



Auditor General

FOUNDATION FOR COOPERATIVE HOUSING, INC. (FCH)

Contract No. AID/csd-3396

Contract No. AID/otr-C-1296 = 912-0467

Contract No. AID/otr-C-1529 = 912-0050

Grant No. AID/otr-G-1447

Audit Report Number 80-48

Issue Date April 14, 1980

Area Auditor General, Washington
Agency for International Development
Washington, DC. 20523

FOUNDATION FOR COOPERATIVE HOUSING, INC. (FCH)

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FOUNDATION FOR COOPERATIVE HOUSING, INC. (FCH)

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INTRODUCTION AND SCOPE

A. Introduction

The Foundation for Cooperative Housing, Inc. (FCH) is a private non-profit organization with its main offices in Washington, D. C. It was established in 1950 and patterned after the Scandinavian cooperative housing organizations. Foundation policy and direction are established by a forty-member Board of Trustees. At the present time the Foundation has three major subsidiaries: FCH Services, Inc., FCH International, Inc. and NSHC, Inc. (National Services to Housing Communities).

FCH works overseas at the invitation of local governments and cooperative organizations. It provides technical advice, training and collaboration with local technicians in the development of self-help housing, cooperative housing, disaster relief shelter, rural housing, and special programs for refugees. FCH assists in all phases of project development. Its main concern, however, is the social and human aspects of shelter programs. Therefore, it concentrates on establishing permanent community-based organizations which allow people to improve their homes and communities over a period of time.

B. Scope

The Office of the Area Auditor General/Washington has performed an audit of the contracts, grants and related task orders awarded to FCH for the period from October 1, 1975 through September 30, 1977. The examination included a review of FCH's accounting system, internal controls, administrative policies and procedures, and the selective testing of documentation supporting financial transactions to the extent considered necessary.

The purpose of the examination was to determine the (1) propriety and allowability of direct costs claimed, (2) reasonableness of the overhead submissions for the fiscal year ended September 30, 1977, and (3) adequacy of the accounting system and internal controls.

FINDINGS AND RECOMMENDATIONS

A. Contract and Grant Costs

Costs claimed during the period October 1, 1975 through September 30, 1977, totaling \$2,032,112 were examined. Of this sum, \$1,955,783 is recommended for acceptance. The balance of \$76,329 represents costs questioned of \$70,830 and \$5,499 in excess of the contract ceiling. These amounts are summarized below and detailed in the referenced exhibits.

<u>Contract/Grant</u>	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Overrun</u>	<u>Costs Accepted</u>	<u>Exhibit</u>
Contract No. AID/csd-3396					A
Task Order No. 1 (Global)	\$ 89,208	\$ 2,949	\$ -	\$ 86,259	
Task Order No. 4 (Peru)	84,219	(737)	-	84,956	
Task Order No. 6 (Caribbean)	311,209	(3,381)	-	314,590	
Task Order No. 8 (Regional)	35,576	936	5,499	29,141	
Task Order No. 10 (ROCAP)	181,297	3,471	-	177,826	
Contract No. AID/otr-C-1296	900,571	46,198	-	854,373	B
Contract No. AID/otr=C-1529	119,903	4,100	-	115,803	C
Grant No. AID/otr-C-1447	310,129	17,294		292,835	D
Totals	<u>\$2,032,112</u>	<u>\$70,830</u>	<u>\$5,499</u>	<u>\$1,955,783</u>	

Recommendation No. 1

The Office of Contract Management (SER/CM) take appropriate action to ensure settlement of the \$70,830 in questioned costs and the \$5,499 cost overrun.

B. FCH's Accounting and Administrative Controls are Considered Inadequate

During our examination we noted a number of deficiencies in FCH's accounting system and administrative policies and procedures which are enumerated below:

Accounting Systems

FCH accounting records are not adequate for accumulating, recording and segregating costs under government contracts and grants. The need for

effective cost control procedures is the principal reason we questioned certain costs.

FCH has a controller who does not, however, exercise control over the entire accounting operation. The controller limited himself to domestic operations, while a part-time consultant handled international operations. As a result, two separate and distinct divisions developed, each with its own set of accounts and operating procedures. There is not one person with overall knowledge, control and coordination of the accounting operation. Consequently, inconsistencies in cost treatment have arisen. Areas of concern are:

1. Direct costs for domestic operations were not segregated from corporate overhead expense. In accordance with our suggestion, FCH indicated this segregation will be made starting with fiscal year 1979.
2. Direct costs applicable to international projects, primarily funded by AID, were not segregated on the books by contract, grant or task order. Segregation of costs is essential for accumulating and controlling costs, and providing a basis for periodic billings to AID and other clients. FCH indicated the necessary segregation will be made starting with fiscal year 1979.
3. The accounting records for domestic programs are kept on an accrual basis while accounting records for international programs are maintained on a cash basis. As a result, the cost allocation base is not consistent.
4. In some instances salaries were charged to one cost center while corresponding travel costs for the same individuals were charged to another cost center. In some cases it appeared as though this was done intentionally in order to stay within the line item budget limitations.
5. Almost all rent, telephone, and backstopping salary costs for the International Division were allocated to AID contracts even though this division does work for non-AID clients such as the United Nations and World Bank. FCH officials indicated they would correct this situation in fiscal year 1979 by (a) charging all rent and telephone cost to the International Division overhead pool and (b) maintaining employee time sheets which will permit salaries to be allocated proportionately between AID-funded and non-AID funded projects.
6. Unsupported estimates were utilized as a basis for allocating costs to the AID-funded projects.

