTACHMENTS



USAID/PAKISTAN

AGENCY-CONTRACTED AUDIT OF THE ARID ZONE RESEARCH INSTITUTE  
(MART/AZR PROJECT CONTRACT NO 391-0489-C-00-5042-00): A PROJECT  
OF THE INTERNATIONAL CENTER FOR AGRICULTURAL RESEARCH IN THE DRY  
AREAS (ICARDA)

PROJECT NAME: - MART/AZR

FINAL REPORT



AGENCY-CONTRACTED AUDIT OF THE MANAGEMENT OF AGRICULTURAL  
RESEARCH AND TECHNOLOGY PROJECT MANAGED BY ICARDA IN CONJUNCTION  
WITH THE ARID ZONE RESEARCH INSTITUTE (MART/AZR PROJECT CONTRACT  
NO 391-0489-C-00-5042-00)

	<u>TABLE OF CONTENTS</u>	<u>Page No</u>
1	INTRODUCTION	1
	1.1 Background	1
	1.2 Audit Objectives and Scope	1
	1.3 Brief Summary of Audit Results	4
	1.4 Summary of Management Comments	5
2	FUND ACCOUNTABILITY STATEMENT	7
	2.1 Independent Auditor's Report	7
	2.2 Fund Accountability Statement	9
	2.3 Findings and Recommendations - General	9
	2.4 Findings and Recommendations - Direct Costs 1989	10
	2.5 Findings and Recommendations - Overhead 1989	14
	2.6 Findings and Recommendations - Equipment 1985 - 1986	17
	2.7 Findings and Recommendations - Receipts	18
3	INTERNAL CONTROL STRUCTURE	19
	3.1 Independent Auditor's Report	19
	3.2 Introduction	22
	3.3 Findings and Recommendations	22
4	COMPLIANCE WITH CONTRACT PROVISIONS AND APPLICABLE LAWS AND REGULATIONS	26
	4.1 Independent Auditor's Report	26
	4.2 Introduction	28
	4.3 Finding and Recommendations	28
5	FINANCIAL MANAGEMENT CAPABILITY	32
	5.1 Finding - Job Descriptions	32

EXHIBITS

<u>EXHIBITS NO</u>	<u>TITLE</u>
1	LIST OF REPORT RECOMMENDATIONS
2	FUND ACCOUNTABILITY STATEMENT
3	SAMPLE PROFILE
4	AUDIT RESULTS SUMMARY
5	SUMMARY OF EXPENDITURE - 1989
6	SUMMARY OF NON-EXPENDABLES - 1985-89
7	APPLICATION OF INDIRECT COSTS/OVERHEAD RATE TO THE MART/AZR PROJECT
8	INDIRECT COST/OVERHEAD RATE CALCULATION
9	ANALYSIS OF INELIGIBLE AND UNSUPPORTED COSTS
10	RECONCILIATION OF BILLINGS TO PROJECT GENERAL LEDGER

APPENDICES

<u>APPENDIX NO</u>	<u>TITLE</u>
I	ICARDA's MANAGEMENT COMMENTS
II	USAID/ PAKISTAN MISSION COMMENTS

GLOSSARY

AZRI	ARID ZONE RESEARCH INSTITUTE
ICARDA	INTERNATIONAL CENTER FOR AGRICULTURAL RESEARCH IN THE DRY AREAS
MART	MANAGEMENT OF AGRICULTURAL RESEARCH & TECHNOLOGY PROJECT
PARC	PAKISTAN AGRICULTURAL RESEARCH COUNCIL
REDSO/ESA	REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE FOR EAST AND SOUTHERN AFRICA
RIG/A/N	REGIONAL INSPECTOR GENERAL/AUDIT/NAIROBI



The principal audit steps performed included:

- . a review of the terms and conditions of the contract, the applicable standard provisions and regulations, and other project documents as necessary
- . a review of the accounting systems and internal control structure in order to assess the overall strength of the system and its ability to enable compliance with contract clauses and provisions
- . performance of detailed audit tests to:
  - evaluate the auditee's actual compliance with contract terms and applicable provisions
  - determine the adequacy of the accounting systems and internal controls
  - obtain reasonable assurance of detecting irregularities and illegal acts
- . a review of the elements of cost, both direct and indirect, to identify those categories of expenses or transactions that are sensitive or represent a significant risk of containing unallowable, unallocable or non-reimbursable expenses
- . review of the Management Letters of systems weakness submitted by the external auditors of ICARDA during the period
- . review of the bank account and reconciliation procedures to determine the adequacy of internal controls.

Pages 1 and 2 are Missing

1.3 BRIEF SUMMARY OF AUDIT RESULTS

1.3.1 Fund Accountability Statement

Our audit tests revealed only \$33,982 ineligible and no unsupported costs in direct expenditure billed in 1989 and non-expendables for 1984-1989. (See Exhibit 4 for details).

A number of adjustments were made to the calculation of the overhead rate. We have recommended overhead rates of 32.57% for on-campus and 22.28% for off-campus as compared to ICARDA's proposal rates of 32.85% on-campus and 25.07% for off-campus costs for 1989. These were all agreed with ICARDA prior to the completion of our field work. (See Exhibit 8).

1.3.2 Internal Control Structure

Our evaluation of the internal control structure identified certain reportable weaknesses which are described in the Independent Auditor's Report. (See Section 3.1).

The main area requiring improvement is the enforcement of ICARDA's internal control procedures by the off-campus field station.

1.3.3 Compliance with the Grants and Related Provisions

The material non-compliances observed were:

- . failure to obtain prior authorization for a budget variation
- . failure to comply with contractual regulations for competitive purchases where the value exceeds \$ 5,000.

We observed that all staff involved in accounting for the contract had substantially improved their knowledge of applicable USAID regulations since our previous visit in 1989. (See Section 4).

1.3.4 Financial Management Capabilities

Our initial review of the financial management capabilities of the project personnel indicated that job descriptions were insufficiently detailed. ICARDA, however forwarded to us a different version of job description after reading our draft report. The management explained that we had been given an old version which was not in operation. This new version was detailed per our draft report recommendations. Staff undertaking the key tasks have adequate capabilities but there may be too much reliance on the supervision provided by the Accounting Supervisor-General Ledger. (See Section 5).

1.4 SUMMARY OF MANAGEMENT COMMENTS AND OUR RESPONSE

We have reviewed ICARDA's management comments and attached them as Appendix 1. They are in agreement with our audit findings with an exception of two issues which are discussed below:

a) Equipment not exclusively for project use - 2.6.1

This is with respect to a refrigerator (\$ 714) originally requisitioned in 1988 for use in the rest house and visitors chairs (\$ 163) purchased in 1987.

According to ICARDA's response these two items are for the project's research work conducted outside research stations. We were not able to establish this in the course of our audit. There was contradicting information regarding the purpose of the refrigerator. Initial requisition stated that the refrigerator was for the rest house whereas later documentation indicated that it was for Laboratory use. With respect to the chairs, the documentation examined indicated that these were "visitors supplies". We still lack enough evidence to make us alter the finding.

b) Job Descriptions - 5.1

Initial job descriptions provided to us were vague with an exception of that of Director of Finance. In response to our draft audit report, ICARDA forwarded to us a different version of job descriptions which met our draft audit report recommendation No. 20. ICARDA's management explained that we had been given an old version of job descriptions which was not in operation. This earlier recommendation has now been removed.

ICARDA's management response has not caused us to alter our audit opinion/reports. The allowability of the two capital items discussed in (a) above should be resolved with USAID. The other comments which are in agreement with our audit findings are not repeated in this section.



We were subject to an external quality control review in July 1992 undertaken by a Price Waterhouse firm independent of our firm. We were not subject to a review by a non Price Waterhouse firm.

We have identified certain expenses that in our opinion, are ineligible under the Contract Agreement between ICARDA and the United States Agency for International Development. These costs have been identified in Exhibit 4.

In our opinion, except for the amounts described as ineligible, the Fund Accountability Statement examined by us, present fairly, in conformity with the basis of accounting described in Exhibit 2, the direct costs and indirect costs for 1989 and the expenditure on non-expendable equipment for 1985-89 of the MART/AZR project.

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. This report is intended solely for the use of ICARDA and the Agency for International Development, but this is not intended to limit the distribution of the report, if a matter of Public record.

