AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

OFFICE OF AUDIT

AUDIT REPORT

PLANNED PARENTHOOD FEDERATION OF AMERICA

GRANT NUMBER	:	AID/csd-3289
GRANT CEILING	:	$7,800,000
EXPIRATION DATE	:	June 30, 1975 for Direct Program Support; August 31, 1973 for Commodity and Local Support
PROJECT NUMBER	:	932-11-580-955
PROJECT NAME	:	Family Planning Programs for CWS and Charitable Organizations
AUDIT PERIOD	:	June 30, 1971 through May 31, 1973
TYPE OF AUDIT	:	Interim

Audit Report No. 75-106

Date: July 26, 1974

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PLANNED PARENTHOOD FEDERATION OF AMERICA
Grant No. AID/csd-3289

I. INTRODUCTION

We made an initial review of the cost reimbursable Grant No. AID/csd-3289 with Planned Parenthood Federation of America (PPFA). Our examination covered costs claimed by the Grantee through May 31, 1973.

II. SUMMARY OF AUDIT FINDINGS

Costs claimed by PPFA during the period under review totalled $3,212,300.55. We recommend for disallowance costs totalling $284,210.72 and for suspension costs amounting to $1,621,272.59 subject to further action by the Grantee. The balance of $1,306,817.24 we consider proper under the terms of the Grant (see Exhibit A).

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Costs Claimed Under the Grant

As a result of our audit, we recommend costs totalling $284,210.72 be disallowed, an additional $1,621,272.59 be suspended, and the balance of $1,306,817.24 be approved subject to the acceptance of the Grantee's performance.

The disallowances generally consist of direct charges which are not proper against the AID grant for a variety of reasons. They represent indirect or overhead type costs based on estimates rather than actual costs, exceed actual costs incurred, are not applicable or necessary to the AID project, or are in excess of the amounts allowed by PPFA policy or the provisions of the AID grant agreement.

The sum suspended generally consists of direct costs which are either not supported by adequate documentation and/or records, or contain unallowable costs that cannot be readily identified without additional analysis on the part of the Grantee. Also indirect costs claimed by the Grantee and one of its subcontractors on a provisional basis which cannot be adjusted to actual costs in the absence of acceptable overhead rates. Additional information regarding these amounts is presented in Exhibit A to this report.

Recommendation No. 1

The Grant Officer should take action to: (a) determine the acceptability of Grantee's performance as a prerequisite to the approval of grant costs, (b) accept the grant costs and audit adjustments as proper under the terms of the grant, and (c) ensure settlement of the amount due as a result of the audit adjustments.

B. Financial and Administrative Management

(1) Accounting System

The Federation maintains a fund accounting system which charges costs of operations to some 225 cost centers on an accrual basis. The actual and/or estimated costs applicable to a particular PPFA administrative or program activity are charged to each cost center.

This accounting system is complex, audit trails are not always available, supporting documentation can be very difficult to locate, and the accounting staff has a limited knowledge and understanding of how it all operates. More important there is no accounting manual or up-to-date chart of accounts available. We were advised that those two documents are in the process of being prepared.

Further, the organization is in the process of switching from a manual to a computer system. The system, as it was during the period covered by our audit, requires revision to adequately provide for the segregation and accumulation of costs under Government contracts and grants for the following reasons:

- Expenses are accrued when a purchase order is issued instead of after the invoice or the goods or services have been received, whichever occurs first.

- Accruals included in the overhead pool, such as legal fees, are not adjusted to the actual expenses incurred.

- Expenses are not distributed to the various cost centers on the basis of actual costs, but by means of estimated flat amounts (computer charges) and fixed, predetermined percentages (salaries).

- Expense distributions to the various cost centers are not treated in the same manner under similar circumstances. For example, FPIA is charged directly for certain types of expenses (accountants salary, computer expenses, and travel of the Chief Executive Officer). Similar type costs applicable to other PPFA program departments are charged to overhead.

Recommendation No. 2

The Grant Officer should request the Grantee to revise its accounting system so that charges to the various cost centers represent actual costs distributed on a fair and equitable basis.

(2) Determination of Overhead

PPFA is presently being reimbursed for indirect costs, or overhead, at 30 percent of total direct costs exclusive of the value of commodities sent to less developed countries. The provisional rate in the original grant was 24.6 percent based upon the rate accepted by the Department of Health, Education and Welfare (HEW) for Calendar Year 1969. The rate was increased to 30 percent by Amendment No. 1 to the grant.

The Department of Health, Education and Welfare (HEW) audits PPFA's overhead proposals. HEW approved an overhead rate for calendar year (CY) 1971, and rejected PPFA's overhead rate proposal for CY 1972. The proposal was not considered acceptable because the overhead pool contained unallowable costs and direct program expenses which should have been in the overhead allocation base. The Grantee has not prepared a revised proposal although we made numerous requests for it. Also, the CY 1971 proposal will require audit adjustments before it can be accepted as applicable to the A.I.D. grant. As a result, all claimed overhead costs ($578,386.88) have been suspended pending preparation of the revised 1972 overhead proposal.

The grant agreement provides that the overhead rate shall be applied to total direct costs less commodities for local projects. In addition to these commodity costs, PPFA is excluding leasehold improvements and office equipment procurement in calculating their actual overhead rate. Subcontracts and foreign subgrants should also be excluded from the direct cost base, since only the AID program incurs such costs and the administrative costs applicable to subgrants and subcontracts is borne by AID as a direct program expense.

Recommendation No. 3

The Grant Officer negotiate a change in the grant agreement to provide for the application of the overhead rate to total direct costs exclusive of commodities, subcontracts, subgrants, leasehold improvements, and U.S. office equipment purchases.

(3) Personnel Management

(a) Compliance With A.I.D. Approvals

Persons were engaged by FPIA in a capacity different from that approved by A.I.D.:

Name	Approved by AID as:	Engaged by FPIA as:
Caridad Lorenzana	Consultant while on TDY overseas	Employee with the title Field Representative-Asia
Richard Derman	Program Development Assistance Specialist-Medical (non-supervisory position)	Director of Technical Services (supervisory position)
Dr. Andrew Wiley	Employee with the title Medical Training Officer	Consultant with the title Medical Training Officer
Anthony Drexler	Consultant with the title Program Consultant	Employee with the title Program Consultant

In commenting on the above, the Grantee stated that "... the personnel in question were engaged by PPFA/FPIA with A.I.D.'s approval and in each case carried out the basic work functions which also were approved by A.I.D. The various terms of engagement utilized by PPFA/FPIA in these cases were utilized to facilitate the employment of these personnel and did not materially affect their work performance under the Grant."