7. Invoices and other documentation supporting the purchase of supplies and services were not always available.
8. Cost data accumulated by one staff member was revised without notation by another staff member prior to being recorded in the books of account. No reasons were presented for the revision.
9. The corporate overhead pool included direct costs applicable to non-AID funded activities.
10. Salary costs recorded in the financial records do not agree with the salary costs shown in the payroll register because of mathematical errors, duplicate postings, and salaries charged to income and receivable accounts rather than expense accounts.

There is a need for FCH to examine expenses prior to payment to insure that the expenditure is reasonable and the cost allocation is proper. In order to help reduce the deficiencies, FCH should improve operational effectiveness in the following areas:

- The Controller should assume total responsibility for the entire financial operation.
- Written policies and procedures should be established which will provide consistent guidelines for distributing and allocating costs.
- Expenditures should be reviewed to ascertain that the cost is reasonable and necessary.
- The FCH internal auditor should perform periodic reviews of accounting system to determine that the system is functioning effectively and efficiently.

Policies and Procedures

Policies and procedures applicable to vacations, holiday and sick leave are not applied equitably and there was no plan for consistent treatment of unused leave:

- When an employee takes holiday or sick leave, the cost is allocated to the project which the employee is working on during the pay period in which the leave is taken. When the employees take vacation leave the costs are allocated to the projects on which they worked on subsequent to the last time vacation leave was taken. Since leave is earned uniformly

throughout the year, all projects worked on during the year should bear an equitable portion of all leave costs. The most logical way to do this is to allocate vacation, holiday and sick leave through the overhead pool. FCH officials indicated they will begin allocating all leave through overhead.

2. Some International Division employees did not use all of their accrued leave during the year and were given a lump sum for the unused leave payment.
3. FCH engages part-time employees in its Washington, D. C. headquarters. However, a large percentage of these part-time employees reside in cities outside the Washington, D. C. metropolitan area. Consequently, while the part-time employees are in Washington, they are paid per diem at the standardized government rate. In our opinion, FCH should evaluate the need for part-time employees who reside outside the Washington, D. C. area against the total cost of their employment. As a result of our discussions, FCH has indicated a policy will be issued on this requirement for utilizing part-time employees.

Consultants

FCH utilizes the services of consultants in its work. As a result of our review, we feel FCH should strengthen procedures for determining consultant daily rates, have written agreements with consultants, and improve accounting procedures for recording cost incurred by the consultants. Areas of concern are summarized as follows:

1. Daily fees paid to consultants should be fair and reasonable and should be based upon current prevailing market rates for similar type work. We found that FCH based its rates almost entirely on prior earnings, even though the work the consultants are to perform is not similar to the work they performed in the past. During our audit FCH issued a policy statement setting forth criteria to be considered in establishing consultant daily rates.
2. FCH normally does not execute written agreements with its consultants. Nor is documentation kept to show how the daily rates were negotiated. In order that both parties clearly understand the duties and responsibilities, we recommend that the terms and conditions of consultant assignments be reduced to writing.
3. FCH has made fee advances to consultants which were charged to expense at the time of payment. Fee advances, like travel advances, should not be expensed until the services are actually rendered.

Accountable Property

FCH capitalizes the cost of furniture and equipment purchased for domestic operations and charges the annual depreciation expense to overhead. However, purchases of furniture and equipment for international operations are expensed immediately with the cost generally charged directly to an AID contract.

The company does not maintain subsidiary records which show the costs and location of each accountable piece of property. This should be done for two reasons. First, AID contracts require an accounting for all major purchases upon completion of specified services. Secondly, since AID is directly absorbing the costs of equipment purchased for its work, the depreciation applicable to equipment purchased for domestic operations must be eliminated from overhead to avoid an inequitable allocation to AID.

In addition, FCH did not have a definition for accountable property. For example, we found domestic purchases with a unit cost as low as \$13.50 being capitalized. During our audit, however, FCH did establish a written definition for accountable property as being any item with a unit cost of \$500 or more.

Billings to AID

Monthly billings to AID are prepared from supporting documents such as invoices, receipts, payrolls, etc., rather than from postings to the ledger. Moreover, we found no indication that billings are reconciled to costs recorded in the financial records. Under these conditions, over and under-billing of costs can occur. FCH has indicated that starting in FY 1979 billings will be prepared directly from the general ledger.

For example, FCH has been reimbursed \$566,110 under Task Order No. 8 of Contract No. AID/csd-3376 (see Exhibit A). This is \$1,042 more than the task order maximum of \$565,068. This difference of \$1,042 should be refunded to AID.

Recommendation No. 2

The Office of Contract Management (SER/CM) require:

1. FCH to implement remedial action to make its accounting system, records, and internal controls acceptable for accountability, recording and segregating cost under a government funded contract or grant.

2. Recoup the overpayment of \$1,042 received under Task Order No. 8, Contract No. AID/csd-3396.

C. FCH is Restricted in Functioning as an Independent Contractor

During our review we found instances where AID's Office of Housing (DS/H) urged FCH to hire specific consultants for work under Contract No. AID/otr-C-1296. In our opinion this practice (1) may relieve the contractor of responsibility for performance under the contract agreement and (2) it is contrary to Agency policy as contained in Handbook 25, Section 14c, 12 dealing with employer-employee relationship.

Recommendation No. 3

The Office of Housing (DS/H) discontinue the practice of advising FCH which consultants should be hired.