August 23, 1992

*Price Waterhouse*

## 2.2 FUND ACCOUNTABILITY STATEMENT

The Fund Accountability Statement and accompanying Notes to the Statement are included as Exhibit 2.

## 2.3 FINDINGS AND RECOMMENDATIONS - GENERAL

### 2.3.1 Introduction

The revenue and expenditure included in the Fund Accountability Statement are based on the billing documents submitted to USAID on a quarterly basis. These billing statements were reconciled to the general ledger of the project which then formed the basis of the sample selection.

The accounting records of ICARDA are based at the Aleppo, Syria Headquarters, and these include ledgers relevant to the MART/AZR project. The field station in Quetta, Pakistan receives local currency funding directly from USAID into a Pakistan (Rupee) bank account. Copies of documentation supporting the material transactions are forwarded to ICARDA with accounting summaries of all transactions. A substantial proportion of the operating expenses of the MART/AZR project are authorized or paid from the Quetta Field Station and all the equipment is located there.

### 2.3.2 Sample Selection Criteria

The basis for our sample was the general ledger of the MART/AZR project. Our methodology was to trace from the billings to the ledgers and select a sample from the individual transactions making up the ledger balances. Any differences between the ledger balances and the billings have been questioned. The items were selected on a judgmental basis giving weight to high value transactions.

2.3.3 Summary Audit Results

Our audit results can be summarized as follows:

	Costs Claimed	Accepted	Ineligible	Unsupported
Direct Costs 1989 (Exhibit 3)	526,164	518,881	7,283	Nil
Equipment (Exhibit 6)	195,311	193,767	1,544	Nil
Indirect costs (Exhibit 2 & 7)	<u>669,245</u>	<u>644,090</u>	<u>25,155</u>	<u>Nil</u>
Totals	<u>1,390,720</u>	<u>1,356,738</u>	<u>33,982</u>	<u>Nil</u>

An additional \$32,874 (see Exhibit 4, page 2) of costs remain unbilled.

OVERHEAD

	Proposed	Recommended
On-Campus	32.85%	32.57%
Off-Campus	25.07%	22.28%

2.4 FINDINGS AND RECOMMENDATIONS - DIRECT COSTS 1989

2.4.1 Finding - Overspend on budget line item

The contract includes an itemized budget by line item and gives the contractor discretion to exceed the line item total by up to 15% before the prior approval of USAID is required. A modification to the grant created a new line item of "Research Operating Costs" with funding reallocated from other line items. This line item has exceeded its budget of \$149,278 by \$242,229 without the prior permission of USAID. However this is almost exactly equivalent to the underspend of \$242,011 on the "Equipment and Materials" line item.

ICARDA staff have explained that their accounting software structure requires that non-expendable equipment is posted to an account separate from expendables.

All expendable supplies were therefore posted to "Research Operating Costs" and not "Equipment and Materials". This explanation seems reasonable and is in line with normal accounting practice.

The transactions included in "Research Operating Costs" have been audited and would have been allowable costs if classified as "Materials". During the course of the fieldwork, USAID/Islamabad were informed of this matter arising and of the intention to perform full audit testing on the assumption that a formal modification would be granted to the line item budgets. They accepted this approach and consequently this amount has not been included in ineligible costs.

#### Recommendation No 1

ICARDA should obtain formal retrospective approval from USAID to reallocate the budget from "Equipment and Materials" to "Research Operating Costs".

#### 2.4.2 Finding - Summary of billings to USAID

Invoice number 25 summarizes all the quarterly billings sent to USAID up to and including Invoice 24. We have been unable to agree this to our own calculation of the totals billed under each line item. A detailed reconciliation of 1989 billings show that the differences mainly result from the rupee element of the invoices. The total difference for 1985-1989 amounts to \$13,990 for direct costs and equipment and is probably a result of changes made directly to the cumulative totals shown on the billings or to mathematical error. Our summary schedule (Exhibit 4 Page 2) of total expenditures has used the summary generated by Price Waterhouse from the original billing documents.

#### Recommendation No 2

ICARDA should develop a method of accumulating amounts billed against each USAID contract or grant to enable a continuous appraisal of total expenditure against budget. This is ideally suitable for a spreadsheet application.

2.4.3 Finding - Reconciliation of Billings to the Project General Ledger

Our field work showed that there were differences in all the project years between the amounts billed and the general ledger balances. There were two main causes for this:

- . the account code structure of the general ledger requires manual re-analysis of certain account codes to determine the correct split of expenditure to match the line item descriptions. This is a laborious process and is susceptible to error
- . differences in the rupee costs incurred where a timing delay may exist between the billing to USAID and the posting of the general ledger.

Our summary (Exhibit 4 Page 2) shows the under or over billings arising from this comparison of the Billing Statements submitted to USAID and the ledger balances. The effect for 1989 direct costs is an underbilling of \$6,815 and the net effect for 1985-1989 is an underbilling of \$32,874. This has been treated as a negative ineligible cost in the summary shown in Exhibit 4 Page 1 but no adjustments have been made to the overhead calculations pending resolution of the treatment of this finding between ICARDA and USAID.

Recommendation No 3

We recommend that ICARDA reconcile the Billing Statements submitted to USAID on an annual basis. And where possible, the budgets agreed for new contracts or grants with USAID should be split by line items following ICARDA's account coding structure since this will minimize the need for manual re-analysis. ICARDA should obtain the agreement of USAID as to the treatment of underbilled costs.

2.4.4 Finding - treatment of provisions and allocable credits - Sub-contractors

Invoices 39-41 from the subcontract with Colorado State University included items amounting to \$6,216.89 where payments were withheld by ICARDA pending resolution of queries with the sub-contractor. The gross amount payable was charged to the project ledger. In December 1990, this credit was eventually transferred to Miscellaneous Revenue and was not netted off against project expenditure as an applicable credit.

Towards the end of the sub-contract, a provision of \$8,515.69 against expected sub-contract costs was charged to the project. Invoice 48 was later received from the sub-contractor amounting to \$7,449.33. The balance of the provision of \$1,066.36 was transferred to miscellaneous revenue and not netted off against project costs.

These items amount to \$7,283 and have been treated as ineligible costs.

#### Recommendation No 4

ICARDA currently has no formal mechanism for ensuring that allocable credits are offset against amounts billed to USAID.

For the period under review, the low volume of transactions posted to miscellaneous income account would allow a manual analysis as probably the most practical and efficient method of identification. ICARDA staff should include this analysis as part of the annual reconciliation of the billings to the general ledger and ensure that the system is reviewed should volume changes occur.

Contingencies are not an allowable cost to USAID contracts or grants. ICARDA should strengthen its training/awareness on unallowable costs.

#### 2.4.5 Finding - Mis-coding of non-expendable equipment

Included in "Research Operating costs" for June 1989 is \$1,406 for two computer hard disks and related costs (Quetta voucher numbers 7410 and 7436). These should have been treated as capital items and included in the "Equipment and Materials" line item.

This has been included as ineligible cost under "Research Operating Costs" and a negative cost under "Equipment and Materials".

2.5 FINDINGS AND RECOMMENDATIONS - OVERHEAD 1989

2.5.1 Finding- Adjustments to the Overhead calculations.

The basic methodology of computing the allowable overhead cost was established between Price Waterhouse, ICARDA and USAID during the previous audit.

The fieldwork this time showed a considerable increase in the awareness of ICARDA's staff of the applicable USAID regulations and their impact on the overhead allocation.

Our adjustments to the overhead calculations concern expenses disallowed by Federal Acquisition Regulation 31.205 and are discussed in detail below.

Recommendation No 5

We recommend that the following elements of the overhead expense are disallowed or otherwise adjusted. The items listed below are restricted to those where the quantification of the disallowable cost differs from that shown in Exhibit 8, Page 3 of 3.

Discussion

The following detailed explanations are keyed to the recommended indirect overhead schedule, Exhibit 8, Page 1 of 3.