Acknowledging the Grantee's position, we still feel there is a difference in employment as a consultant (short-term) and an employee (long-term) and in a supervisory vs. a non-supervisory position. We believe the Grantee was less than candid with A.I.D. when hiring personnel under the Grant in a status other than that approved by A.I.D.

Recommendation No. 4

The Grant Officer, SER/CM/COD, should take action, to assure that the Grantee engages all future PPFA/FPIA professional staff members only in the A.I.D. approved capacity.

(b) Salary Administration

A grantee is expected to have the administrative and management capability to conduct the AID project in an effective, efficient, and economical manner. Thus, controls or limitations by AID are minimal.

The PPFA grant is silent on the subject of employee salaries. However, there is a need for AID to establish certain controls over staff salaries because the Grantee's system of salary administration is weak in several respects:

1. Existing written statements of policy and procedures are not complete.

2. Prescribed job description forms are not utilized.

3. The required annual reviews of job descriptions are not made.

4. Salary grades do not control salary rates.

5. Positions are not downgraded until they become vacant.

6. Promotions are not adequately limited.

FPIA employed approximately 20 persons, or about 10 percent of the total PPFA staff on board during the audit period. During this 23 month period, (June 30, 1971 through May 31, 1973) salaries paid totalled $581,332.51, or about 18 percent of the total costs claimed for the AID project.

Starting Salaries and Promotions

The first written guidelines or regulations setting forth uniform PPFA policy and procedure on this subject were issued in early 1973. At that time, a handbook entitled "Procedures to Implement Personnel Practices" was published. This document is not complete as the Personnel Office has numerous additions and amendments to be incorporated in the handbook. We were advised that rules on certain aspects of salary determination may never be formalized because of management's desire to have flexibility in these areas.

As we could not locate a written record of the "usual policy and practice" of PPFA in setting starting salaries, we requested the Chief Executive Officer to provide this information. According to PPFA the following criteria are used:

- Qualifications, experience and demonstrated competence for the job.

- The position salary grade level established by the Job Classification Committee (JCC) or, between meetings of the Committee by the Chief Executive Officer.

- Equal pay for equal work.

- Cost of living differential for the New York City metropolitan area.

- Previous income history (secondary consideration with no limitations imposed).

- Step two within each grade level (rough rule of thumb only).

The job description form is the key document used by PPFA to determine the grade for a position. In order that grades be properly assigned, the job description must be complete and accurate. Accordingly, the handbook entitled "Procedures to Implement Personnel Practices" prescribes a standard job description form, and Section III (3) of PPFA's Personnel Practices Handbook requires an annual review of job descriptions to determine their accuracy.

However, FPIA was not using the prescribed job description form, and PPFA was not making the annual review of job descriptions. The job description format used by FPIA omitted significant factors such as supervision given and received. When these deficiencies were brought to their attention, PPFA agreed to correct them.

In March of 1972, approximately nine months after the inception of the A.I.D. grant, the Federation formally established the present system of assigning a grade number to each employee position. There are a total of 13 grades in the system, and each grade has 10 steps.

However, after the Job Classification Committee (JCC) has established the grade for a position, PPFA management is free to give the person filling the position a salary rate which is below the minimum step of the grade, above the maximum step of the grade, or anywhere in between. The following examples are illustrative:

Employee	Actual Starting Salary	Grade Assigned	Salary Range for the Grade Assigned	
			Minimum	Maximum
Mr. L. Robinson	$25,000	8	$14,840	$21,200
Ms. J. Windbish	7,450	3	7,760	N/A
Ms. J. Benson	7,280	3	7,760	N/A

The above examples are not consistent with PPFA's contention that the salary grade level establishes the minimum and maximum salary levels for the position, except for cases such as the hiring of persons with special skills, e.g. medical doctors.

We were advised that it is unwritten PPFA policy not to downgrade a position until it becomes vacant. As a result, the full time FPIA position of Nurse Midwife (filled June 15, 1972 and vacated July 31, 1973), and the full time FPIA position of Educational Materials Specialist (filled October 4, 1971 and scheduled to become vacant in mid December 1973) were not recommended for downgrading until November 12, 1973.

Although this policy is obviously advantageous to employees, it is not fair to those, such as A.I.D., who fund the programs, since they bear the additional costs when positions are found to be graded too low, but do not get a reduction in costs when positions are found to be graded too high. A modification is necessary in the policy to allow for downgradings while an employee is occupying the position.

One possible alternative is the practice adopted by the federal government in which an employee in a downgraded position continues to receive his current salary for two years, after which time it is adjusted to the appropriate lower amount. PPFA agreed to revise their policy along the lines of that followed by the federal government.

According to PPFA there are no limitations on the number of grades an employee can be raised on a promotion, or how frequently he can be promoted, as long as his salary rate does not increase more than 20 percent, and his new salary is not above the second step of the grade. In order to assure promotion actions are not excessive or inconsistent between employees under similar circumstances, PPFA needs to establish the number of grades an employee may be promoted and a waiting period between promotions.

The U.S. Government generally allows a one-grade increase on a promotion, and requires a 12-month waiting period between promotions. In their comments on our finding, PPFA indicated that they were agreeable to adopting the policy followed within the federal government.

Subsequent to our audit, a Grant amendment was signed establishing limitations on starting salaries and merit or promotion increases. The amendment and PPFA action on the agreed findings in this section will improve the Grantee's salary administration practices and policies.

(c) Leave Records

A selective review of the leave records maintained for FPIA personnel disclosed that they were incomplete and, as a result of numerous errors, not entirely accurate. We recommended and the Grantee agreed to take the following actions:

1. Correct the errors.

2. Review the leave records for all other employees to determine their accuracy.

3. Replace the present manual system of record-keeping with a computerized system, and in the meantime, have the leave balances of all FPIA employees verified as of June 30 of each year.