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	2
The Office of Contract Management (SER/CM) take appropriate action to ensure settlement of the \$70,830 in questioned costs and the \$5,499 cost overrun.	
<u>Recommendation No. 2</u>	6
The Office of Contract Management (SER/CM) require:	
1. FCH to implement remedial action to make its accounting system, records, and internal controls acceptable for accountability, recording and segregating cost under a government funded contract or grant.	6
2. Recoup the overpayment of \$1,042 received under task Order No. 8, Contract No. AID/csd-3396.	7
<u>Recommendation No. 3</u>	7
The Office of Housing (DS/H) discontinue the practice of advising FCH which consultants should be hired.	

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator/DS	5
Office of Legislative Affairs (LEG)	1
Office of Financial Management (FM)	1
Office of Contract Management, SER/CM	5
Development Support, Development Information and Utilization (DS/DIU)	4
Development Support, Office of Housing (DS/H)	5
General Counsel (GC)	1
Auditor General (AG)	1
AAG/LA	1
AAG/EA	1
AAG/NE	1
AAG/EAFR	1
AAG/W/WAFR	1
AAG/Egypt	1
AG/IIS	1
AG/PPP	1

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/csd-3396 (Global) Task Order Nos. 1, 4, 6, 8 and 10
 Summary of Task Order Costs and Audit Adjustments
 For the Period January 15, 1972 through September 30, 1977

Task Order Number	Costs Accepted 9/30/75	Costs Claimed	Current Period 10/1/75 - 9/30/77		Costs Accepted	Cost Accepted 9/30/77
			Audit Costs Questioned	Adjustments Costs Overrun		
1 (Global)	\$ 500,683	\$ 89,208	\$ 2,949	-	\$ 86,259	\$ 586,942
4 (Peru)	272,400	84,219	(737)	-	84,956	357,356
6 (Caribbean)	226,924	311,209	(3,381)	-	314,590	541,514
8 (Regional)	535,927	35,576	936	5,499	29,141	565,068 ^{2/}
10 (ROCAP)	<u>35,462</u>	<u>181,297</u>	<u>3,471</u>	<u>-</u>	<u>177,826</u>	<u>213,288</u>
TOTAL	<u>\$1,571,396</u>	<u>\$701,509</u> ^{1/}	<u>\$ 3,238</u>	<u>\$5,499</u>	<u>\$692,772</u>	<u>\$ 2,264,168</u>

Explanatory Notes

1/ See schedules A -1 through A-5 details.

2/ Task Order ceiling price. FCH has been reimbursed for costs in excess of this ceiling. See Recap below and recommendation No. 2 in the narrative section of this report.

Total Costs Reimbursed	\$ 571,493
Less: Funds refunded by FCH	<u>5,383</u>
Net Total Reimbursed	<u>\$ 566,110</u>

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/csd-3396, Task Order No. 1
 Summary of Costs Claimed and Audit Adjustments
For the Period October 1, 1975 through October 31, 1976

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries	\$ 46,435 ^{1/}	\$ -	\$ 46,435
Overhead	27,861	(194) ^{2/}	28,055
Travel	1,637	-	1,637
Allowances	954	-	954
Other Direct Costs	<u>12,321</u>	<u>3,143</u> ^{3/}	<u>9,178</u>
Total	<u>\$ 89,208</u>	<u>\$ 2,949</u>	<u>\$ 86,259</u>

EXPLANATORY NOTES:

^{1/} Includes prior year costs of \$2,017

^{2/} Represents adjustment of provisional overhead as shown below

Overhead Claimed	Total	\$ 27,861
Overhead Allowed:		

	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>TOTAL</u>
Direct Salaries	\$ 2,017	\$ 43,322	\$ 1,096	\$ 44,418
Overhead Rates	67.11%(a)	59.94%(a)	66.99%(b)	
Amount Allowed	<u>\$ 1,354</u>	<u>\$ 25,967</u>	<u>\$ 734</u>	<u>28,055</u>
Difference Due FCH				<u>\$ (194)</u>

(a) Negotiated Rate

(b) Audited Rate, See Exhibit E

^{3/} This is comprised of the following:

a. Cost reclassified to the International
 Division overhead pool:

Rent	\$ 2,885
Research and Education	<u>11</u>

Total Costs Reclassified	<u>\$ 2,896</u>	\$ 2,896
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b. Salary of Mr. J. Castro which was charged twice,
 once directly to the task order as duplicating
 expense and again to the corporate overhead pool
 as indirect salary. Since the direct charge is
 an estimate while the amount in the corporate pool
 is actual, the direct charge disallowed.

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Total Costs Questioned	<u>\$ 3,143</u>

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/csd-3396, Task Order No. 4
 Summary of Costs Claimed and Audit Adjustments
 For the Period October 1, 1975 through September 30, 1977

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries	\$ 38,302 ^{1/}	\$ -	\$ 38,302
Overhead	23,553	(791) ^{2/}	24,344
Transportation	6,950	-	6,950
Allowances	10,619	-	10,619
Other Direct Costs	<u>4,795</u>	<u>54</u> ^{3/}	<u>4,741</u>
Total	<u>\$ 84,219</u>	<u>\$ (737)</u>	<u>\$ 84,956</u>

EXPLANATORY NOTES:

1/ Includes prior year costs of \$688.