Key

- a) FAR 31.205 disallows the inclusion of capital expenditure in the calculation of overhead rates. ICARDA have already excluded these from the base and this adjustment ensures that they are also excluded from the overhead pool.
- b) Costs identified as unallowable under Federal Acquisition Regulations relate only to their reimbursement from USAID as either direct costs or as part of a pool of costs recharged as overhead. This means that unallowable costs cannot be excluded as part of the overhead base over which the pool of allowable costs is spread. Thus unallowable costs in the programs forming the overhead base must bear their prorata portion of overhead costs. The excess of salaries over the FS-1 cap and entertainment costs have therefore been added back to the overhead base.

- c) The overhead allocation base must exclude overhead costs already charged to ICARDA clients. We have reduced the base to eliminate overhead charges posted in the ledgers
- d) The ICARDA school is a private educational institution created to provide quality education to the dependents of ICARDA professional staff employees, primarily expatriates who are located at Aleppo.

In previous years the total cost of the school was disallowed because of the element of charitable contribution inherent in the subsidized fees paid by non-ICARDA pupils.

For 1989, ICARDA has provided sufficient information to allow the analysis and separation of costs between ICARDA students and others. The disallowed costs relate to the net operating costs for non-ICARDA students.

- e) Invoice 25 included non-expendable costs in the overhead application schedule for 1985-89. ICARDA did not include these expenses in the overhead allocation bases for those years. These costs have been included in the base in 1989, the year title was transferred. This means that non-expendable items will bear attributable overhead in the final year of the project. The total non-expendables billed to USAID, less the ineligible amounts (\$195,173), have been included in the overhead calculation of 1989 and the overhead application for 1989. See Exhibit 6 for the breakdown of non-expendable costs billed to USAID and the ineligible costs.
- f) The increase in the disallowed entertainment costs of \$1,818 represents the entertainment undertaken by the ICARDA school. This has been separately deducted to enable the apportionment of the remaining allowable school costs between ICARDA and non-ICARDA elements as outlined in paragraph d) above. Entertainment costs are disallowed in accordance with FAR 31.205-14 and FAR 31.205-51.

- g) In 1989, ICARDA began purchasing 50% of its Syrian Pound requirement at the "encouragement" exchange rate permitted by a circular issued by the Central Bank of Syria in the latter part of 1988. The encouragement rate was 20.00 compared to the official rate of 11.2, which gave ICARDA an effective rate of 15.6 for all its Syrian purchases. However during 1989, ICARDA continued to use the official rate for posting expenses to the ledgers, accumulating the resulting gain on exchange in a separate account. This gain is therefore an allocable credit.

The effect of ICARDA's treatment of the direct costs of the MART/AZR project is negligible since project expenditures are almost entirely in dollars or Pakistani Rupees. However it does affect the costs included in the overhead pool and base.

The exchange gain has been apportioned between the overhead pool and the overhead base on the basis of expendable costs incurred in those categories before deduction of any disallowable costs. This results in a credit of \$482,794 in the pool and \$1,516,354 in the base.

The split between On-Campus and Off-Campus of the exchange gain for the overhead base was obtained by analyzing the geographical locations of the projects and identifying the Syrian Pound cost elements of the On and Off-Campus costs.

- h) Our analysis of the miscellaneous income account showed a recharge of \$3,486 to the University of Saskatchewan for the use of Guest House and Medical Facilities by M Schultz. This is an applicable credit which has been offset against the overhead pool costs.
- i) ICARDA's initial deduction for unallowable travel was determined on a percentage basis of total travel costs. Our detailed fieldwork showed that this estimate was understated and an actual figure has been substituted. Unallowable travel is defined by FAR 31.205-46 and includes the excess costs arising from first class travel over coach or standard airfare except in specific circumstances.

2.6 FINDINGS AND RECOMMENDATIONS - EQUIPMENT 1985-1989

2.6.1 Finding- Equipment not exclusively for project use

Under AIDAR 752.245-70 non-expendable property purchased under the contract remains United States Government property until transferred to the co-operating government and must be used exclusively for the purposes of the project. Our testing highlighted two items of capital equipment which would not appear to be for the exclusive use of the project. These are a refrigerator (\$714) originally requisitioned in 1988 for use in the rest house and visitors chairs (\$163) purchased in 1987. These costs have been treated as ineligible costs. See Exhibit 9.

Recommendation No 6

ICARDA should resolve the allowability of these items of capital equipment with USAID.

2.6.2 Finding - Applicable credit

A prepayment was made for a purchase from Forestry Supplies Inc in 1986 of \$6,114. A refund cheque for \$666.91 was received in January 1987. We were unable to trace the credit to ensure that it was offset against the original costs billed to USAID. The \$667 has therefore been treated as ineligible cost.

Recommendation No 7

If ICARDA believes that further substantiation of this minor amount is available, it should trace the accounting transactions from JV 08011 in March 1988 to show that the credit was offset against later billings to USAID.

2.6.3 Finding - Mis-coding of non-expendable equipment

As already outlined above under direct costs-1989, two computer hard disks and related costs amounting to \$1,406 were included in "Research Operating costs". These should have been treated as capital items and included in the "Equipment and Materials" line item. This has been included as a ineligible cost under "Research and Operating Costs" and a negative cost under "Equipment and Materials".

2.7 FINDINGS AND RECOMMENDATIONS - RECEIPTS

2.7.1 Finding - Receipts: treatment of Rupee Balance in Pakistan

In December 1989, after the end of the contract under review, USAID paid Pakistan Rupees (PAK.R) 500,000 into the account in Quetta, Pakistan. ICARDA have frozen this amount pending clarification of its purpose since the grant which continues this project is based in US Dollars and the exchange control regulations of Pakistan mean that this amount is now blocked in rupees. In Invoice 25, US\$23,485 has been excluded in the Fund Accountability Statements from the total of the amount received from USAID under this contract. The valuation of the PKR 500,000 at US\$23,485 is based on the exchange rate at the date of receipt and we estimate that this money is currently worth only US\$17,241 at the exchange rate of May 1992, PKR 29-US\$ 1.

Recommendation No 8

ICARDA should negotiate with USAID/Pakistan to reach an agreement as to the use and treatment of this money since its worth is rapidly decreasing.

## *Price Waterhouse*



### 3 INTERNAL CONTROL STRUCTURE

#### 3.1 INDEPENDENT AUDITOR'S REPORT

We have audited the following elements of the Fund Accountability Statement for the MART/AZR project managed by the International Center for Agricultural Research In Dry Areas (ICARDA) Project number 391-0489:

- . the Fund Accountability Statement for the 11 Months to 30 November 1989
- . the Indirect costs/Overhead Calculation, 1989
- . the Equipment costs for 1985-1989.

Our report was dated August 23, 1992.

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

In planning and performing our audit of the Fund Accountability Statements we considered ICARDA's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

ICARDA is responsible for establishing and maintaining an internal control structure for the MART/AZR project. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with generally accepted accounting principles. Because of the inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

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Also, projection of any evaluation of the structure to future periods is subject to risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures as they relate to the MART/AZR project under three categories, control environment, accounting system and control procedures.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was observed:

- non-compliance with ICARDA's policies in Quetta including positive action by management, such as the sub-division of procurements, to avoid the application of certain internal controls.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts would be material in relation to the financial statements being audited. And that they may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Material weaknesses in internal control includes the lack of a system to ensure compliance with the grants and the inability to ensure that billings include only allocable and allowable costs and are accurately and consistently extracted from the ledger.



Our study and evaluation disclosed no conditions in the system of internal control structure at ICARDA as it relates to the MART/AZR project in effect at August 23, 1992, which, in our opinion, could result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the consolidated financial statement may occur and not be detected within a timely period.

We noted other matters involving the internal control structure and its operation that we have reported in section 3.3 of the following report. Certain other minor matters involving the internal control structure and its operation have been communicated to ICARDA in a separate letter.

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. This report is intended solely for the use of ICARDA and the Agency for International Development, but this is not intended to limit the distribution of the report, if a matter of Public record.

August 23, 1992

*Price Waterhouse*



## 3.2 INTRODUCTION

### 3.2.1 Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- . the control environment
- . the accounting system
- . control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

In section 3.3 below, we have classified our findings and recommendations by these three elements of the auditee's internal control structure.