(d) Utilization of FPIA Staff for Non-AID Business

The salary costs of all FPIA full time personnel are charged 100 percent to the A.I.D. grant. However, certain employees currently devote a portion of their time to PPFA functions, such as membership on committees and participation in regional activities and Board of Directors meetings. These activities will probably increase to assist a recently formed committee concerned with the Federation's international programs, and utilization of a $10,000 discretionary fund provided by Church World Service (CWS) for activities outside the A.I.D. grant.

PPFA charges FPIA for the services which its staff provides, likewise FPIA should charge PPFA for the services of its staff. Although time sheets are prepared for all employees, they do not identify the amount of time spent on non-A.I.D. business. The Grantee considers, and we agree, that the guiding definition as to what constitutes FPIA staff functions should be:

> "Those staff activities which contribute to the achievement of the stated purpose and objectives of Grant AID/csd-3289, the successful implementation of its plan of work and the satisfactory compliance with its terms and conditions."

Recommendation No. 5

The Grant Officer should direct PPFA to maintain time sheets for FPIA employees which identify the amount of time spent on A.I.D. business and non-A.I.D. business, and to use these documents as the basis for charging salary costs to the A.I.D. grant.

(4) Utilization of Consultants

Normally, an organization engages consultants to perform specialized tasks which its own staff is unable to do. However, the Grantee has been engaging consultants to do work in the areas of Management Information and Program Support (MIPS), Information, Education, and Communications (IE&C), and project development. Normally that work would be expected of its own employees.

In some cases these consultants worked daily or almost daily for extended periods of time, had regular position descriptions, and in one case was even paid a "salary". One of these consultants (Hal Crow) had been rejected earlier by A.I.D. as a full time employee, but after his period as a consultant, he and another consultant (Hans Groot), joined the permanent FPIA staff to perform basically the same work they had been doing as consultants.

We were advised that FPIA used consultants because:

(a) Available FPIA employees lacked technical competence or language capability, or were busy with other work. A consultant was brought in to design the management and program information system, but according to Appendix A, Section (2)(F), page A-14 of the Grant, this work was the responsibility of an FPIA employee, the Management and Program Information Specialist, who was on board at the time. Also, a consultant (Charles Patterson) was brought in to perform project development work in Africa, and a Program Development Assistance Specialist (Ed Perez) employed by FPIA at the time accompanied him on his overseas trip.

(b) Qualified personnel in other PPFA departments were not available to assist FPIA either because they were fully occupied with their own work, or their supervisor refused to make their services available. During the grant negotiations, the Federation indicated they would make various staff members available to the FPIA program for from 10 percent to 25 percent of their time during the first three years. Furthermore, in Appendix A, Section (2)(F) of the grant agreement, A.I.D. and PPFA agreed that "In order to insure maximum participation of senior management expertise in the project, the Grantee will make available on a part-time basis its President and Department Managers for Information and Education, Research, and Training."

(c) A.I.D. refusal to approve an employee position which FPIA had requested. In only one instance was a consultant used for this reason (Richard Berkowitz).

(d) FPIA could not find candidates to fill open employee positions.

(e) A.I.D. refusal to approve the candidates which FPIA had proposed to fill vacant employee positions. Only two consultants were used for this reason (Brent Ashabranner and Hal Crow).

(f) Approved employee candidates were delayed in getting on board.

Consultants may do good work, but they have two disadvantages. Additional work is generally required after a consultant completes his task, and thus there is a loss of continuity as someone else must come in and pick up where the consultant left off. They are generally more expensive than employees. The compensation given to FPIA's consultants, put on an annual basis, generally exceeded by $2,000 to $20,000 the salary costs (base salary plus fringes) of PPFA employees performing similar work.

PPFA has expressed general concurrence and the funding request in the current program year budget for consultant services has been reduced to a relatively low level. The provisions of Grant Amendment No. 4 (January 31, 1974) require prior A.I.D. approval of consultants and places limitations on the compensation they may be paid. Consequently, no recommendation is made.

(5) Travel Administration

Article X (3) of Appendix B to the grant states that "Travel undertaken with funds provided by this grant shall be governed by the regulations contained in the Uniform State/AID/USIA Foreign Service Travel Regulations". A.I.D. Manual Order No. 560.2 entitled "Foreign Service Travel Regulations (Uniform State/AID/USIA Foreign Service Travel Regulations)" states in Section III that these regulations "... apply to travel and transportation within the United States as well as abroad". A.I.D. Manual Order No. 569.1 states the maximum rates or per diem under the Uniform State/AID/USIA Regulations for travel in the continental United States, other non-foreign areas, and foreign areas.

An earlier audit survey of the travel costs claimed by FPIA disclosed that lodging and subsistence expenses were being paid to travelers, and claimed against the grant, on an actual cost basis, which is the Grantee's normal practice, without regard to the maximum per diem rates for domestic and international travel specified in the A.I.D. regulations.

After a discussion between A.I.D. and FPIA, effective May 8, 1973, FPIA changed its policy with respect to international travel to permit reimbursement of living expenses only on the basis of the A.I.D. maximum per diem rates. A similar change with respect to domestic travel, however, has not been made. PPFA advised us that they had been told by A.I.D. that they were exempt from A.I.D.'s maximum per diem rate for domestic travel.

Recommendation No. 6

The Grant Officer should advise the Grantee that charges to the grant for living expenses incurred during domestic travel cannot exceed the maximum per diem rate specified in the A.I.D. regulations.

The Grantee does not require a traveler to sign a certification on his travel expense report (TER) that the amounts claimed represent the actual costs incurred while on official FPIA business. Such a certification on the TER would specifically place responsibility for erroneous or false claims on the traveler where it belongs rather than on the official approving the report. Also, it would give added assurance to both FPIA and A.I.D. that all costs being reimbursed (especially those items such as meals, local travel, telephone, laundry, and other expenses which the employee is not required to support with documentation) had actually been incurred by the traveler while conducting official business. PPFA agreed to require such a certification from its travelers.

(6) Administration of Overseas Operations

With one employee already stationed overseas and more expected to follow, it is essential that both parties to the grant have a clear understanding as to whose regulations (A.I.D.'s or PPFA's) will govern the types and amounts of overseas allowances which are to be permitted.

Article VIII of Attachment B to the grant agreement states that "Allowances for international travel reimbursed under this grant shall be in accordance with the Grantee's policy and practices provided, however, that such allowances do not exceed those provided by the Standardized Regulations. This seems to indicate that PPFA practice, to the extent it does not exceed AID regulations, will prevail. However, the terminology "allowances for international travel" makes it uncertain whether the reference here is to overseas allowances or travel allowances, such as per diem.