2/ Represents adjustment of provisional overhead as shown below:

Overhead Claimed	
Overhead Allowed:	\$23,553

	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>TOTAL</u>
Direct Salaries	\$ 688	\$ 18,665	\$ 18,949	\$ 38,302
Overhead Rates	<u>67.11%(a)</u>	<u>59.94%(a)</u>	<u>66.99%(b)</u>	
Amount Allowed	<u>\$ 462</u>	<u>\$ 11,188</u>	<u>\$ 12,694</u>	<u>\$24,344</u>
Difference Due FCH				<u>\$ (791)</u>

(a) Negotiated Rate
 (b) Audited Rate, see Exhibit E

3/ This is comprised of the following:

a. Office supplies expense reclassified to the International Division overhead pool	\$50
b. Salary of Mr. J. Castro (see 3(b) of Exhibit A for explanation)	<u>4</u>
Total Costs Questioned	<u>\$54</u>

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/csd-3396, Task Order No. 6
 Summary of Costs Claimed and Audit Adjustments
For the Period October 1, 1975 through September 30, 1977

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries and Wages	\$123,581	\$ ---	\$123,581
Overhead	74,104	(3,449) ^{2/}	77,553
Allowances	41,013	-	41,013
Travel & Transportation	55,286	-	55,286
Other Direct Costs	<u>17,225</u>	<u>68</u> ^{3/}	<u>17,157</u>
Total	<u>\$311,209</u> ^{1/}	<u>\$ (3,381)</u>	<u>\$314,590</u>

EXPLANATORY NOTES:

1/ Includes prior year costs of \$2,208.

2/ Represents adjustment of provisional overhead, as shown below:

Overhead Claimed				\$74,104
Overhead Allowed:				
	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>TOTAL</u>
Direct Salaries	\$ 2,208	\$74,270	\$47,103	\$123,581
Overhead salaries	67.11%(a)	59.94%(a)	66.99%(b)	
Amount Allowed	<u>\$ 1,482</u>	<u>\$44,517</u>	<u>\$31,554</u>	<u>77,553</u>
Difference Due FCH				<u>\$(3,449)</u>

(a) Negotiated Rate

(b) Audited Rate, see Exhibit F.

3/ This is comprised of the following:

a. Office supplies expense reclassified to the International Division overhead pool	\$ 51
b. Salary of Mr. J. Castro (see footnote 3(b) of Exhibit A for explanation)	<u>17</u>
Total Costs Questioned	<u>\$ 68</u>

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/csd-3396, Task Order No. 8
For the Period October 1, 1975 through December 31, 1975

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries	\$ 16,611 ^{1/}	\$ -	\$ 16,611
Overhead	9,966	(269) ^{2/}	10,235
Travel & Transportation	5,842	805 ^{3/}	5,037
Housing Allowance and Return Home	1,350	400 ^{4/}	950
Other Direct Costs	<u>1,807</u>	<u>-</u>	<u>1,807</u>
Sub-Total	<u>\$ 35,576</u>	<u>\$ 936</u>	\$ 34,640
Direct Cost Overrun			<u>5,499</u>
Total			<u>\$ 29,141</u>

EXPLANATORY NOTES:

1/ Includes prior year costs of \$3,881.

2/ Represents adjustment of provisional overhead for FY-76, as shown below:

Overhead Claimed			\$ 9,966
Overhead Allowed:			
	<u>FY 1975</u>	<u>FY 1976</u>	<u>TOTAL</u>
Direct Salaries	\$ 3,881	\$12,730	<u>\$16,611</u>
Overhead Rates	67.11%(a)	59.94%	
Amount Allowed	<u>\$ 2,605</u>	<u>\$ 7,630</u>	<u>10,235</u>
Difference Due FCH			<u>(269)</u>

(a) Negotiated Rate

3/ Represents insurance paid to Transpak Medellin, Ltda., on the shipment of household goods of Mr. Ken Odenheim. This is considered a personal expense of the employee, and thus not reimbursable under the AID contract.

4/ This represents a \$200 payment to both Messrs. Ken Odenheim and Richard Owens intended as a foreign transfer/home return allowance. Neither employee was entitled to such allowances.

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/csd-3396, Task Order No. 10
 Summary of Costs Claimed and Audit Adjustments
 For the Period October 1, 1975 through June 30, 1977

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries	\$ 80,007 ^{1/}	\$ -	\$ 80,007
Overhead:	53,662	3,471 ^{2/}	50,191
Travel	7,092	-	7,092
Allowances	34,654	-	34,654
Other Direct Costs	<u>5,882</u>	<u>-</u>	<u>5,882</u>
Total	<u>\$181,297</u>	<u>\$ 3,471</u>	<u>\$177,826</u>

EXPLANATORY NOTE:

^{1/} Includes prior year costs of \$1,851

^{2/} Represents adjustment of provisional overhead, as shown below:

Overhead Claimed (less \$30)				\$ 53,662
Overhead Allowed:				
	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>TOTAL</u>
Direct Salaries	\$ 1,851	\$48,334	\$29,822	\$80,007
Overhead Rates	<u>67.11%(a)</u>	<u>59.94%(a)</u>	<u>66.99%(b)</u>	
Amount Allowed	<u>\$ 1,242</u>	<u>\$28,971</u>	<u>\$19,978</u>	<u>\$ 50,191</u>
Difference Due AID				<u>\$ 3,471</u>

(a) Negotiated Rate

(b) Audited Rate. See Exhibit E.