## 3.3 FINDINGS AND RECOMMENDATIONS

### CONTROL ENVIRONMENT

#### 3.3.1 Finding - Compliance with ICARDA's Policies in Quetta

Our review of the Quetta operations revealed the following weaknesses:

- . instances where ICARDA's policies on requisitions, approvals and obtaining quotations were not complied with
- . lack of consistency in applying ICARDA's policy on the minimum amount capitalised. This had no impact on the current contract because the relevant items would be allowable either as equipment or materials

failure by chief of party, ICARDA to approve payment vouchers and bank reconciliations. These are prepared and approved by the Financial Administrator.

Recommendation No 9

ICARDA should review the systems currently operating in Quetta, revise policy limits where appropriate and satisfy themselves that their policies are being complied with.

ICARDA should consider requesting its internal audit staff to perform an internal control review in Quetta, Pakistan.

3.3.2 Finding - Invoice splitting

Our testing highlighted invoices from Quetta which showed evidence that what were effectively single transactions had been sub-divided and separate invoices obtained to avoid ICARDA's internal control policy that payments greater than \$1,000 required approval from Aleppo. For example, a request for 5000 feet of wire mesh was invoiced by the same supplier in three separate lots over a three week period. Where internal controls exist and are seen to be actively avoided by senior personnel, there is a danger that the control environment will be substantially weakened and the operation of other controls undermined.

Recommendation No 10

ICARDA should ensure that its policies and internal control procedures are reviewed for practicality and risk and once determined, are strictly enforced.

ACCOUNTING SYSTEM

3.3.3 Observation - Fixed Asset Register

No formal register of non-expendable equipment was maintained for the MART/AZR project. An informal manual listing of all assets on the project was prepared in 1988 by staff on site, which if correct, shows that not all the assets acquired were billed to USAID. Our fieldwork was based on those items posted to the separate general ledger account No 383 which accumulated non-expendable items for all the projects. This therefore required manual analysis to isolate the items applicable to the MART/AZR project.

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In addition, a physical verification of non expendables at Quetta established that fixed assets have no tag numbers. This makes it difficult to verify the individual items.

Since 1989, considerable efforts to develop a fixed asset register have been made and the main internal control recommendations which would have arisen from this finding have been superceded.

3.3.4 Finding - Extraction of Billing Statements from the Project Ledger

The majority of items billed to USAID are directly extracted from the general ledger for the project. However four line items, Salaries, Home and Field offices, Allowances and Fringe Benefits are derived from a split and re-allocation of four account codes. These have not been reconciled to the billings on a regular basis and are the major cause of the differences between the ledgers and the billing statements.

Recommendation No 11

Wherever possible, proposals for new contracts and grants with donor agencies should be structured to enable easy extraction of costs from the existing accounting structure. Where this is not the case, a formal reconciliation should be done for each billing statement or as a minimum, on an annual basis.

3.3.5 Finding - Coding of Transactions in the Ledger

A few instances of miscoding were noticed which had the following effects:

- . equipment was coded as operating costs (see Exhibit 9)
- . supplementary costs relating to the acquisition of non-expendables were not accumulated with the main cost of the item purchased.

These appeared to be fairly isolated instances but the weakness may become more important where new grant or contracts have separate line items for expendables and non-expendables.

Recommendation No 12

A review of the current account coding systems should be undertaken by ICARDA to satisfy themselves that current procedures are reliable. ICARDA's establishment of a formal fixed asset register will already have improved controls over accounting for non-expendable items.

## CONTROL PROCEDURES

### 3.3.6 Finding - Amendments to Purchase Orders

Purchase orders are initiated by the user department and processed by the purchasing and supplies department (P.S.D.). We found instances of purchase orders from both Quetta and the head office where amendments were approved directly by P.S.D without obtaining the approval of the requisitioner. While no irregularities came to our attention, this weakness is open to abuse.

#### Recommendation No 13

We recommend that ICARDA should ensure that all purchase order amendments are approved by the user approving the initial order.

## *Price Waterhouse*



#### 4 COMPLIANCE WITH CONTRACT PROVISIONS AND APPLICABLE LAWS AND REGULATIONS

##### 4.1 INDEPENDENT AUDITOR'S REPORT

We have audited the following elements of the Fund Accountability Statement for the MART/AZR project managed by the International Center for Agricultural Research In Dry Areas (ICARDA) Project number 391-0489:

- . the Fund Accountability Statement for the 11 months to 30 November 1989
- . the Indirect costs/Overhead Calculation, 1989
- . the Equipment costs for 1985-1989.

Our report was dated August 23, 1992

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

Compliance with laws, regulations, and contract provisions applicable to the MART/AZR project is the responsibility of ICARDA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ICARDA's compliance with certain provisions of the laws, regulations and contracts. However our objective was not to provide an opinion on overall compliance with such provisions.

Material instances on noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, or contracts, that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the financial statements.

The results of our tests of compliance disclosed the following material instances of noncompliance:

- . failure to obtain prior authorisation of the budget line variation between "Equipment and Materials' and "Research Operating costs"



- . failure to comply with contractual requirements for competitive purchases when the value exceeds \$5,000.

We considered these material instances of noncompliance in forming our opinion on whether the MART/AZR financial statements are presented fairly, in all material aspects, and this report does not affect our report dated August 23, 1992 on those statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, ICARDA complied, in all material respects, with the provisions referred to in the third paragraph of this report and with respect to items not tested, nothing came to our attention that caused us to believe that ICARDA had not complied, in all material respects with those provisions.

Other minor matters of non-compliance were noted and are included in subsequent pages.

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. This report is intended solely for the use of ICARDA and the Agency for International Development but this is not intended to limit the distribution of the report, if a matter of Public record.

August 23, 1992.

*Price Waterhouse*

#### 4.2 INTRODUCTION

USAID requires all contractors, regardless of the country or legal entity, to comply with the terms and conditions included in the contract, attached provisions and references procurement regulations. In general, such compliance cannot be waived by a Mission or by USAID/Washington.

Steps performed in this audit to test compliance with the contract and related provisions included:

- . a review of the contract provisions and related regulations to identify those provisions and regulations which could have a material effect on the financial statements
- . audit procedures including detailed testing to evaluate ICARDA's compliance with these provisions and regulations.

#### 4.3 FINDING AND RECOMMENDATIONS

##### 4.3.1 Finding - Segregation of unallowable costs by the accounting system

The account code structure at ICARDA does not allow the segregation of categories of cost not allowable for reimbursement from USAID, for example first class travel expenses. A manual analysis of these unallowable expenses is not undertaken on a regular basis.

##### Recommendation No 14

Wherever possible, the account code structure should enable the unallowable costs to be identified on a contemporaneous basis since manual analysis is both time-consuming and prone to error. Where manual analysis is thought to be the most efficient system, it should be done at least annually, methodically, and prior to the submission of the last invoice for the budget period.

##### 4.3.2 Finding - "Commitment" accounting basis

The Fund Accountability Statements are prepared from the general ledger which is maintained using the accrual basis of accounting except as it applies to outstanding purchase orders. These purchase orders are posted as soon as the order is placed and therefore an accrual arises prior to the delivery of the goods or services ordered.

This does not comply with the provisions of the contract which allows costs to be accrued and billed provided the work reflected by the costs has been performed (Contract page I22).

This had no monetary impact on our audit of the direct costs for 1989; since no commitments had been placed because it was the final year of the contract. It affects the costs included in the computation of the overhead rate but this has been accepted for the following reasons:

- . any commitments are estimated to be immaterial in relation to total costs
- . overhead allocations are required to be "reasonable" and this accounting policy may be considered reasonable since it is currently applied by all CGIAR institutions and affects all donors not just USAID.

However, since most USAID grants and contracts contain requirements similar to the contract under review, this represents a potential issue for future funding received.

#### Recommendation No 15

ICARDA should discuss this accounting policy with USAID and either revise it or obtain contract/grant variations stating its acceptability to USAID.

#### 4.3.3 Finding - Treatment of allocable credits

During 1989 ICARDA had two accounts recording credits which should have been offset against the related project expenses. These were the miscellaneous revenue account and the exchange rate differences arising from the difference between the rate used for ledger posting and the effective exchange rate. The ICARDA accounting treatment results in expenses being overstated in the billing statements. This has been adjusted for in our recommended audit revisions to the Fund Accountability Statements.

#### Recommendation No 16

Applicable credits should be identified and offset in both the direct costs and the overhead calculations. This should be done at least annually prior to the final billing statement for the budget period.