PPFA has recently issued a new section to their handbook "Procedures to Implement Personnel Practices" entitled "Overseas Assignments" which sets out the nature of the benefits and allowances given to employees who are assigned overseas. It states that "These allowances are based upon the guidelines and specific requirements of PPFA's granting agency. PPFA's international program is funded through a grant from the Agency for International Development (AID) csd/3289". This indicates that A.I.D.'s Standardized Regulations are applicable, but it does not say so in so many words.

Consequently, it is not clear who regulations will govern. Before any consideration can be given to those of PPFA, however, the following matters should be clarified:

- While the PPFA policy statement identifies the types of overseas allowances which will be paid, it does not state how much the payments will be.

- The policy statement provides that the maximum allowance for temporary lodging and housing will be determined by the classification of the duty station and family status, but does not explain these terms, nor indicate where an explanation can be found.

- The policy statement provides for the payment of a post allowance when an employee is assigned to a duty station overseas where the cost of living is substantially higher than in New York City. However, PPFA does not presently have the data available to make accurate comparisons between the cost of living in New York City and the cost of living in foreign countries.

- Because of the heavy expense involved in getting an employee to an overseas duty station, it is common for organizations in the international field to require one returning to the U.S. on his own prior to serving a minimum period overseas pay return transportation. No mention of this is made in the PPFA policy statement.

PPFA expressed general concurrence with this finding.

Recommendation No. 7

The Grant Officer should amend the grant agreement to clearly state whose regulations (AID's or PPFA's) will govern the allowance and benefits for employees stationed overseas. If those of the Grantee are selected, they should be carefully reviewed to assure they are complete.

(7) Control Over Government Property

Article VII of Attachment B to the grant agreement, entitled "Title to and Care of Property", states that "Title to equipment purchased with funds provided by this grant, for use in the United States shall pass to and vest in the Government upon purchase".

We were advised FPIA plans to open an office in Manila, The Philippines, for their field representative there, and this will probably require the purchase of various items of office equipment. The grant agreement, as quoted above, is quite specific as to title to equipment purchased for use in the U.S., but it is silent on title to equipment purchased for use overseas. Therefore, title to equipment for use overseas should be clarified.

PPFA concurred with this finding.

Recommendation No. 8

The Grant Officer should amend the grant agreement to state who has title to equipment purchased for use overseas.

Article VII of Attachment B to the grant agreement further states that "The Grantee shall develop a records system for property control ... . The official property control records shall be kept in such condition that at any state of completion of the work under this grant, the status of property acquired or furnished under this grant may be readily ascertained".

The only record which FPIA has of the Government-owned equipment consists of a listing, dated January 22, 1973, of the furniture and equipment purchased since grant inception. The listing shows the name, total quantity, unit price, and total value of each item purchased. Unit prices of individual items range from $7.50 to $660.25. The total value of this equipment as of May 31, 1973 was $24,840.77.

This listing is not adequate for the control of Government-financed accountable property for the following reasons:

(a) It has not been revised for equipment acquisitions and disposals made subsequent to the date of its preparation.

(b) It contains accountable as well as non-accountable property.

(c) It does not identify:

1. the specific location of each item,
2. the FPIA and/or PPFA serial number,
3. the name of the supplier, and
4. the date of purchase.

PPFA agreed to implement corrective action.

Recommendation No. 9

The Grant Officer should require the Grantee to establish a property control system which satisfies the requirements of the grant:

(a) Provide criteria for identifying items which require accountability. Within the federal government, accountable items are those with a unit price of $50 or more.

(b) Install a perpetual inventory records system for accountable property. Ideally, a set of cards, one for each item, which would contain the (1) name of item, (2) supplier, (3) date of purchase, (4) location, (5) FPIA and/or PPFA serial number and (6) unit price. The cards would serve as the subsidiary equipment ledger for a general ledger account A.I.D. equipment in the PPFA books of account.

(c) Require periodic, preferably annual, physical inventories of accountable property which would be reconciled to the subsidiary ledger cards, thus verifying the general ledger equipment account.

Article VII of Attachment B to the grant states that "a report of current status of all items of property acquired or furnished under the Grant shall be submitted yearly concurrently with the annual report". However, that FPIA has not furnished this report to A.I.D. PPFA advised us that the reason for this was that A.I.D. had requested that FPIA not submit this information until it was specifically requested by A.I.D. We were advised by the A.I.D. Grant Officer that she did not recall making such a statement to the Grantee.

Recommendation No. 10

The Grant Officer should require the Grantee to submit the annual property report called for by the grant agreement.

(8) Subgrant Administration

Article II of Attachment B to the grant agreement states that "... for subgrants made to CWS - assisted medical facilities in less developed countries, the Grantee will obtain an audit by an independent public accountant with a national certification similar or equivalent to a certified public accountant. The purpose of the audit shall be to determine the propriety and necessity of the subgrantee's expenditures in terms of the purposes for which the funds were made available, and the adequacy of the subgrantee's administrative and financial management as it pertains to the subgrantee's performance under the subgrant ... The independent audit will be made after each twelve months of the subgrant ...".

FPIA began making subgrant disbursements in May 1972. Through May 31, 1973, disbursements totalling $480,679 for 31 subgrants had been made. By mid-1973, 15 of these subgrants had run for one year or had expired, and thus under the terms of the A.I.D. grant were subject to an audit by an independent public accountant (IPA). As of February 1, 1974, FPIA has received audit reports on nine subgrants. These reports, however, are not adequate for the following reasons:

- They are the normal financial-statement type report which public accountants regularly issue with no comments on the propriety and necessity of the expenditures, or the adequacy of the subgrantee's administrative and financial management, as required by the A.I.D. grant.

- One report does not state the period during which the expenditures were incurred, and does not appear to have been issued by the equivalent of a certified public accountant.

Because there are no audit reports for a number of the subgrants, and the ones that are available do not meet grant requirements, the $480,679 in subgrant disbursements made during the period June 30, 1971, through May 31, 1973, are being suspended (see footnote 12/ on Exhibit A of this report).