Contract No. AID/otr-C-1296
Summary of Costs Claimed and Audit Adjustments
For the Period October 1, 1975 through September 10, 1977

	Costs Accepted 9/30/75	Costs Claimed	Costs Questioned	Costs Accepted	Costs Accepted 9/30/77
Salaries and Wages	\$250,353	\$367,386 ^{1/}	\$30,912 ^{2/}	\$336,474	\$586,827
Overhead	162,575	219,205	4,224 ^{3/}	214,981	377,556
Travel and Transportation	60,134	83,800	-	83,800	143,934
Per Diem and Allowances	69,502	56,129	-	56,129	125,631
Consultant Fees	-	93,793	-	93,793	93,793
Other Direct Costs	45,065	80,258	11,062 ^{4/}	69,196	114,261
Total	<u>\$587,629</u>	<u>\$900,571</u>	<u>\$46,198</u>	<u>\$854,373</u>	<u>\$1,442,002</u>

EXPLANATORY NOTES:

1/ Includes prior year costs of \$7,261.

2/ This represents a reclassification of FY 1977 salaries as follows:

a. Salary of Mr. C. Dean, Director, International Programs, transferred to the International Division overhead pool as he is responsible for all international FCH projects, and thus his pay is indirect in nature	\$27,136
b. Salary of Mr. T. Priftis, Program Director, while he was acting director of International Programs during Mr. Dean's absence.	2,721
c. Salary of various international personnel which is directly applicable to non-AID work.	<u>1,055</u>
Total cost reclassified	<u>\$30,912</u>

3/ Represents adjustment of provisional overhead, as shown below: \$219,205

	FY 1975	FY 1976	FY 1977	TOTAL
Overhead Claimed				
Overhead Allowed:				
Direct Salaries	\$7,261	\$147,968	\$181,245	\$336,474
Overhead Rates	67.11%(a)	59.94%(a)	66.99%(b)	
Amount Allowed	<u>\$4,873</u>	<u>\$ 88,692</u>	<u>\$121,416</u>	<u>\$214,981</u>
Difference Due AID				<u>\$ 4,224</u>

(a) Negotiated Rate

(b) Audited Rate. See Exhibit E.

4/ This is comprised of the following:

- a. Costs reclassified to the International Division overhead pool as they are applicable to all international projects:

Telephone and telegraph	\$ 632	
Rent	8,615	
Office Supplies	97	
Research and education	201	
Temporary help - Library	<u>227</u>	

Total costs reclassified	\$9,772	\$9,772
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- b. Salary of Mr. J. Castro (see footnote 3.(b) of Schedule A-1 for explanation) 1,290

Total Costs Questioned		<u>\$11,062</u>
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FOUNDATION FOR COOPERATIVE HOUSING, INC.

Contract No. AID/otr-C-1529
 Summary of Costs Claimed and Audit Adjustments
 For the Period November 1, 1976 (Inception) through September 30, 1977

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries	\$63,432	\$3,030 ^{1/}	\$60,402
Overhead	38,059	(2,404) ^{2/}	40,463
Travel	4,308	-	4,308
Allowances	1,600		1,600
Other Direct Costs	<u>12,504</u>	<u>3,474</u> ^{3/}	<u>9,030</u>
Total	<u>\$119,903</u>	<u>\$4,100</u>	<u>\$115,803</u>

EXPLANATORY NOTES:

1/ Comprised of the following amounts:

- | | |
|---|----------------|
| a. Salary of Mr. J. Edmondson, Program Director, while he was Acting Director of International Programs during the absence of the Director, Mr. C. Dean. This amount is reclassified to the International Division overhead pool where Mr. Dean's salary is charged | \$1,975 |
| b. Salary of various international personnel which is directly applicable to non-AID work. | <u>1,055</u> |
| Total Amount Reclassified | <u>\$3,030</u> |

2/ Represents adjustment of provisional overhead as shown below:

Overhead Claimed	\$38,059
Overhead Allowed:	
Direct Salaries Accepted	\$60,402
Overhead Rate	<u>66.99%(a)</u>
Amount Allowed	<u>40,463</u>
Difference Due FCH	<u>\$(2,404)</u>

(a) Audited Rate, see Exhibit E.

3/ Comprised of the following:

a. Costs reclassified to the International
Division overhead pool:

Telephone and telegraph	\$ 362
Rent	2,747
Office Supplies	56
Research and Education	<u>(15)</u>

Total	<u>\$3,150</u>	\$3,150
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b. Salary of Mr. J. Castro (see footnote
3(b) of Schedule A-1.

324

Total Costs Questioned	<u>\$3,474</u>
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FOUNDATION FOR COOPERATIVE HOUSING, INC.

Grant No. AID/otr-G-1447
Summary of Costs Claimed and Audit Adjustments
For the Period February 1, 1976 (Inception) to September 30, 1977

	<u>Costs Claimed</u>	<u>Costs Questioned</u>	<u>Costs Accepted</u>
Salaries	\$139,409	\$ 1,054	\$138,355
Travel & Allowances	34,174	276	33,898
Other Direct Costs	43,888	12,004	31,884
Overhead	<u>92,658</u>	<u>3,960</u>	<u>88,698</u>
Total	<u>\$310,129</u>	<u>\$17,294</u>	<u>\$292,835</u>

EXPLANATORY NOTES:

1/ Represents the salary of various international personnel which is directly applicable to non-AID work in FY 1977.