#### 4.3.4 Finding - Staff activity reports or timesheets

Salaries and Wages costs charged to a contract or grant should be supported by activity reports maintained by all staff (professional and non-professional). These reports must be prepared at least monthly and reflect the "after-the-fact" determination of the total time of each employee allocated to specific activities.

A responsible official should sign each activity report to evidence agreement that the distribution of activity represents a reasonable estimate of the actual work done by the employee. ICARDA does not maintain records of activity or time usage of staff.

The current practice of allocating labor costs to projects on the basis of annual staff assignments does not generate sufficiently accurate and reliable job cost records. This deficiency did not have a major impact on the MART/AZR project since its physical location in Quetta, Pakistan where no other project exists, means that staff are full time. However the weakness is a factor in the staff costs of staff located at Aleppo where there are multiple projects and staff resources may be diverted to other activities as the need arises.

We did not feel that this weakness resulted in quantifiable questioned costs since adjustments in addition to ICARDA's exclusion of the salary of the Deputy Director General and specific assignments undertaken by other staff had already been made.

#### Recommendation No 17

ICARDA needs to develop a system to record the time and activity of its staff. In addition to ensuring compliance with USAID regulations, this will assist both in ICARDA's internal management and planning and also provide a sound basis for the allocation of overheads and other common costs.

#### 4.3.5 Finding - Invoice Splitting

Our audit testing highlighted that the management of the project in Quetta encouraged the practice of sub-dividing orders to avoid the application of authorization requirements imposed by ICARDA's headquarters in Aleppo and by USAID/Pakistan. This has also been discussed in the report on internal control weaknesses.

Our testing found evidence that certain procurements may have been intentionally sub-divided and separate invoices provided. However, when totalled, none of the suspect purchases exceeded limits imposed by the contract agreement. We understand that other limitations may have been imposed by USAID/Pakistan on the project in Quetta which were not specifically stated in the contract. We are not aware of any formal amendments to the contract terms made by USAID on the subject of internal controls or authorizations.

We have not questioned any costs relating to this practice as the two instances where we observed potential violations did not in fact exceed the threshold for the USAID procurement clause.

**Recommendation No 18**

We strongly recommend that ICARDA should ensure that all operations outside Aleppo fully comply with the internal controls imposed by themselves and USAID. USAID offices should issue formal contract amendments where they wish to add internal controls to those required by the contract.

**4.3.6 Finding - Approval of Consultants' Contract**

During our review of Consultants' contracts in Quetta, we found that one contract (with Dr Castillo) was not approved by USAID/ Islamabad. This contract was approved by the project secretary (MART) Islamabad, Mr M Manzoor Ali.

**Recommendation No 19**

All consultants' contracts should be approved by USAID/ Islamabad.

5            FINANCIAL MANAGEMENT CAPABILITY

5.1        FINDING - JOB DESCRIPTIONS

Our review encompassed the following positions within ICARDA's finance department:

- .     Director of Finance
- .     Supervisor - General Ledger
- .     Accountant - MART/AZR project
- .     Supervisor - Treasury
- .     Supervisor - Budgets and Donor reporting.

Initial job descriptions provided to us other than that of the Director of Finance were very vague. They did not include a specific duty to ensure that internal controls are adequate and operating effectively.

In response to our draft audit report, ICARDA forwarded a revised version of job descriptions which were per our draft report recommendation No 20. This recommendation which has now been removed stated that job descriptions should include:

- .     a statement of the principal purpose of the job
- .     the reporting relationships
- .     the main area of responsibilities including staff supervised and other resources controlled
- .     key areas of the job and the activities involved in achieving each key area
- .     specialist knowledge required - qualifications/training/experience
- .     problems and decisions to be resolved or taken by the job holder
- .     responsibility for communications both within the organisation and outside it
- .     working conditions accepted by the job holder (location, hours, travel).

5.1.1 Observation - Job Holder Qualifications

As mentioned in 5.1, most of the job descriptions reviewed by us in the course of the audit provided insufficient detail to assess the ability of the hired personnel to perform the job descriptions. However all detailed accounting functions fall under the direct supervision of the Supervisor - General Ledger who is a Chartered Accountant with considerable practical experience. So while some other job holders do not have formal accounting qualifications, the combination of their practical job experience and the supervision provided, appears to be sufficient to enable the proper management and accounting of USAID funds.

Since our last audit in 1989 there has been significant improvement in ICARDA's awareness of USAID regulations and their implementation of them in the project accounting records. This is a further demonstration of the soundness of the staff abilities and organisational structure.

As ICARDA continues to operate in Quetta under USAID, grant clauses (as opposed to contract clauses) will apply. ICARDA is aware of this and is taking appropriate action.

LIST OF REPORT RECOMMENDATIONS

<u>REC NO</u>	<u>PAGE REF</u>	<u>RECOMMENDATION</u>
1	11	Formal approval for budget line amendment
2	11	Method to ensure correct cumulative on the billing statements
3	12	Annual reconciliation of billings to the ledger
4	13	Offset of allocable credits
5	14	Disallowed expenses in overhead
6	17	Questioned non-expendables
7	17	Applicable credit - show correctly offset against costs
8	18	Treatment of rupee funds in Quetta
9	23	Review compliance with policies in Quetta
10	23	Review authorisation limits in Quetta and enforce internal controls
11	24	Minimise manual re-analysis of ledger codes or reconcile to billings regularly
12	24	Review accuracy of account coding procedures
13	25	Ensure approval of purchase order amendments
14	28	Segregate unallowable costs or analyse regularly
15	29	Discuss commitment accounting basis with USAID
16	29	Identify and offset applicable credits
17	30	Develop time record system
18	31	Enforce internal controls in field locations
19	31	Obtain USAID approval of Consultants' contracts



FUND ACCOUNTABILITY STATEMENT  
MART/AZR PROJECT, ICARDA.  
INVOICE 25

	<u>CONTRACT</u> <u>BUDGET AMOUNT</u>	<u>CONTRACT</u> <u>EXPENDITURE</u>
	\$	\$
Salaries and Wages	919,758	584,698
Indirect costs	464,872	669,245
Consultant Fees	247,467	149,598
Allowances	335,556	96,067
Fringe Benefits	143,084	86,819
Travel and Transport	581,456	235,871
Equipment and Materials	438,903	196,892
Participant costs	567,083	162,214
Other Direct costs	79,276	84,005
Sub-contract	540,846	522,137
Research Operating costs	149,278	391,507
GRAND TOTAL	<u>4,467,579</u>	<u>3,179,053</u>

FUND ACCOUNTABILITY STATEMENT  
MART/AZR PROJECT, ICARDA.  
INVOICE 25

	<u>BILLED TO</u> <u>INVOICE 24</u>	<u>ADJUSTMENTS</u> <u>INVOICE 25</u>	<u>CONTRACT</u> <u>EXPENDITUR</u>
	<u>§</u>	<u>§</u>	<u>§</u>
Salaries and Wages	694,114	(109,416)	584,698
Indirect costs	422,362	246,883	669,245
Consultant Fees	149,598		149,598
Allowances	96,067		96,067
Fringe Benefits	86,819		86,819
Travel and Transport	235,871		235,871
Equipment and Materials	196,892		196,892
Participant costs	162,214		162,214
Other Direct costs	84,005		84,005
Sub-contract	522,137		522,137
Research Operating costs	391,507		391,507
	<u>          </u>	<u>          </u>	<u>          </u>
GRAND TOTAL	<u>3,041,586</u>	<u>137,467</u>	<u>3,179,053</u>
less Amount Received			(2,650,946)
			<u>          </u>
OUTSTANDING BALANCE			<u>528,107</u>

NOTES TO THE  
FUND ACCOUNTABILITY STATEMENT

- 1 The Fund Accountability Statement has been prepared by ICARDA using a comprehensive basis of accounting other than GAAP. It has been prepared on an accrual basis of accounting except as it applies to outstanding purchase orders. These purchase orders are treated as expenditure in the year in which they were issued.

For direct costs, this basis has no financial impact on the total expenditure incurred under the contract.

Costs included in the overhead calculations will include commitments for services and goods not received during the year, but their impact on the overhead rate derived is immaterial.

