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AUDIT OF
YEMEN AMERICAN LANGUAGE INSTITUTE

AUDIT REPORT NO. 3-279-89-05-N
February 28, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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NAIROBI, KENYA

February 28, 1989

MEMORANDUM FOR THE DIRECTOR, USAID/Yemen, Kenneth H. Sherper
FROM: RIG/A/Nairobi, Richard C. Thabet 
SUBJECT: Financial and Compliance Audit Report - Yemen
American Language Institute Audit Report
No. 3-279-89-05-N

Attached is a copy of the subject final audit report. The report presents the results of a non-federal financial and compliance audit of costs claimed by the Yemen-American Language Institute under cooperative agreement No. NEB-0080-A-00-5129-00.

The audit was requested by USAID/Yemen and was made by the firm of M. Zohdi Menjanni, Associated Accountants, under the supervision of the Regional Inspector General for Audit, Nairobi. The audit objectives were to: (a) determine whether the financial statements and costs claimed by Oregon State University/Yemen American Language Institute presented fairly costs resulting from program operations; (b) ensure propriety and reasonableness of costs incurred under the cooperative agreement; and, (c) determine whether the auditee complied with the laws, regulations, and agreement provisions which may have a material effect on the financial statements and costs claimed. The audit covered the period July 19, 1985 through June 30, 1988.

M. Zohdi Menjanni audited expenditures totaling \$3,717,373 which had been submitted or was in the process of being submitted by Oregon State University. In the opinion of the auditors -- subject to certain qualifications and observations -- the financial statements supporting claims against the cooperative agreement present fairly the expenditures of the project in accordance with the terms and conditions of the cooperative agreement. The University complied with most of the agreement terms.

USAID/Yemen concurred with the audit findings. Oregon State University concurred with most of the findings, but disagreed on the amount of salary adjustment for a Yemen national employee and the amount of adjustments for housing allowances. Additionally Oregon State University does not agree that entertainment cost should be disallowed. The full text of the auditee's response is included as Appendix 6.

The auditors identified \$86,653 in unallowable cost, and questioned the propriety of an additional \$39,556 in expenditures. Consequently we will include the following recommendations in our tracking system,:

Recommendation No. 1

We recommend that USAID/Yemen recover, and document the recovery, of \$86,653 in unallowable costs.

Recommendation No. 2

We recommend that USAID/Yemen Contracting Officer (a) review and determine the propriety of \$39,556 in questioned costs, and (b) provide documentation to RIG/A/Nairobi of the resolution of these amounts.

Please advise me within 30 days of actions planned or taken to impliment these recommendations.

FINANCIAL AND COMPLIANCE AUDIT REPORT

YEMEN AMERICAN LANGUAGE INSTITUTE

U.S.A.I.D. - OSU /ELI

M. Zohdi Mejanni
Associated Accountant

22 November 1988
Sana'a. Y.A.R.

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OREGON STATE UNIVERSITY/ ENGLISH LANGUAGE INSTITUTE
COOPERATIVE AGREEMENT NO. NEB-0080-A-00-5129-00

Special Report

We have examined the statements of the Oregon State University / English Language Institute (relating to Co-operative Agreement No. NEB-0080-A-00-5129-00 dated July 19, 1985 with Agency For International Development, Sana'a., Y.A.R.) in accordance with the objectives as enclosed covering the period July 19, 1985 upto June 30,1988.

Our examination was made in accordance with generally accepted auditing standards and the US Comptroller General's " Standards for Audit Of Government Organisations, Programs, Activities, and functions" (1981 Revision) and accordingly included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

OSU/ELI prepares its statements on the basis of the above referred Co-operative agreement with US Agency For International Development and the applicable US Government laws and regulations. Accordingly their statements are not presented in conformity with generally accepted accounting principles.

Contractor information contained in this report may be privileged . This report is intended solely for the use of the management of OSU/ELI and the US Agency For International Development and should not be used for any other purposes.

In our opinion the statements of OSU/ELI relating to the Cooperative Agreement referred above present fairly the expenditures of the project in accordance with the terms and conditions of the cooperative agreement with AID and the applicable US Government laws and regulations.

The auditors feel that any further detailed work shall be unnecessary as all material items of expenditure have been verified and all causes of disallowance examined to their fullest extent.