2/ Comprised of the following amounts:

a. Duplicate per diem payments to Mr. Wallis Westwood for the period March 1-15, 1977. \$245

b. Cost of first class Amtrak train ticket for Mr. Charles Dean in excess of the cost of a coach ticket. FCH travel policy prohibits first class travel 31

Total Costs Questioned \$276

3/ a. Fee overpayment to Mr. Lawrence Salmon, a consultant, for services provided during the 10-day period 9/27-10/8/76. He was paid \$138 per day when his proper fee was only \$132.50 \$ 55

b. Fee payment to consultant Lawrence Salmon by check number 1187 which is not supported by a bill or any other evidence of the services rendered. 725

c. Costs reclassified to the International Division overhead pool as they are applicable to all international projects:

Telephone and telegraph	\$ 221
Rent	10,113
Research and Education	58
Temporary help - Library	<u>225</u>

Total \$10,617 10,617

d. Salary of Mr. J. Castro (see footnote 3.(b) of Schedule A-1 for explanation) 607

Total Costs Questioned \$12,004

4/ Represents adjustment of provisional overhead as shown below:

Overhead Claimed				\$92,658
Overhead Allowed:				
	<u>FY 1976</u>	<u>FY 1977</u>	<u>TOTAL</u>	
Direct Salaries	\$56,532	\$81,823	\$138,355	
Overhead Rate	<u>59.94%(a)</u>	<u>66.99%(b)</u>		
Amount Allowed	<u>\$33,885</u>	<u>\$54,813</u>		<u>88,698</u>
				<u>\$ 3,960</u>

(a) Negotiated rate

(b) Audited Rate. See Exhibit E.

FOUNDATION FOR COOPERATIVE HOUSING, INC.

Determination of the Overhead Rate
For the Fiscal Year Ended September 30, 1977

	<u>Contractor's Proposal</u>		<u>Auditor's Determination</u>		
	<u>Corporate</u>	<u>Rate</u>	<u>Corporate</u>	<u>Rate</u>	
	<u>Pool</u>	<u>Calculation</u>	<u>Pool</u>	<u>Calculation</u>	
				<u>Supporting</u>	
				<u>Schedule</u>	
International Division Pool		\$155,772		\$142,929	E-1
Corporate Pool:					
Total Cost	\$550,054		\$486,132		E-2
Allocable to AID:					
Percentage	<u>33.54%</u> <u>1/</u>		<u>28.54%</u> <u>2/</u>		
Amount		<u>184,488</u>		<u>138,742</u>	
Total Overhead Applicable to AID		(A)\$340,238		(A)\$281,671	
Total Direct AID Salaries		(B) 429,950		(B) 420,440	E-1 (page 3)
Overhead Rate (A ÷ B)		<u>79.13%</u>		<u>66.99%</u>	

Explanatory Notes:

- 1/ Represents proposed FCH direct labor of \$1,282,055 divided by AID direct labor of \$427,950 (See Schedule E-3).
- 2/ Represents accepted FCH direct labor of \$1,473,175 divided by AID direct labor of \$420,440. (See Schedule E-3).

FOUNDATION FOR COOPERATIVE HOUSING, INC.

International Division Overhead Pool
For the Fiscal Year Ended September 30, 1977

	Contractor's Proposal			Auditor's Determination		
	Total Costs	Portion Allocable to:		Proposed	Total Costs Adjustments	Accepted
		Non-AID Work ^{2/}	AID Work			
Salaries	\$ 69,383	\$ 7,539	\$ 61,844	\$ 69,383	\$ (8,975) ^{1/}	\$ 78,358
Travel and Transportation	7,476	812	6,664	7,476	589 ^{3/}	6,887
Telephone and Telegraph	7,121	774	6,347	7,121		7,121
Rent	27,799	3,021	24,778	27,799	7,107 ^{4/}	20,692
Printing	106	12	94	106	36 ^{5/}	70
Duplicating	773	84	689	773		773
Postage	84	9	75	84		84
Office Supplies	2,608	283	2,325	2,608		2,608
Research and Education	220	24	196	220	(58) ^{6/}	278
Dues and Subscriptions	(11)	(1)	(10)	(11)		(11)
Legal and Professional Services	10,275	1,116	9,159	10,275		10,275
Miscellaneous	2,389	260	2,129	2,389	778 ^{7/}	1,611
Temporary Help - Library	452	49	403	452		452
Payroll Taxes	25,628	3,405	22,223	25,628	3,028 ^{8/}	22,600
Group Insurance	21,155	2,299	18,856	21,155	11,428 ^{9/}	9,727
Subtotals				\$175,458	\$13,933	\$161,525
Costs Allocable to Non-AID Work				- -	18,596 ^{2/}	(18,596)
Totals	<u>\$175,458</u>	<u>\$19,686</u>	<u>\$155,772</u>	<u>\$175,458</u>	<u>\$32,529</u>	<u>\$142,929</u>

EXPLANATORY NOTES:

1/ Comprised of the following amounts:

- a. Indirect salary cost of Mr. Charles Dean which was incorrectly charged to Contract AID/otr-C-1296 as a direct cost \$ (1,650)
- b. Indirect salaries of program directors who performed as Acting Director of International Programs during the absence of the Director, Mr. Charles Dean. These salaries were as follows:

<u>Name</u>	<u>Contracts Charged</u>		<u>Total</u>	
	<u>AID/otr-C-1529</u>	<u>AID/otr-C-1296</u>		
J. Edmondson	\$ 1,974.96	\$ -	\$ 1,974.96	
T. Priftis	-	2,720.70	2,720.70	
Totals	<u>\$ 1,974.96</u>	<u>\$ 2,720.70</u>	<u>\$ 4,695.66</u>	(4,696)