One possible reasons why the IPA reports received to date are inadequate may be the wording in the FPIA subgrant agreement. The early agreements simply state that "An annual audited report properly certified by local audit firms must accompany this fiscal report or follow as soon as possible." Recently executed agreements have some word changes, but say basically the same thing. There is no mention made that the audit is to be done by a public accountant with a national certification similar or equivalent to a certified public accountant, or that the purpose of the audit is to determine the propriety and necessity of expenditures, and the adequacy of the subgrantee's administrative and financial management.

PPFA had no objections to this finding.

Recommendation No. 11

The Grant Officer should request the Grantee to:

(a) Obtain audit reports from independent public accountants which meet requirements stated in the grant agreement.

(b) Amend all outstanding subgrant agreements to reflect the requirements in the grant agreement regarding the qualifications of independent public accountants and the nature of the audits they are to perform.

Article II of Attachment B to the grant agreement states that "... the Grantee will include in each subordinate agreement hereunder a provision to the effect that the subordinate contractor or grantee agrees that the Auditor General, A.I.D. and the Comptroller General of the United States or any of their duly authorized representatives shall, ... have access to and the right to inspect, audit or reproduce any directly pertinent books, documents, papers and records of such subordinate contractor or grantee, involving transactions related to the subordinate agreement." We found, however, that no such provision currently exists in FPIA subgrant agreements.

PPFA stated that no change in the subgrants is needed because the present provision in them that FPIA may have the cost audited at any time prior to final payment serves the same purpose. We do not feel that the language of subgrant agreements meets the grant agreement requirement.

Recommendation No. 12

The Grant Officer should require the Grantee to insert the necessary right-to-audit clause in all subgrant agreements.

(9) Financial Reports Submitted to A.I.D.

The A.I.D. grant requires that the following financial reports be submitted periodically to A.I.D.:

(a) Fiscal report showing current period and cumulative-to-date dollar expenditures made by the Grantee under each budget line item, accompanied by Standard Form 1034, "Public Voucher for Purchases and Services Other than Personnel."

(b) Report on the current status of the Federal Reserve Letter of Credit (FRLC).

Our review of the reports prepared in 1973 disclosed that:

- Standard Form 1034 was not accompanying the fiscal reports.

- The current period cost figures on the fiscal reports included payments made by A.I.D. for travel and commodities, plus overhead on the travel amounts, totalling $62,582.49 when they should contain only the costs actually incurred by the Grantee.

- The cash balance on the FRLC status report as of September 30, 1973, was incorrectly stated because:

1. The opening cash balance at March 1, 1973 was understated by $2,201.25.

2. The cash disbursements reported for the month of July 1973, included an A.I.D. payment for commodities totalling $55,783.68. Only those costs actually incurred by the Grantee should have been reported.

- The cumulative cost total reported on the fiscal report for the month of June 1973 exceeded the sum of the cumulative total at the end of the prior month plus the current month's costs. This same condition was found to exist in September 1973.

The Grantee agreed to take corrective action on all these matters.

(10) Access to Records

The A.I.D. grant is charged with all the salary of full-time FPIA employees, and through a combination of direct charges and overhead, a portion of the salary of numerous PPFA employees. Audit of these charges requires review of the documentation in employee personnel and salary records maintained by the Federation. Authorization for access to such records is provided by Article II of Appendix B to the grant.

When we requested to see employee personnel files, however, we were advised that the Personnel Officer could read to us the information we requested, or she could provide individual documents from the file which we requested, but she could not release an entire file because these files are confidential, and only the Personnel Officer and the Chief Executive Officer of the Federation may see them. This action by the Grantee is not in accord with the terms of the grant agreement.

We were advised by PPFA that they would request approval from their Board of Directors to modify the current policies and procedures regarding access to personnel files.

Recommendation No. 13

The Grant Officer should reach an understanding with the Grantee as to AID's right of access to grant-related records.

(11) Internal Audit

Satisfactory management of the PPFA operation requires that the system established for conducting the financial and administrative activities be continuously reviewed for adequacy and effectiveness. Presently the Grantee relies on the audit of the system of internal control and accounting procedures performed annually by their public accountants. The public accountants review, however, is limited in scope. It is made primarily to enable them to formulate an opinion as to the financial position of the Federation at the end of a calendar year, and the financial results of its operations for that year.

The need for some form of internal audit by PPFA is apparent, especially in view of the conditions described in the preceding sections of this report.

In their annual management letter to PPFA for the last several years, the Federation's public accountants, Peat, Marwick, Mitchell and Company, have recommended that an internal audit section be established.

PPFA indicated its intention to establish an internal audit section during the first half of 1974.

Recommendation No. 14

The Grant Officer should recommend the Grantee establish an internal audit unit as soon as possible.

IV. BACKGROUND

The purpose of the A.I.D. grant is to improve and expand the delivery of family planning services in the less developed countries through existing networks of medical and welfare related facilities and staffs of organizations such as Church World Service (CWS), a division of the National Council of the Churches of Christ in the United States of America, and their already established planned parenthood programs. To achieve this goal, the Planned Parenthood Federation of America (PPFA) was to provide overall leadership, auxiliary technical and advisory services, training, contraceptives and related supplies and equipment, broad management and administrative guidance, appropriate program and financial controls, and reporting and evaluation systems for expansion and development of the planned parenthood programs of the CWS and other charitable organizations.

A.I.D. support of the CWS program began several years prior to the PPFA grant through an arrangement with the Pathfinder Fund which was terminated because of Pathfinder's difficulties in obtaining end-use reports from CWS. A.I.D. had requested CWS to directly administer the program, but CWS refused because it did not have the necessary expertise and capability. A.I.D. then turned to PPFA to take on the program.

PPFA is an association of some 190 community planned parenthood organizations located throughout the U.S. Although PPFA had done fund raising for the International Planned Parenthood Federation (IPPF), they had not conducted any overseas programs prior to the A.I.D. grant.

Effective June 30, 1971, A.I.D. entered into Grant No. AID/csd-3289. A budget of $3.8 million was established to finance PPFA "core", or headquarters administration, costs for 3 years, and projects in less developed countries for one year. Amendments (through No. 3 dated June 29, 1973) increased the funding to $7.8 million, "core" costs through June 30, 1975, $4,654,079 and projects costs through August 31, 1973, $3,145,921.

During the period covered by our audit, projects were being funded in the Dominican Republic, Taiwan, Indonesia, Haiti, Costa Rica, Philippines, Tanzania, Kenya, Peru, and Korea. The grant agreement provides the purpose of these projects is to support specific pilot demonstration and applied research activities in selected local family planning programs. At the time of our audit, another grant amendment was under negotiation.