Equipment has been treated as a direct expense (for the purposes of the indirect cost allocation only) in the year in which title was transferred from ICARDA.



1	SAMPLE PROFILE 1989 DIRECT COST	
		\$
	TOTAL COSTS BILLED FOR 1989	768,396
	INDIRECT COSTS BILLED FOR 1989	222,577
	TOTAL DIRECT COSTS BILLED FOR 1989 (Note 1)	<u>545,819</u>
	1989 DIRECT COSTS TESTED	308,379
	INELIGIBLE AMOUNT	<u>7,283</u>
2	1985 EQUIPMENT COSTS	
	TOTAL NON-EXPENDABLE COSTS 1985-1989	196,892
	AMOUNT TESTED	179,324
	INELIGIBLE AMOUNT	<u>1,544</u>

## Note 1

Amount billed was \$545,819. However, an amount of \$19,655 was reclassified as indirect costs, leaving a balance of \$526,164.



AUDIT RESULTS

		\$
CUMULATIVE COSTS BILLED PER ICARDA (EXHIBIT 2)		3,179,053
UNDERSTATEMENT OF AMOUNT BILLED: SEE EXHIBIT 4 PAGE 2		
Total billed per P.W.	2,633,214	
Total billed per ICARDA	<u>2,619,224</u>	13,990
INELIGIBLE INDIRECT COSTS/OVERHEAD		
Recommended	644,090	
Billed (Exhibit 2 page 2)	<u>669,245</u>	(25,155)
1989 INELIGIBLE DIRECT COSTS (EXHIBIT 9)		( 7,283)
INELIGIBLE EQUIPMENT COSTS (EXHIBIT 9)		( 1,544)
TOTALS		<u>33,982</u>
AMOUNT RECOMMENDED FOR ACCEPTANCE		<u>3,159,061</u>

An additional \$32,874 (Exhibit 4 Page 2) of costs remain unbilled.

**ICARDA MART/AZR PROJECT  
AUDIT RESULTS SUMMARY: INVOICES 1-24**

	1985	1986	1987	1988	1989	TOTAL
<b>CLIENT SUMMARY OF BILLINGS</b>						
Total Billed	127,543	642,286	846,990	744,692	680,075	3,041,586
Less overhead	(19,264)	(88,063)	(108,851)	(68,735)	(137,449)	(422,362)
Total Direct costs & Equipment	108,279	554,223	738,139	675,957	542,626	2,619,224
<b>PRICE WATERHOUSE SUMMARY OF BILLINGS.</b>						
Total Billed	127,537	645,768	850,572	747,887	768,396	3,140,160
Less overhead	(19,264)	(87,301)	(109,069)	(68,735)	(222,577)	(506,946)
Total Direct costs & Equipment	108,273	558,467	741,503	679,152	545,819	2,633,214
<b>INELIGIBLE COSTS</b>						
Direct & Equipment - 1989	0	0	0	0	(7,283)	(7,283)
Direct costs 1985/88 (DDG)	(11,046)	(30,533)	(23,315)	(24,867)	(19,655)	(109,416)
Equipment Costs - 1985/88	0	(667)	(163)	(714)	0	(1,544)
	(11,046)	(31,200)	(23,478)	(25,581)	(26,938)	(118,243)
Accepted costs before overhead over/under billing	97,227	527,267	718,025	653,571	518,881	2,514,971
<b>OVERHEAD APPLICATION</b>	23,724	126,962	168,476	164,116	160,812	644,090
<b>ACCEPTED COSTS</b>	120,951	654,229	886,501	817,687	679,693	3,159,061
(Over)/under billing comparing Billings to General Ledger (See Exhibit 10)	(19,116)	36,047	21,172	(12,044)	6,815	32,874

**ICARDA MART/AZR PROJECT  
SUMMARY OF EXPENDITURES 1989**

YEAR	Billings Summary Per Inv 25	Error Corr- ection	Billings Summary Per PW	Other Ineligible Costs	Ref	Accepted Billings	(Over)/Under Billed Per Gen Ledger	Accepted
<b>DIRECT COSTS &amp; OVERHEADS</b>								
SALARIES-HOME	38,244	1	38,243	(19,655)	(a)	18,588		18,588
SALARIES-FIELD	101,994	(528)	102,522			102,522	8,590	111,112
CONSULTANTS FEES	38,015	(45)	38,060			38,060		38,060
ALLOWANCES	17,855	(1)	17,856			17,856		17,856
FRINGE	4,694	(1)	4,695			4,695		4,695
TRAVEL & TRANS	68,627	(549)	69,176			69,176	(47)	69,129
NON- EXPENDABLE	3,104	1	3,103	1,406	(b)	4,509		4,509
PARTICIPANT COSTS	49,512	(291)	49,803			49,803	(1,730)	48,073
OTHER DIRECT	27,027	251	26,776			26,776		26,776
SUB-CONTRACT	103,234	0	103,234	(7,283)	(c)	95,951		95,951
RESEARCH OP COSTS	90,320	(2,031)	92,351	(1,406)	(b)	90,945	2	90,947
<b>SUB-TOTAL</b>	<b>542,626</b>	<b>(3,193)</b>	<b>545,819</b>	<b>(26,938)</b>		<b>518,881</b>	<b>6,815</b>	<b>525,696</b>

<b>OVERHEADS</b>			
INDIRECT HOME	62,583	9,124	53,459
INDIRECT FIELD	74,866	(94,252)	169,118
<b>GRAND TOTAL</b>	<b>680,075</b>	<b>(88,321)</b>	<b>768,396</b>

Total costs - 1989	518,881
Less Equipment	(4,509)
<b>Transferred to Overhead Calculation</b>	<b>514,372</b>

**KEY**

- (a) Reclassification of Deputy D.G.'s salary as indirect (adjusted by ICARDA)
- (b) Reclassification of computer hardisk to non-expendable line
- (c) Partly provision disallowed and partly allocable credit



ICARDA MART/AZR PROJECT  
SUMMARY OF NON-EXPENDABLES

Year	1985	1986	1987	1988	1989	Total
Billed	0	68,819	112,967	10,422	3,103	195,311
Questioned Costs	0	(667)	(163)	(714)		(1,544)
<b>TOTAL ACCEPTED COSTS</b>	<b>0</b>	<b>68,152</b>	<b>112,804</b>	<b>9,708</b>	<b>3,103</b>	<b>193,767</b>

See Exhibit 9 for details of ineligible costs.

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**ICARDA/USAID: MART/AZR PROJECT  
APPLICATION OF INDIRECT COSTS/OVERHEAD RATE  
SUMMARY FOR 1985 - 1989  
FIGURES IN US \$**

	Total Project Operational Expenses	On Campus	Off Campus	Overhead On	Overhead Off	Total Overhead
<b>Year/Period</b>						
1985						
Direct costs	78,111	17,706	60,405			
Overhead rate		37.1%	28.4%	6,569	17,155	23,724
1986						
Direct costs	500,428	24,092	476,336			
Overhead rate		32.7%	25.0%	7,878	119,084	126,962
1987						
Direct costs	625,577	25,270	600,307			
Overhead rate		34.8%	26.6%	8,794	159,682	168,476
1988						
Direct costs	631,819	21,354	610,465			
Overhead rate		36.7%	25.6%	7,837	156,279	164,116
1989						
Direct costs	514,372	25,088	489,284			
Non-expendable equipment			195,173			
Sub-total	514,372	25,088	684,457			
Overhead rate		32.6%	22.3%	8,179	152,634	160,813
<b>OVERHEAD GRAND TOTAL</b>				<b>39,257</b>	<b>604,834</b>	<b>644,090</b>



**INDIRECT COSTS/OVERHEAD RATE CALCULATION RECOMMENDED  
FOR ACCEPTANCE FOR 11 MONTH PERIOD TO 30 NOVEMBER 1989**

**OVERHEAD EXPENSES**

	COST ELEMENT	AMOUNT	ON-CAMPUS	OFF-CAMPUS
	Total Indirect Balance	6,996,086		
(d)	School Expense	(187,855)		
	Capital Expense	(4,817)		
(a)	Capital Asset	(1,055,000)		
(f)	Entertainment	(54,317)		
(i)	Unallowable Travel	(5,134)		
	Salary Over FS-1	(58,207)		
	Salary Reclass	19,655		
(g)	Exchange gain	(482,794)		
(h)	Misc income	(3,486)		
	<b>Total Indirect Expense</b>	<b>5,164,131</b>		