- c. Duplicate reclassifications of the salaries of two receptionists from the International Division overhead pool to the corporate overhead pool. (See footnote 1(a) on Schedule E-2)

<u>Name</u>	<u>Amount</u>	
P. Chamberlain	\$ 1,316.37	
M. Bishop	1,312.50	
Totals	<u>\$ 2,628.87</u>	(2,629)

Total Upward Adjustment \$ (8,975)

2/ International Division overhead costs were allocated to AID and non-AID work based on the relationship of direct salaries in each category to total direct international salaries. The calculation proposed by FCH, and the one accepted by the auditor, is presented below:

	<u>Direct Salaries</u>			<u>Relationship of Non-AID Salaries to Total Salaries</u>
	<u>FCH</u>	<u>AID</u>	<u>Total</u>	
Contractor's Proposal	\$ 52,412	\$ 429,950	\$ 482,362	<u>10,8656%</u>
Audit Adjustments:				
a. Direct home office salaries applicable to non-AID work	3,164	(3,164)	--	
b. Direct AID salaries reclassified to the International overhead pool:				
C. Dean (see 1/ above)		(1,650)	(1,650)	
J. Edmondson & T. Priftis (see 1/b. above)		<u>(4,696)</u>	<u>(4,696)</u>	
	<u>\$ 55,576</u>	<u>\$ 420,440</u>	<u>\$ 476,016</u>	<u>11.67%</u>

The costs applicable to non-AID work were \$18,596 (\$159,348 X 11.67%).

3/ FCH engaged an accounting consultant who frequently commuted between FCH headquarters in Washington, D. C., and the consultant's home in South Carolina. The consultant was reimbursed for his lodging and subsistence on an actual expense basis. We accepted a daily per diem rate of \$50.00 for his lodging and subsistence in Washington, D. C.

Amount proposed		\$ 7,476
Amount accepted:		
FCH consultant	\$ 5,089	
Others	1,798	<u>6,887</u>
Amount Questioned		<u>\$ 589</u>

- 4/ Contractor's allocation of rent costs for office space at 1001 15th Street, N. W., Washington, D. C., was inequitably distributed between the international and corporate overhead pools. We have computed the allocation between the two pools based upon the rent costs for office space at 2101 L Street, N. W., Washington, D. C., as follows:

<u>Overhead Pool</u>	<u>Cost Allocation Percentage 2101 L Street</u>	<u>Total Rent Allocated to Both Pools</u>	<u>Equitable Allocation</u>	<u>Actual Allocation</u>	<u>Auditor's Adjustment</u>
International	33.33%	\$ 15,850	\$ 5,283	\$ 12,390	\$ - 7,107
Corporate	<u>66.67%</u>	15,850	<u>10,567</u>	<u>3,460</u>	<u>+ 7,107</u>
Total	<u>100%</u>	--	<u>\$ 15,850</u>	<u>\$ 15,850</u>	<u>-0-</u>

- 5/ Represents the cost of business cards. It is FCH policy to absorb this type of expense as non-reimbursable.
- 6/ Represents the cost of publications charged to Grant AID/otr-C-1447 which should have been charged to the International Division overhead pool as they benefit the entire division and no one particular contract or grant.
- 7/ Represents the cost of business lunches. It is FCH's policy to absorb this type of expense as non-reimbursable.
- 8/ This represents employer FICA contributions applicable to Project Nicaragua I. FCH eliminated this sum from their proposal in the column headed "Non-AID Work." We are eliminating it here in order to simplify the calculation of indirect costs allocable to non-AID work.
- 9/ The amount proposed by FCH is overstated by \$11,428. The calculation of this sum is presented below:

Gross insurance premiums		\$ 21,155
Deduct:		
a. Premiums reimbursed by ICHDA	\$ 1,700	
b. Premiums paid by FCH through payroll deduction	9,728	
Amount Questioned		<u>11,428</u>
Amount Accepted		<u>\$ 9,727</u>

FOUNDATION FOR COOPERATIVE HOUSING INC.Corporate Overhead Pool
For the Fiscal Year Ended September 30, 1977

	<u>Contractor's Proposal</u>	<u>Audit Adjustments</u>	<u>Costs Accepted</u>
Salaries	\$ 271,951	\$ 2,579 ^{1/}	\$ 269,372
Payroll Taxes	13,710	2,013 ^{2/}	11,697
Group Insurance	4,966	3,113 ^{3/}	1,853
Temporary Help	8,287	-	8,287
Travel	41,461	444 ^{4/}	41,017
Telephone	29,801	-	29,801
Rent	35,979	(4,185) ^{5/}	40,164
Printing	827	-	827
Duplicating	(729)	1,288 ^{6/}	(2,017)
Postage	2,693	218 ^{6/}	2,475
Supplies	6,047	793 ^{7/}	5,254
Equipment Rentals	2,682	-	2,682
Research and Education	3,193	2,265 ^{8/}	928
Dues and Subscriptions	2,426	280 ^{9/}	2,146
Legal and Professional	58,932	39,600 ^{10/}	19,332
Miscellaneous	26,850	3,374 ^{11/}	23,476
Insurance	12,931	-	12,931
Taxes	19,290	12,140 ^{12/}	7,150
Depreciation	<u>8,757</u>	<u> </u>	<u>8,757</u>
TOTALS	<u>\$ 550,054</u>	<u>\$ 63,922</u>	<u>\$ 486,132</u>