In order to carry out the work under the A.I.D. grant, PPFA established a new department which they called Family Planning International Assistance (FPIA). Some of its staff were transferred from other PPFA departments, but most of them were from the outside. Except for administrative support, FPIA is a self-sufficient organization treated by PPFA as a separate and independent entity.

In early 1973, an audit survey conducted by AG/AUD disclosed a number of deficiencies in the Grantee's operations, an overbilling of approximately $1.5 million to A.I.D. and inadequate accounting records. The overbilling, which resulted from billings to A.I.D. including amounts for unexpended subgrant and subcontract balances and open purchase orders, was liquidated, also the Grantee reported progress on the resolving of the accounting and administrative deficiencies noted in the survey. Much of the work on the current audit concerned follow up on this earlier review.

V. PURPOSE AND SCOPE

We made an initial review of the cost reimbursable Grant No. AID/csd-3289 with Planned Parenthood Federation of America, incorporated under the laws of New York. Our examination covered grant costs claimed by the Grantee through May 31, 1973.

The purpose of our review was to determine the propriety of the costs claimed against the grant. Our audit was made in accordance with generally accepted auditing standards and included such tests of the accounting records and related supporting documentation as were considered necessary in the circumstances.

The financial status of the project as of May 31, 1973 was:

Grant Ceiling		$7,800,000.00
Amount Claimed by PPFA -		
Approved Current Audit	$1,306,817.24	1,306,817.24
Audit Adjustments	1,905,483.31	
Total Claimed by PPFA	$3,212,300.55	
AID/Mission Payments		7,337.55
Total Project Costs		$1,314,154.79
Grant Balance Remaining		$6,485,845.21

Planned Parenthood Federation of America (PPFA)
Grant No. AID/csd-3289
Summary of Costs Claimed and Audit Adjustments
For the Period June 30, 1971 through May 31, 1973

		Audit Adjustments				
		Disallowed				
Cost Category	Costs Claimed	Transferred to Overhead Pool	Other	Suspended	Total	Costs Accepted
Salaries	$ 581,332.51	$ 76,800.52 1/	$104,065.51 2/	$ 32,999.93 3/	$ 213,865.96	$ 367,466.55
Fringe Benefits	59,142.88	8,860.66 1/	10,884.27 4/	2,298.96 4/	22,043.89	37,098.99
Consultants	134,235.50	-	361.46 5/	133,874.04 6/	134,235.50	-
Travel	97,010.30	4,010.00 1/	9,623.25 7/	83,377.05 6/	97,010.30	-
Other Direct Costs	364,471.83	32,375.80 1/	4,787.25 8/	249,656.73 9/	286,819.78	77,652.05
Subcontracts	208,344.26	-	32,442.00 10/	60,000.00 11/	92,442.00	115,902.26
Subgrants	480,679.00	-	-	480,679.00 12/	480,679.00	-
Contraceptives	424,143.71	-	-	-	-	424,143.[illegible]
Equipment & Supplies	284,553.68	-	-	-	-	284,553.68
Indirect Costs	578,386.88	-	-	578,386.88 13/	578,386.88	-
Totals	$3,212,300.55	$122,046.98	$162,163.74	$1,621,272.59	$1,905,483.31	$1,306,817.24

Explanatory Notes:

1/ The following costs were charged directly to the AID grant when they should have been treated as an indirect, or overhead, expense:

Salaries	$ 76,800.52
Fringe Benefits	8,860.66

This is 100 percent of the salaries and fringe benefits paid to the following PPFA employees:

Name	Salary	Fringes
FPIA Accounting Staff:		
Fred Williams	$39,509.00	$5,115.90
Julius Whitt	23,966.58	2,274.67
Angelis Hall	333.33	32.65
Sally E. Asiedu	7,583.46	905.03
Janet Windbish	935.35	114.57
Computer Programmers in PPFA's Financial Management Department:		
Americo Rios	2,724.26	306.03
Gerald Reaves	166.67	11.84
Peter Tosca	1,581.87	99.97
Totals	$76,800.52	$8,860.66

While the cost of accounting services for FPIA is treated as a direct program expense, the cost of similar services for other programs is charged primarily to overhead. The AID grant, therefore, bears its own accounting costs directly, and then through overhead, absorbs a portion of the accounting expense applicable to other programs. In order to eliminate this inequity, the cost of accounting services for all programs must be treated consistently, i.e. either all as overhead or all as direct costs. Because of the ease with which it could be accomplished, we chose to treat all accounting expenses as overhead.

Explanatory Notes:

1/ (cont.)

With respect to the PPFA computer programmers, we found that a portion of their salary cost was charged to AID on the basis of fixed, predetermined percentages. Since no documentation was available showing the actual amount of time these employees had devoted to AID work, and computer costs applicable to most PPFA program activities were treated as indirect, or overhead, expense, we transferred these direct charges to the overhead pool.

Travel 4,010.00

This is 100 percent of the travel costs charged directly to AID for the following employees:

Name	Title	Amount
John Robbins	PPFA Chief Executive Officer	$2,263.56
Fred Williams	FPIA Accounting Staff	1,092.11
Julius Whitt	FPIA Accounting Staff	654.33
Total		$4,010.00

Travel costs incurred by Mr. Robbins while on FPIA business are charged directly to AID. Travel costs incurred by this employee in connection with other direct program activities, however, are treated as indirect, or overhead, expenses. As a result of this, AID bears all of his travel expenses applicable to FPIA directly, and through overhead, absorbs a portion of his travel expenses applicable to other programs. In order to eliminate this inequity, all of Mr. Robbins' travel expenses associated with program activities must be treated consistently, i.e. either all as overhead or all as direct costs. Because of the ease with which it could be accomplished, we chose to treat his travel expenses as overhead.

The travel costs of Messrs. Williams and Whitt was reclassified to overhead for the same reason that their salary costs were (see explanation above under the heading "Salaries, Fringe Benefits").

Explanatory Notes:

1/ (cont.)