**Less Campus Only Costs**

	Vehicle Workshops	(488,948)	488,948	0
	Electrical Engineering	(252,091)	252,091	0
	Site Maintenance	(344,165)	344,165	0
	Horticulture	(111,327)	111,327	0
	Mechanical Workshop	(109,385)	109,385	0
(d)	Allowable School Expense	(144,108)	144,108	0
	<b>Total Campus Only Costs</b>	<b>(1,450,024)</b>	<b>1,450,024</b>	<b>0</b>
	<b>Common Cost Allocated</b>	<b>3,714,107</b>	<b>3,140,317</b>	<b>573,790</b>
	<b>Total Indirect Expenses</b>	<b>5,164,131</b>	<b>4,590,341</b>	<b>573,790</b>

**OVERHEAD ALLOCATION BASE**

	COST ELEMENT	AMOUNT	ON-CAMPUS	OFF-CAMPUS
	Core Program Expenses	21,580,730	17,185,045	4,395,685
	Core Overhead Recovery	(634,862)	(342,285)	(292,577)
(c)	Adjtmnts to O/H recovery			
(a)	Capital Asset	(2,916,150)	(1,205,509)	(1,710,641)
(e)	AZRI Equipment	195,173	0	195,173
	Salary Reclass	(19,655)	(19,655)	0
(b)	Entertainment	0	0	0
(b)	Salary Over FS-1	0	0	0
(g)	Exch gain	(1,516,354)	(1,503,832)	(12,522)
(h)	Misc income	(20,298)	(20,298)	
	<b>Total Project Costs</b>	<b>16,668,584</b>	<b>14,093,466</b>	<b>2,575,118</b>
	<b>% Of Total Project Costs</b>	<b>100.00%</b>	<b>84.55%</b>	<b>15.45%</b>

**OVERHEAD RATE CALCULATION**

	COST ELEMENT	AMOUNT	ON-CAMPUS	OFF-CAMPUS
	Indirect Expenses	5,164,131	4,590,341	573,790
	-----	-----	-----	-----
	Project Costs	16,668,584	14,093,466	2,575,118
	<b>Overhead Rate</b>	<b>30.98%</b>	<b>32.57%</b>	<b>22.28%</b>

**INDIRECT COSTS/OVERHEAD CALCULATIONS RECOMMENDED FOR  
ACCEPTANCE FOR 11 MONTH PERIOD TO 30 NOVEMBER 1989**

**KEY**

- (a) Capital costs to be deleted from pool and base.
- (b) Unallowable costs remain in base.
- (c) Corrections for data extraction errors.
- (d) Non-ICARDA pupils at school, portion deducted
- (e) Add cost of AZRI non-expendable equipment.
- (f) Entertainment \$52,499 plus school entertainment element \$1,818
- (g) Exchange gain \$1,999,148 apportioned pool/base pro rata
- (h) Income from Guest House posted to Misc Sch D/1 and produce sales
- (i) Unallowable travel adjusted to actual

ICARDA PROPOSED INDIRECT COSTS/OVERHEAD CALCULATIONS FOR  
11 MONTHS TO 30 NOVEMBER 1989

OVERHEAD EXPENSES

COST ELEMENT	AMOUNT	ON-CAMPUS	OFF-CAMPUS
Total Indirect Balance	6,996,086		
School Expense	(357,474)		
Capital Expense	(4,817)		
Entertainment	(52,499)		
Unallowable Travel	(2,383)		
Salary Over FS-1	(58,207)		
Salary Reclass	19,655		
Total Indirect Expense	6,540,361		

Less Campus Only Costs

Vehicle Workshops	(488,948)	488,948	0
Electrical Engineering	(252,091)	252,091	0
Site Maintenance	(344,165)	344,165	0
Horticulture	(111,327)	111,327	0
Mechanical Workshop	(109,385)	109,385	0
Total Campus Only Costs	(1,305,916)	1,305,916	0
Common Cost Allocated	5,234,445	4,206,564	1,027,881
Total Indirect Expenses	6,540,361	5,512,480	1,027,881

OVERHEAD ALLOCATION BASE

COST ELEMENT	AMOUNT	ON-CAMPUS	OFF-CAMPUS
Total Program Expenses	21,580,730	17,185,045	4,395,685
Overhead Recovery	(634,862)	(342,285)	(292,577)
Salary Reclass	(19,655)	(19,655)	0
Entertainment	(36,777)	(33,704)	(3,073)
Salary Over FS-1	(10,161)	(10,161)	0
Total Project Costs	20,879,275	16,779,240	4,100,035
% Of Total Project Costs	100.00%	80.36%	19.64%

OVERHEAD RATE CALCULATION

COST ELEMENT	AMOUNT	ON-CAMPUS	OFF-CAMPUS
Indirect Expenses	6,540,361	5,512,480	1,027,881
-----	-----	-----	-----
Project Costs	20,879,275	16,779,240	4,100,035
Overhead Rate	31.32%	32.85%	25.07%



ICARDA MART/AZR PROJECT  
DETAIL OF INELIGIBLE AND UNSUPPORTED COSTS - 1989

Budget Line	Ineligible	Reference	Detail
SUBCONTRACTOR	1,066.36	J12D27	Difference between Unallowable provision and late invoice 48 from subcontractor
	<u>6,216.89</u>	J12079	Payment to subcontractor withheld, credit posted to Misc income
Sub-total	7,283.25		
RESEARCH OPERATING			
Computer hardisks	1,406.07	Quetta 7410/36 June	Non-expendables posted to research operating costs line item
NON-EXPENDABLES	(1,406.07)		See research operating costs item
GRAND TOTAL	7,283.25		

INELIGIBLE & UNSUPPORTED COSTS - NON-EXPENDABLES 1985-1988

	Ineligible	Reference	Detail
1988			
Refrigerator	714.29	J12022	Original requisition stated refrigerator for rest house use
1987			
Visitors chairs	162.61	J07045	Documentation describes purchase as "Visitors" chairs
1986			
Allocable credit	666.91	J08011 March 88	Refund not credited to A/C 383 AZRI Forestry Supplies Inc
GRAND TOTAL	<u>1,543.81</u>		



USAID ISLAMABAD  
 ICARDA MISSION-CONTRACTED AUDIT  
 RECONCILIATION OF BILLINGS TO THE PROJECT GENERAL LEDGER

	LEDGER TOTAL	1985 BILLINGS	(OVERY/ UNDER BILLING	LEDGER TOTAL	1986 BILLINGS	(OVERY/ UNDER BILLING	LEDGER TOTAL	1987 BILLINGS	(OVERY/ UNDER BILLING
A DIRECT PROJECT COSTS ST. OF OPERATIONS A/C 808	89,157	108,274	(19,117)	530,961	489,648	41,313	648,892	628,509	20,383
B EQUIPMENT A/C 383			0	63,553	68,819	(5,266)	113,783	112,967	816
C DIRECT & EQUIPMENT COSTS	89,157	108,274	(19,117)	594,514	558,467	36,047	762,675	741,476	21,199
D OVERHEAD RECORDED IN STATEMENT OF OPERATIONS		19,263	(19,263)	52,378	95,134	(42,756)	93,086	109,069	(15,983)
E TOTAL	89,157	127,537	(38,380)	646,892	653,601	(6,709)	855,761	850,545	5,216

	LEDGER TOTAL	1988 BILLINGS	(OVERY/ UNDER BILLING	ADJUSTMENTS		LEDGER	SUB-TOTAL	(OVERY/ UNDER BILLING
				1986 INV 7	1987 INV 10		BILLINGS	
A DIRECT PROJECT COSTS ST. OF OPERATIONS A/C 808	656,686	668,730	(12,044)		27	1,925,696	1,895,188	30,508
B EQUIPMENT A/C 383	10,422	10,422	0			187,758	192,208	(4,450)
C DIRECT & EQUIPMENT COSTS	667,108	679,152	(12,044)	0	27	2,113,454	2,087,396	26,058
D OVERHEAD RECORDED IN STATEMENT OF OPERATIONS	68,735	68,735	0	(7,833)		214,199	284,368	(70,169)
E TOTAL	735,843	747,887	(12,044)	(7,833)	27	2,327,653	2,371,764	(44,111)