1/ Represents adjustments of salaries as follows:

a.	Duplicate reclassification of the salaries of two receptionists (see footnote 1(c) on Schedule E-1	\$ 2,629
b.	The pool includes a credit amount of \$50 for the salary of Harry Harrocks. This sum is being eliminated as there should be no salary costs for this direct employee in the pool	<u>(50)</u>
	Net Amount Questioned	<u>\$ 2,579</u>

2/ Represents the employer's share of FICA contributions for the following people which is unallowable for the reasons indicated:

a.	Jorge Castro - FICA contributions for this individual were distributed to the various cost centers as a duplicating (Xerox) expense. They are eliminated here to prevent a duplicate charge.	543
b.	Contributions for employees who devote full-time to non-AID direct domestic activities:	
	Carol Gotham	822
	Harry Harrocks	606
	Paul Campbell	<u>42</u>
	Total Costs Questioned	<u>\$ 2,013</u>

- 3/ The amount proposed by FCH is overstated by \$3,113. The calculation of this sum is presented below:

Gross insurance premiums		\$ 4,966
Deduct:		
a. Premium applicable to domestic activities	\$1,261	
b. Premium which are paid by employee through payroll deduction	1,852	
Amount Questioned		<u>3,113</u>
Amount Accepted		<u>\$ 1,853</u>

- 4/ This is comprised of the travel costs for the following persons:

a. Glen Smith. This is travel costs incurred by Mr. Smith while working on direct domestic activities as a consultant.		245
b. Costs applicable to people who work full-time on direct non-AID domestic activities:		
	Harry Horrocks	179
	Carol Gotham	8
	W. Weshbrodt	12
Total Costs Questioned		<u>\$ 444</u>

5/ This is composed of the following amounts:

a. Reclassification of rent costs for the office at 1001 15th Street, H.W., Washington, D.C., from the International Division overhead pool to the corporate overhead pool (see footnote 4/ on Exhibit H-1 for explanation) \$ (7,107)

b. Excessive charge to corporate overhead for rent costs on the office at 2101 "L" Street, N.W., Washington, D.C., determined as follows:

Actual charge	\$32,520	
Deduct: Proper charge (4,709 sq.ft. at \$8.87 per sq. ft. = \$41,784.84 ÷ 12 = \$3,482.07 per month X 8.5 months = \$29,597.60)	<u>29,598</u>	
Amount Questioned	<u>\$ 2,922</u>	2,922
Net Adjustment		<u>\$ (4,185)</u>

6/ Represents costs applicable to Sales and Development, a direct non-AID domestic activity.

7/ Represents costs questioned as follows:

a. Direct costs applicable to domestic non-AID activities:

National Committee for Cooperative Housing	\$291
Committee for the Revitalization of FHA	191
Lobbying and Public Relations	173
Sales and Development	17
Property Management	<u>70</u>

Amount Questioned \$ 742

b. Purchases of business cards for FCH employees: 51

Total Questioned \$ 793

8/ Represent direct cost applicable to domestic non-AID activities:

Sales and Development (IREM)	\$2,155
Proper	<u>110</u>
Amount Questioned	<u>\$2,265</u>

9/ Represents direct cost applicable to domestic non-AID activities (Property Management).

10/ Represents retainers fees paid to the law firm of Knooth and Altman at a flat rate \$3,300 per month ($\$3,300 \times 12 = \$39,600$). FCH could not provide any detail/explanation of specific services rendered during FY 1977.

11/ Represents costs questioned as follows:

a. Open house reception and cocktail party

1. Lucks Cater	\$ 2,505	
2. Liquor Bills	353	
3. Walkins	144	
4. Bartender	172	\$ 3,174

b. Xmas gifts to FCH employees in the accounting department	<u>200</u>
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Amount Questioned	<u>\$ 3,374</u>
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12/ Represents state income taxes applicable to domestic non-AID activities.

FOUNDATION FOR COOPERATIVE HOUSING INC.

Determination of Total Direct Salary Costs
for Purposes of Allocating Corporate Overhead
For the Fiscal Year Ended September 30, 1977

FCH Unit	Direct Salary Costs		Adjusted Proposal
	Contractor's Proposal	Audit Adjustments	
<u>Domestic:</u>			
Property Management	\$ 547,195	\$ (145,312) ^{1/}	\$ 692,507
Sales and Development	233,860	(4,917) ^{1/}	238,777
Foundation	3,796		3,796
NSHC, Inc.	14,792	(36,974) ^{1/}	51,766
Unexplained Difference	50	50	--
Lobbying	--	(10,313) ^{2/}	10,313
<u>International:</u>			
FCHI	52,412	(3,164) ^{3/}	55,576
AID	429,950	9,510 ^{4/}	420,440
Grand Total	<u>\$ 1,282,055</u>	<u>\$ (191,120)</u>	<u>\$ 1,473,175</u>

EXPLANATORY NOTES:

- 1/ Represents the salaries of domestic staff who hold the positions of branch office manager, deputy branch office manager, and secretary. These same, or equivalent, positions on the international staff are treated as direct program personnel. For purposes of consistency and equity, these domestic salaries have been included in direct labor costs.
- 2/ Represents the salary of Mr. Harry Horrocks, who works on sales and development and lobbying, both direct domestic activities. FCH properly eliminated this amount from the corporate overhead pool, but failed to include it in the direct labor base.
- 3/ Represents a reclassification of direct salaries from AID to non-AID work (see footnote 2/ on Exhibit E-1).
- 4/ Represents a reclassification of salaries charged direct to AID to non-AID direct activities and the international division overhead pool. These amounts are detailed in footnote 2/ to Exhibit E-1.