M. Zohdi Mejanni
Associated Accountant
November 22, 1988

OREGON STATE UNIVERSITY/ ENGLISH LANGUAGE INSTITUTE
COOPERATIVE AGREEMENT NO. NEB-0080-A-00-5129-00

AUDIT OBJECTIVES AND SCOPE

A. The objectives of the audit were as follows:

1. To determine whether the financial statements and costs claimed by OSU/ELI under the co-operative agreement fairly present costs resulting from program implementation.
2. To ensure propriety and reasonableness of costs incurred under the co-operative agreement.
3. To analyze the potential problems uncovered by the USAID / Yemen limited survey.
4. To determine whether OSU/ELI complied with the laws, regulations, and agreement provisions which may have a material effect on the financial statements and costs claimed.
5. To prepare a professional audit report analysing problem areas in need of improvement , make recommendations, and itemize costs recommended for acceptance, recommended for disallowance, and recommended for further negotiations (questioned costs).

B. The audit field work was performed at the offices of Yemen American Language Institute at Sana'a, Yemen and at Oregon State University ,Corvallis, Oregon from 31 August 1988 to 22 November 1988.

I-A

OREGON STATE UNIVERSITY/ ENGLISH LANGUAGE INSTITUTE
COOPERATIVE AGREEMENT NO. NEB-0080-A-00-5129-00

STATEMENT OF AGENCY FOR INTERNATIONAL DEVELOPMENT
REVENUE AND EXPENDITURE STATEMENT FOR THE PERIOD
JULY 19, 1985 THROUGH TO JUNE 30, 1988

	\$
Revenues:	
Costs Reimbursements Claimed From USAID	3,602,000
Total	3,602,000
Costs Incurred:	
Salaries, wages and benefits	1,766,697
Allowances	430,659
Indirect costs	687,642
Consultancy services	6,676
Travel and transportation	365,959
Expendable equipment and materials	76,925
Nonexpendable equipment and material	159,854
Operations expenses	223,561
Total Expenditures	3,717,373
Costs To Be Claimed From USAID	115,373

1-B

OREGON STATE UNIVERSITY/ ENGLISH LANGUAGE INSTITUTE COOPERATIVE AGREEMENT NO. NEB-0080-A-00-5129-00

1-B/1. Summary Of Significant Accounting Policies

The significant accounting policies followed in the preparation of the statement were as follows :

- a) The statements are prepared using the historical cost convention.
- b) All foreign currency expenditures are stated at the US dollar equivalent prevailing on the date of the payment.
- c) No depreciation charge has been reflected on the enclosed statements as the expenditures on expendible equipment are chargeable to the project.

1-B/2. Questioned Costs & Disallowed Costs

1-B/2A. Costs Recommended for Disallowance

As detailed below the auditors recommend for disallowance a total expenditure of \$ 86,653.36 that have been charged to the program alongwith their effect on overhead. The basic reason for recommending the expenses for disallowance was that the recipient had not complied with USAID policies and directions in the commitment of these expenditures.

S U M M A R Y

1-B/2A 1. Ms. S. R. Allowances	\$28,879.00
1-B/2A. 2 Ms. F. R. Allowances	4,484.44
1-B/2A.4 Perdiem during R&R Travel	66.00
1-B/2A.5 Travel Expenses enroute R&R Travel	188.70
1-B/2A.6 Housing Allowances	15,581.00
1-B/2A.7 C O L A Paid To Local Hires	1,951.70
1-B/2A.8 Bank Charges	478.07
1-B/2A.9 Entertainment Expenses	2,206.00
1-B/2A.10 Payroll Expenditure	72.85
1-B/2A.11 Security Deposit Expensed	200.00
1-B/2A.12 R&R and Travel Expenses	2,347.46
1-B/2A.13 Allowances During Vacations	9,495.14
TOTAL RECOMMENDED FOR DISALLOWANCE	\$86,653.36 <u>1/</u>