USAID ISLAMABAD  
 ICARDA MISSION-CONTRACTED AUDIT  
 RECONCILIATION OF BILLINGS TO GENERAL LEDGER (CONTINUED)

	LEDGER TOTAL	1989 BILLINGS	(OVER)/ UNDER BILLING	GRAND TOTAL		(OVER)/ UNDER BILLING
				LEDGER	BILLINGS	
A DIRECT PROJECT COSTS ST. OF OPERATIONS A/C 808	549,533	542,716	6,817	2,475,229	2,437,904	37,325
B EQUIPMENT A/C 383	3,103	3,103	0	190,861	195,311	(4,450)
C DIRECT & EQUIPMENT COSTS	552,636	545,819	6,817	2,666,090	2,633,215	32,875
D OVERHEAD RECORDED IN STATEMENT OF OPERATIONS	142,272	222,577	(80,305)	356,471	506,945	(150,474)
E TOTAL	694,908	768,396	(73,488)	3,022,561	3,140,160	(117,599)

المنظمة  
ICARDA

المركز الدولي للبحوث الزراعية في المناطق الجافة  
APPENDIX I  
International Center for Agricultural Research in the Dry Areas

8 July 1992

Mr. Mark Hoffman  
Project Director  
Price Waterhouse Associates Ltd  
P.O. Box 43963  
Nairobi  
KENYA

Dear Mr. Hoffman,

Attached is our response to the points raised in your draft report related to the audit of ICARDA Management of Agricultural Research and Technology Project in conjunction with the Arid Zone Research Institute (MART-AZR project contract No. 391-0489-C-00-5042-00).

Best Regards.

Sincerely yours,

  
John E. Noisette  
Director of Finance

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## Management Letter

### 1.2 AUDIT OBJECTIVES AND SCOPE

#### 1.2.3 Scope Limitation

The project's original Rupee expenditure documentations are kept in Quetta, Pakistan upon USAID/ISL instructions for their periodical financial reviews of Rupee expenditures on location. These comprise all the expenditures incurred in Pakistani Rupees. The original documentation for all US.Dollar expenditures incurred by Headquarters in Aleppo are kept by the Finance Department.

A main distinction that should be pointed out regarding the contract expenditures is that; the contract distinguishes between the two components of expenditures and therefore treats them so for funding and reporting purposes.

1. The Rupee component expenditures are incurred and the monies are disbursed by ICARDA Quetta Office from advances to ICARDA by USAID/ISL which are kept in a separate bank account.

These expenditures are reported to USAID/ISL on a monthly basis from Quetta and disallowances are dealt with on a monthly basis by USAID/ISL. These expenditures are reviewed on a bi-monthly and sometimes quarterly basis on location in Quetta by review teams from USAID/ISL. These reviews encompassed original documentation, authorization for purchase and other financial and contractual requirements.

2. The US.Dollar component expenditures incurred by Headquarters in Aleppo for the project are reported on a quarterly basis accompanied by a voucher requesting reimbursement. The inclusion of the Pakistani Rupee expenditures is to reflect, for comparative purposes only, the cumulative amounts expended in Rupees for the project.

### 2.4 FINDINGS AND RECOMMENDATIONS - DIRECT COSTS 1989

#### 2.4.1 Overspend on budget line item

Request has already been sought for retrospective approval to reallocate underexpenditures from the "Equipment and Materials" line item to the "Research Operating Costs" line item.

#### 2.4.3 Reconciliation of billings to the project general ledger

We already requested the approval of USAID/ISL to include the underbilled costs for 1985-1989 in our final voucher for reimbursement.

2.4.4 Treatment of provisions and allocable credits - sub-contractors

Entries have been passed for the allocable credits to the contract that were transferred to miscellaneous revenue and shall be netted off against the sub-contract line item upon presentation of the final voucher for reimbursement.

2.4.5 Mis-coding of non-expendable equipment

Entry for the reallocation of \$ 1,406 to "Equipment and Materials" line item in the final voucher has been done from the "Research Operating Costs" line item and shall be presented in the final billing.

2.5 FINDINGS AND RECOMMENDATION - OVERHEAD 1989

2.5.1 Adjustments to the overhead calculations

Acceptance of adjustments made by Price Waterhouse to the overhead calculations for 1989.

2.6 FINDINGS AND RECOMMENDATIONS - EQUIPMENT 1985-1989

2.6.1 Equipment not exclusively for project use

The two items of non-expendable property purchased in 1987 and 1988 are for a research out-station. The Arid Zone Research Institute of Pakistan has a number of these out-stations where research experiments and extension work are conducted. The refrigerator was bought for the specific purpose of cold storage of animal, plant, and soil samples and animal medication. The term "visitors chairs" is a model caption used in that area for this type of asset since most farmers sit on the floors and chairs are reserved for visitors, in this case for scientists of the projects making duty inspection of their experiments and keeping in contact with farmers in the area.

2.6.2 Applicable credit

Entry has been passed for due credit of US\$ 666.91 to "Research Operating Costs" line item. This shall appear in our final billing adjustments.

2.7 FINDINGS AND RECOMMENDATION - RECEIPTS

2.7.1 Receipts: treatment of Rupee balance in Pakistan

The PAK.R. 500,000 has been discharged by USAID/ISL to ICARDA and has been exchanged into US\$ 20,345 on September 25, 1991. In invoice No. 25 the exclusion of the US\$ 23,485 at November 1989 prevailing rates resulting in a difference of \$ 3,140.

The final Fund Accountability Statement shall consider the amount of US\$ 20,345 received from USAID/ISL.

### 3.3 FINDINGS AND RECOMMENDATIONS--CONTROL ENVIRONMENT

#### 3.3.1 Compliance with ICARDA's policies in Quetta

The instances where ICARDA's policies on requisitions and approvals regarding purchases were not complied with could be understood better through the following factors:

1. Frequent breakdown of communications for a few days at a time.
2. The consultation and approval of the USAID Project Officer in Islamabad was sought and documented at Quetta. Headquarters in Aleppo received copies of these documentation.
3. Headquarters approval proved insufficient in many instances and the USAID Project Officer's approval had a higher priority. The performance of ICARDA's team in Quetta had to be adjusted and USAID's policies and approvals had to take priority in those instances.

We accept your recommendation that ICARDA's internal audit staff should perform internal control audit reviews more often.

#### 3.3.2 Invoice splitting

No Comment

#### 3.3.3 Fixed Asset Register

No Comment

#### 3.3.4 Extraction of billing statements from the project ledger

This has been agreed to and rectified

#### 3.3.5 Coding of transactions in the ledger

This has been agreed to and rectified

#### 3.3.6 Amendments to purchase orders

This has been agreed to and rectified

#### 4.3.1 Segregation of unallowable costs by the accounting system

Direct costs for the project were analyzed before charging to the project to segregate the unallowable elements. The account code as a whole is not set up to segregate

unallowable cost by USAID which effects the indirect cost calculations only.

5.1 Job Descriptions

Job descriptions supplied by Personnel Department were outdated versions. The job descriptions in effect since January 1991 have been forwarded to Price Waterhouse.

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**USAID/ISLAMABAD  
FACSIMILE TRANSCIEVER COMMUNICATIONS SYSTEMS  
FAX DOCUMENT TRANSMISSION REQUEST FORM**

*F-9557*

FAX# 92-51-824086

TELEX# 54270 USAIDPK

PHONE# 92-51-824071

Date: December 7, 1992

Official  Personal

From: David J. Noble, USAID/Islamabad

Signature: *[Signature]*

To: Elizabeth Slinn, Price Waterhouse, Nairobi, Kenya

FAX No.:(254-2)335937

Approved By: David J. Noble, Deputy Controller  
Name and Title of Office Chief

*[Signature]*  
Signature

No. of Pages: This page only

Subject: Agency-contracted audit of the Arid Zone Research Institute,  
a Project of ICARDA.

**8 DEC 1992**

Mission is satisfied with Draft Audit Report which includes finding  
as a result of Audit work performed in Quetta, Pakistan.

**TO BE COMPLETED BY C&R**

Date transmitted: \_\_\_\_\_

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C&R Supervisor



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