Other Direct Costs

a. Salary and related costs of PPFA computer personnel. This sum was reclassified to overhead primarily because supporting documentation was not available, and computer costs applicable to most PPFA program activities were treated as indirect, or overhead, expense.	$10,994.71	
b. Xerox machine expense applicable to PPFA's non-FPIA activities which was incorrectly treated as an FPIA cost.	(476.91)	
c. Computer rental charges made to FPIA each month on the basis of flat, arbitrarily-determined amounts. Since there is no documentation prior to January, 1973 showing the actual utilization of the computer on FPIA work, and computer costs applicable to most PPFA program activities were treated as indirect, or overhead, expense, this sum has been reclassified to overhead.	21,858.00	
Total Other Direct Costs		$ 32,375.80
Total Direct Cost Transferred to Overhead		$122,046.98

2/ This is comprised of the following amounts:

(a) Salary charges for Federation personnel supposedly working part time on the AID project which are based upon fixed predetermined percentages. Since there are no time sheets or other documentation showing the actual amount of time worked by these persons, the salary charges for them are considered unallowable.	$ 53,434.15
(b) Value of the leave earned by five persons while employed on PPFA activities which was subsequently used after their reassignment to the AID project.	3,354.81

Explanatory Notes:

2/ (cont.)

(c)	Salary charges applicable to the time spent by an employee on non-AID work.	331.20
(d)	Jury pay earned by an employee which represents a recovery of salary costs.	180.00
(e)	Salary charges to the grant which are in excess of that permitted by the Grantee's "usual policy and practice" (see Article VIII of Attachment B to the grant agreement).	46,765.35
	Total Disallowance	$104,065.51

Generally speaking, PPFA did not concur with these disallowances.

3/ This represents all of the salary costs claimed for Dr. Richard Derman. The suspension was made because the Grantee has not provided satisfactory documentation that Dr. Derman put in sufficient time on the AID project to earn the salary payments which were made to him. PPFA concurred in this suspension.

4/ Represents the fringe benefit costs related to the salaries which have been questioned.

5/ Represents actual living expenses incurred by consultants performing international travel which are in excess of the maximum per diem rates allowed by the Uniform State/AID/USIA Foreign Service Travel Regulations (see Article X (3) of the grant agreement). The Grantee disagreed with this disallowance, claiming that, in accord with a previous understanding reached with AID, actual living expenses in excess of maximum per diem rates should be offset, or netted out, against amounts based on maximum per diem rates which were in excess of actual living expenses. Their contention is that this should be done on the basis of all trips for all employees rather than on each trip taken by an employee.

6/ Lodging and subsistence expenses were paid to travelers, and claimed against the AID grant, on an actual cost basis in accord with the Grantee's normal practices without regard to the maximum per diem rates for domestic and international travel specified in the Uniform State/AID/USIA Foreign Service Travel Regulations (see Article X (3) of Attachment B to the grant agreement). While the Grantee has, at the request of AID, made a partial review of international travel costs to determine the amount of any unallowable claims, a similar review of domestic travel costs has not been made because the Grantee understood from AID that this was not necessary. All claimed costs, therefore, with the exception of those amounts which have been specifically disallowed, are suspended pending a review of all international and domestic travel costs by the Grantee to identify those claims which exceed the amounts allowed by the terms of the grant.

Explanatory Notes:

7/ This is comprised of the following amounts:

(a) Travel payments made by USAID Missions which the Grantee claimed as its own costs. PPFA concurred in this disallowance.	$4,597.55
(b) Business meals and entertainment which are unallowable per Section 1-15.205-11 of the Federal Procurement Regulations. PPFA did not agree with this disallowance.	2,818.80
(c) Actual living expenses incurred by employees performing international travel which are in excess of the maximum per diem rates allowed by the Uniform State/AID/USIA Foreign Service Travel Regulations (see Article X (3) of the grant agreement). The Grantee's response to this disallowance is presented in footnote 5/ above.	2,206.90
Total Disallowance	$9,623.25

8/ This is comprised of the following amounts:

(a) Cost of a display at the PPFA annual meeting which is not necessary for the conduct of the Federation's business on the performance of the grant.	$2,120.00
(b) Cost of leasehold improvements made to office space at PPFA's New York Headquarters which, for the most part, is not occupied by personnel working on the AID project.	2,667.25
Total Disallowance	$4,787.25

9/ This is comprised of the following amounts:

(a) Costs charged to the grant for accountable property (items with a unit price of $50 or higher) which are being suspended pending the establishment and implementation of the property controls required by Article VII of Attachment B to the grant.	$ 24,840.77

Explanatory Notes:

9/ (cont.)

(b) The following categories of expense have been suspended either because the auditor was not furnished with the documentation supporting certain charges which he had selected for examination, although he had made several requests for it (these are identified with a (1)), or a portion of the total claimed, which cannot be identified without considerable work, is unallowable because the basis used for making charges to the AID project is total salary costs, and as indicated in footnotes 1/, 2/, and 3/ above, a portion of the salary costs are not acceptable charges to the AID grant (these are identified with a (2)):

General Supplies (2)	11,326.15
Postage and Shipping (2)	64,032.02
Xerox Machine Expenses (1) (2)	11,908.55
Telephone and Telegraph (1)	31,778.91

(c) Under the method used by the Grantee for allocating occupancy (rent and utilities) costs, the AID grant has been charged on an inequitable basis for an amount of space which is greater than that which the project staff needs or utilizes. All direct occupancy cost charges, therefore, have been suspended pending a determination by PPFA as to the amount which is properly allocable to the AID project. 105,770.33

Total Amount Suspended $249,656.73

10/ Subcontract costs during the audit period were as follows:

Subcontractor	PPFA Subcontract Identification	Amount
Int'l Educational Development, Inc.	FPIA-01	$ 19,930.00
University of Colorado Medical Center	FPIA-02	60,000.00
Int'l Educational Development, Inc.	FPIA-03	128,414.26
Total		$208,344.26

Explanatory Notes:

10/ (cont.)

The disallowance represents the costs questioned by the Defense Contract Audit Agency (DCAA) as a result of their review of subcontracts FPIA-01 and FPIA-03 with International Educational Development, Inc. (IED). It is comprised of the following amounts:

a) All costs claimed under FPIA-01 as IED had no record of the costs under this subcontract. $19,930.00

b) The following amounts reimbursed under subcontract FPIA-03:

(1) Salary charges representing the value of contributed professional voluntary services by Sr. Jane Blewitt and John K. Peterson. Since there was no actual payment of money to these people, the charges are not considered allowable. 9,033.00

(2) Adjustment of fringe benefits charges determined as follows: 3,148.00

Fringe benefits claimed		(a) $11,929
Gross salaries claimed	$63,072	
Less: unallowable salaries	9,033	
Allowable salaries	$54,039	
Audited fringe benefit rate	16.25%	
Allowable fringe benefits costs ($54,039 x 16.25%)	8,781	(b) 8,781
Amount disallowed (a-b)		$ 3,148

Explanatory Notes:

10/ (cont.)