1-B/2A 1. Ms. S. R. : Yemeni National hired locally on Expatriate Basis

At the commencement of the program the recipient hired Ms. S. R., reportedly a Yemeni national, (as stated by her on the enclosed copy of application: appendix 1) as an instructor on expatriate basis. The management provided her with all expatriate's allowances e.g. housing allowance, sunday pay allowance, post differential allowance which as per USAID policies are not admissable to locally hired nationals. The terms of the Co-operative Agreement under which these paid allowances were claimed from USAID by OSU/ELI specifically state that the allowances paid by the recipient should not exceed those administered by USAID Sana'a. USAID Sana'a policies do not administer the disallowable allowances to their personnel. As per USAID Sana'a Contracting Office (letter dated April 11, 1987 to Director OSU/ELI Sana'a appendix 2) Ms. S. R. should have been treated as a onshore hire. On the basis of the above reasoning the auditors recommend for disallowance the following allowances in respect of Ms. S. R. charged to the CA:

Housing Allowance	\$ 13,004
Sunday Pay Allowance	\$ 2,521
Post Differential Allowance	\$ 12,602
Cost Of Living Adjustment	\$ 752
Recommended For Disallowance	\$ 28,879

1/ IG NOTE: Schedule does not include Finding 1-B/2A.2 disallowances of \$20,703. Total of \$86,653.36 is correct.

OSU/ELI Response

OSU/ELI agreed with the auditor's findings; however they did not agree with the amount as reflected in the audit report because the auditor failed to take into consideration the retroactive payroll adjustment of \$ 1,558.50 as approved by USAID.

Auditor's Clarification

OSU/ELI has not provided any further evidence to support their contention that the retroactive salary increases was to be set off against the disallowed portion of the housing allowance. In fact, in the case of Ms. S.R. housing allowance was not permissible and no further evidence has been provided to support the view that a part of the non permissible housing allowance was to be adjusted against a retroactive salary increase.

1-B/2A. 2 Ms. F. R. : T. C. N. Locally Hired On Expatriate Basis

During February 1986 Ms. F. R. was hired as an instructor and the following allowances in her respect were charged to the CA. The terms of the Co-operative Agreement under which these paid allowances were claimed from USAID by OSU/ELI specifically state that the allowances paid by the recipient should not exceed those administered by USAID Sana'a. USAID Sana'a policies do not administer these disallowable allowances to their onshore hire personnel. As per USAID Sana'a Contracting Office (letter to Director OSU/ELI Sana'a appendix 3) these allowances should not be paid to Ms. F. R. . On the basis that they were determined by the USAID Sana'a Contracting Officer to be not admissible the auditors recommend for disallowance the following allowances in respect of Ms. F. R. charged to the CA by OSU/ ELI.

Post Differential Allowance	\$15,491
Sunday Pay Allowance	\$ 3,097
Cost of Living Adjustment	\$ 2,115

Recommended For Disallowance \$20,703

OSU/ELI response

OSU/ELI agreed with the disallowance of \$ 20,703.

1-B/2A.3 Ms. R. K.: American Hired Locally

At the commencement of the project Ms. R. K. , an American, was hired locally as a Administrative Assistant. Ms. R. K. was considered a classified employee of OSU/ELI and was paid overtime for working on sundays at 1.5 times her normal salary. As sunday falls within the normal work week for local hire employees she should not have been paid any extra for working on Sundays. She had been paid \$3,670.48 during the period October 1, 1985 to April 1987 of her employment with OSU/ELI. She was also paid cost of living adjustment which as per USAID policies was not admissible to locally hired staff. The auditors recommend for disallowance the total amount of COLA paid to her and also recommend for disallowance the overtime paid to her for working sundays.

COLA \$ 813.96

Sundays Overtime	\$3,670.48
Recommended For Disallowance	\$4,484.44

OSU/ELI response

OSU/ELI agreed with the disallowance of \$ 4,484.44

1-B/2A.4 Perdiem during R&R Travel :Vr. No. 14-D June 1986

D. V. was paid \$ 66 vide above referred being per diem expenses enroute to R&R vacation. As USAID rules do not permit the payment of per diem during R&R the auditors recommend the \$ 66 for disallowance from expenditures claimed under the CA.

Recommended for disallowance	\$ 66.00
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OSU/ELI response

OSU/ELI agreed with the disallowance.

1-B/2A.5 Travel Expenses enroute R&R Travel :Vr. No. 22 June 1986

D. M. was reimbursed for travel expenses totalling \$188.70 vide above referred voucher being travel expenses enroute to R&R vacation. As USAID rules do not permit payment of any expenses during R&R the auditors recommend for disallowance the \$188.70 from expenditures claimed under the CA.

Recommended for disallowance	\$ 188.70
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OSU/ELI response

OSU/ELI agreed with the disallowance.

1-B/2A.6 Housing Allowances

At the commencement of the CA in July 1985 OSU/ELI paid its expatriate staff a fixed monthly allowance of \$ 1,850 per month. For the period August 1985 to December 1985 OSU/ELI paid a sum of \$ 63,350 for 34 personmonths as housing allowance including \$5,550 to Mz. S.R. which amount has been recommended for disallowance in 1-B/2A.1 above. The amount was not substantiated with any rent receipts or any other evidence of the employees having incurred the expenditure. The issue was discussed at length between the OSU/ELI and USAID Sana'a mission and it was resolved that USAID shall accept an amount of \$1,156 per personmonth to be applied towards the total disbursed as above of \$ 57,800. In summary USAID Sana'a agreed to accept a total of \$35,836 (31 times \$1,156.) Upon evidence of an amount of \$ 6383 having been refunded to USAID the auditors recommend for disallowance the charge of the difference of \$ 15,581 as a cost to the CA.

Recommended for disallowance	\$ 15,581.
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OSU/ELI response

In 1987, USAID objected to the payment of a set housing allowance without receipts. Although they believed that they had verbal approvals from USAID officials, they agreed not to press the issue if they could apply the retroactive pay increase approved by USAID to the retroactive housing disallowances. They have computed that if the two issues were linked together then the Co-operative Agreement owes OSU/ELI \$523.

Auditor's clarification

Upon review of the documentation especially the telex of April 21, 1987 of Peter Shirk, ACO USAID to Bruce Sorte, OSU/ELI we are not convinced if the spirit of the approval of the retroactive salary increases was to approve the set off against the disallowed part of the excess housing allowance that had been paid by OSU/ELI. Article 2.0 of the above referred telex stated that it was not to be viewed as a quid pro quid involving OSU/ELI acceptance of the housing allowance determination. In addition article 2.2 of the same telex also stated in the last sentence that the revision of the salaries and housing allowance determination were technically separate issue.

1-B/2A.7 Cost Of Living Adjustment Paid To Local Hires

During our examination we observed that the project had hired staff in Yemen and had been paying them COLA allowance as if they were expatriate staff. During the period from the inception of the project through to June 30,1988 the CA had been charged COLA in respect of the following which amount the auditors recommend for disallowance:

A. R. A. Allowance	\$ 978.81
S. A. Allowance	575.37
A. H. Allowance	397.52
Recommended for disallowance	\$1,951.70

OSU/ELI response

OSU/ELI agreed with the disallowance.

1-B/2A.8 Bank Charges

During the period of inception of the CA through to June 30,1988 OSU/ELI incurred certain bank charges for overdraft on their accounts in Yemen. As OSU/ELI have claimed these expenses from the CA and as there was no specific contracting officer approval the auditors recommend for disallowance the bank charges totalling \$478.07 as chargeable to the CA.

Recommended for disallowance	\$ 478.07
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OSU/ELI response

OSU/ELI agreed with the disallowance.

1-B/2A.9 Entertainment Expenses

During the period from the inception of the CA through June 30, 1988 OSU/ELI included a total expenditure of \$2,206 which constituted entertainment expenditures on the occasion of visits by OSU/ELI Corvallis staff to Yemen, and of the expenditures incurred for lunch during George Bush's visit to Yemen. As OSU/ELI has claimed these expenses from the CA and as there is no specific contracting officer approval the auditors recommend that this amount be disallowed.

Recommended for disallowance \$ 2,206.

OSU/ELI response

OSU/ELI contented that the costs recommended for disallowance should be provided under the CA.

Auditor's clarification

Entertainment expenses were not allowable as per the terms of the CA.

1-B/2A.10 Payroll Expenditure

During our examination we observed that a payroll expenditure of \$ 72.85 was credited to the ELI accounts but that the corresponding credit has not been passed on to the CA. We recommend this amount for disallowance.

Recommended for disallowance \$ 72.85

OSU/ELI response

Due to the size of the item they shall not contest it.