(3) Adjustment of overhead charges determined as follows: $ 1,827.00

Overhead claimed		(a)	$22,764
Total direct costs claimed	$151,762		
Less: unallowable direct costs	12,181		
Allowable direct costs	$139,581		
Audited overhead rate (Per DCAA, this is the maximum overhead rate in the subcontract, and it was used because IED's actual overhead rate exceeded 15%)	15%		
Allowable overhead	20,937	(b)	20,937
Unallowable overhead (a-b)			$ 1,827

(4) Costs incurred by IED in excess of the subcontract budget ceiling of $173,030 which was not billed to PPFA. Since the audit disallowances exceed this sum, it is considered a proper charge to the subcontract. (1,496.00)

Total Amount Disallowed $32,442.00

Explanatory Notes:

11/ This sum represents PPFA payments to the University of Colorado Medical Center (UCMC) under subcontract FPIA-02. The Department of Health, Education and Welfare (HEW), the cognizant audit agency for UCMC, provided us with a final audit report on the subcontract covering the period July 1, 1972 through October 30, 1973 in which they accepted all claimed costs of $115,200.07. During their review, however, they did not establish audited overhead rates or determine the total amount of money which PPFA has paid to UCMC. The $60,000 in payments, therefore, has been suspended pending (1) the establishment of audited overhead rates and the adjustment of claimed overhead costs based upon them, and (2) a comparison of total PPFA payments to total allowable UCMC costs to determine the amount of any overpayment or underpayment to the subcontractor. We were advised by HEW that they plan to make an overhead review during Fiscal Year 1975.

12/ This entire sum, representing cash disbursements to subgrantees, has been suspended because PPFA has either not received audit reports on the expenditures incurred from a qualified independent public accountant, or the audit reports which have been received do not meet the requirements set out in Article II of Attachment B to the grant agreement. PPFA concurred with this suspension.

13/ PPFA's overhead rate proposal for calendar year 1972 was not considered acceptable because the overhead pool contained unallowable costs, as well as direct program expenses which should have been in the overhead allocation base. The Grantee never prepared a revised proposal although they had agreed with the Department of Health, Education, and Welfare (HEW) to do so, and the AID auditor had made numerous requests for it. As a result, all claimed overhead costs have been suspended pending the preparation of a revised 1972 overhead proposal.

Details concerning any of the audit adjustments discussed above, as well as the complete text of the Grantee's response to these adjustments, will be made available upon request.

PLANNED PARENTHOOD FEDERATION OF AMERICA

LIST OF AUDIT RECOMMENDATIONS

NO.	RECOMMENDATION	PAGE
1	The Grant Officer should take action to: (a) determine the acceptability of Grantee's performance as a prerequisite to the approval of grant costs, (b) accept the grant costs and audit adjustments as proper under the terms of the grant, and (c) ensure settlement of the amount due as a result of the audit adjustments.	2
2	The Grant Officer should request the Grantee to revise its accounting system so that charges to the various cost centers represent actual costs distributed on a fair and equitable basis.	3
3	The Grant Officer negotiate a change in the grant agreement to provide for the application of the overhead rate to total direct costs exclusive of commodities, subcontracts, subgrants, leasehold improvements, and U.S. office equipment purchases.	3
4	The Grant Officer, SER/CM/COD, should take action, to assure that the Grantee engages all future PPFA/FPIA professional staff members only in the A.I.D. approved capacity.	4
5	The Grant Officer should direct PPFA to maintain time sheets for FPIA employees which identify the amount of time spent on A.I.D. business and non-A.I.D. business, and to use these documents as the basis for charging salary costs to the A.I.D. grant.	8
6	The Grant Officer should advise the Grantee that charges to the grant for living expenses incurred during domestic travel cannot exceed the maximum per diem rate specified in the A.I.D. regulations.	10
7	The Grant Officer should amend the grant agreement to clearly state whose regulations (AID's or PPFA's) will govern the allowance and benefits for employees stationed overseas. If those of the Grantee are selected, they should be carefully reviewed to assure they are complete.	12

PLANNED PARENTHOOD FEDERATION OF AMERICA

LIST OF AUDIT RECOMMENDATIONS

NO.	RECOMMENDATION	PAGE
8	The Grant Officer should amend the grant agreement to state who has title to equipment purchased for use overseas.	12
9	The Grant Officer should require the Grantee to establish a property control system which satisfies the requirements of the grant: (a) Provide criteria for identifying items which require accountability. Within the federal government, accountable items are those with a unit price of $50 or more, (b) Install a perpetual inventory records system for accountable property. Ideally, a set of cards, one for each item, which would contain the (1) name of item, (2) supplier, (3) date of purchase, (4) location, (5) FPIA and/or PPFA serial number and (6) unit price. The cards would serve as the subsidiary equipment ledger for a general ledger account A.I.D. equipment in the PPFA books of account. (c) Require periodic, preferably annual, physical inventories of accountable property which would be reconciled to the subsidiary ledger cards, thus verifying the general ledger equipment account.	13
10	The Grant Officer should require the Grantee to submit the annual property report called for by the grant agreement.	14
11	The Grant Officer should request the Grantee to: (a) Obtain audit reports from independent public accountants which meet requirements stated in the grant agreement. (b) Amend all outstanding subgrant agreements to reflect the requirements in the grant agreement regarding the qualifications of independent public accountants and the nature of the audits they are to perform.	15

PLANNED PARENTHOOD FEDERATION OF AMERICA

LIST OF AUDIT RECOMMENDATIONS

NO.	RECOMMENDATION	PAGE
12	The Grant Officer should require the Grantee to insert the necessary right-to-audit clause in all subgrant agreements.	15
13	The Grant Officer should reach an understanding with the Grantee as to AID's right of access to grant-related records.	17
14	The Grant Officer should recommend the Grantee establish an internal audit unit as soon as possible.	17