1-B/2A.11 Security Deposits Expensed

During the period from inception of the CA through June 30, 1988 OSU/ELI paid \$200 security deposit which has been expensed to the CA. As the amount is receivable back by OSU/ELI we recommend that this cost is disallowed.

Recommended for disallowance \$ 200.

OSU/ELI response

OSU/ELI agreed to the disallowance.

1-B/2A.12 R&R and Travel Expenses

During the period from the inception of the CA through to June 30, 1988 OSU/ELI paid for R&R travel expenses of its employees upto a R&R point other than London or New York (being the first entry point in U.S.A.). The auditors listed an amount of \$ 6,737.75 which was the excess of the fare paid by OSU/ELI over the applicable fare upto the approved destination. At the exit conference the auditee produced evidence that \$ 4390.29 of this amount had been paid by ELI/OSU. The auditors recommend the balance of \$ 2,347.46 for disallowance.

Recommended for disallowance \$ 2,347.46

OSU/ELI response

OSU/ELI agreed to the disallowance.

1-B/2A.13 Allowances During Period Away From Post

From the inception of the program to October 1987 OSU/ELI did not maintain proper time records for its faculty staff. The auditors were unable to verify that any reliable system existed to stop the payment of post allowances to the staff for the period that they may have been away from their duty stations. The auditors have assumed that the employees who travelled to U.S.A. during the period from inception to October 1987 availed the leave that they were entitled to and have computed an amount of allowances that may have been paid to them in the period as shown in Appendix 4. The auditors recommend for disallowance the amount of 9,495.14 charged to the CA, which, had a reliable system existed should have been deducted from the salaries of the employees.

Recommended for disallowance \$ 9,495.14

OSU/ELI response

OSU/ELI agreed to the disallowance.

1-B/2B. Questioned Costs

The auditors question \$ 39,556.04 of expenses that have been charged to the program. The main reasons for questioning the costs were as follows :

a.) The expenditures were incurred without adequate and complete supporting evidences.

b.) The nature of expenditure warranted USAID Contracting Officer approval to enable it to be chargeable to the program.

The costs questioned are as follows :

1-B/2B.1 Inadequate Supports	342.39
1-B/2B.2 Misclassified Expenditure	35,226.22
1-B/2B.3 Payment in Lieu of Strike Litigation	99.43
1-B/2B.4 Executive Department Charges	3,888.00
TOTAL QUESTIONED COSTS	\$39,556.04

1-B/2B.1 Inadequate Supports

During the period from the inception of the CA through to June 30, 1988 OSU/ELI incurred a total expenditure of \$ 342.39 which was not supported with adequate supporting evidence. the auditors question the propriety of charging the costs of \$ 342.39 to the CA and recommend that the contracting officer review the explanation from OSU/ELI staff regarding the amounts in the light of the nature of these expenditures.

OSU/ELI response

OSU/ELI objected to the disallowance of \$ 342.39 as in their contention they contain items that were prepaid at the time of order and as a result did not have a vendor invoice.

Auditor's clarification

The listing of the amount of \$342.39 was provided at the time of the exit conference alongwith the draft report. The amount includes \$ 43.78 for an electricity bill and \$ 121.21 for purchase of parts for a photocopier. In the light of the nature of expenditure OSU/ELI was required to maintain adequate supporting evidence for the costs.

1-B/2B.2 Misclassified Expenditures

During our examination we observed that some expenditures were misclassified and thus reported in the incorrect cost category. The auditors question the propriety of claiming costs in a category other than the category the cost relates to totalling \$ 35,226.22. We

recommend that the contracting officer accepts these expenditures upon their adjustment to the proper expense classifications.

OSU/ELI response

OSU/ELI agreed with the auditors and shall reclassify the expenses.

1-B/2B.3 Payment in Lieu of Strike Litigation

During our examination we observed payments totaling \$99.43 vide voucher no. Y870430 of \$65.77 and \$33.66 to classified employees which were narrated as payments in lieu of strike litigation. We recommend that the contracting officer reviews the documentation supplied by the OSU/ELI staff to determine the resolution of these items.

OSU/ELI response

OSU/ELI contented that it was a valid expenditure that was directly assigned to the employees' pay accounts.

Auditor's clarification

OSU/ELI should provide details of the settlement with the Oregon Public Employees Union and the nature of the amount of the \$ 70 payment to each employee. Also additionally OSU/ELI should provide evidence from OSU's cognizant agency the Department of Health and Human Services to the effect that the amount was not to be included as an indirect charge.

1-B/2B.4 Executive Department Charges

During our examination we noted a total fee of \$3,888 paid to the state of Oregon and charged to "executive department charges". We recommend that the contracting officer reviews the documentation supplied by the OSU/ELI staff to determine the resolution of these charges.

OSU/ELI response

OSU/ELI contented that the method of passing the executive department charges to users was in accordance with generally accepted accounting and cost principles and should be an allowable cost of the YALI CA.

Auditor's clarification

OSU/ELI should provide evidence from OSU's cognizant agency the Department of Health and Human Services to the effect that the amount was not to be included as an indirect charge and also the purpose of the charges.

1-B/3 Salaries, Wages, and benefit

The expenditures in the category salaries, wages and benefits were tested as follows :

- Examined the general ledger to determine the names of the employees who had their payroll costs charged to the CA.
- Tested the payroll for 1 month for all employees.
- Agreed salary and other benefits to the employees personnel files and hours worked to their time sheets, wherever available.
- Ensure that the salary scales of the employees are as per the approvals obtained from USAID.
- Ensure that no employee earns a salary greater than FSN1.
- Based on the review report costs for questioning and recommended for disallowance.

1-B/4 Allowances

The allowances charged to the CA were tested as follows :

- Ensure that the employees allowances are as per approvals of USAID and are not in any manner greater than those paid by USAID Sana'a.
- Reviewed payroll taxes, retirement benefits and medical and dental expenses for 3 months for reasonableness.
- Checked the correct charging of the allowances to the general ledger.
- Prepare a list of items recommended for disallowance or questioned costs.

1-B/5 Indirect Costs

The expenditure in the category of indirect costs was tested as follows :

- Determine whether the classifications were accurate.
- Agree quarterly totals of the expenditure to the general ledger.
- Checked the overhead calculation using the specified rate.

1-B/6. Travel & Transportation

The travel and transportation expenses were tested as follows :

- List the travel and transportation expenses charged to the CA.
- Tested for authorisation from USAID of the travel for the employees.
- In respect of R&R travel ensured that the allowable expense was only for Sana'a/London/Sana'a or Sana'a/New York/Sana'a.
- Ensure that no per diem expenses are payable for enroute to R&R travel.
- Ensure that for travel on official business that the policies of USAID are applied.
- Agree total amount of expenditure to the general ledger.
- Prepare a list of costs recommended for disallowance and a list for questioned costs.

1-B/7 Expendable equipment and materials

The expendable equipment and materials were tested as follows :

- Tested the amounts charged to the general ledger with the supporting evidence.
- Test checked the items to shipping bills, receipt notes and invoices of the suppliers.
- Ensure that no large sum items are classified as expendable equipment and materials.

1-B/8 Nonexpendable equipment and materials

The nonexpendable equipment and materials were tested as follows :

- Tested the amounts charged to the ledger with the supporting evidence.
- Conducted a physical inventory of the nonexpendable equipment.

1-B/9 Operational Expenses

The expenditures charged as operational expenses were tested as follows :

- A list of 96 items was selected from the general ledger.
- The selected items were tested for compliance as per the system.
- The selected items were also checked for compliance with USAID rules and regulations and the terms of the CA.

1-B/10 General Ledger

The general ledger was checked as follows :

- All items examined during the testwork described above were agreed to the general ledger.
- The totals of the general ledger were checked on a test basis.
- The totals of the general ledger were tied to the monthly expenditure reconciliations.
- A spreadsheet was prepared from the monthly expenditure reconciliations.
- The amounts on the spreadsheet were agreed to the quarterly Fiscal Report submitted to USAID.

OREGON STATE UNIVERSITY/ ENGLISH LANGUAGE INSTITUTE
COOPERATIVE AGREEMENT NO. NEB-0080-A-00-5129-00

Report On Internal Accounting Control

We have examined the Statement Of Oregon State University / English Language Institute in respect of Cooperative Agreement No. NEB-0080-A-00-5129-00 (CA) for the period July 19, 1985 through to June 30, 1988 and issued our report dated November 22, 1988. As part of our examination we made a study and evaluation of the program's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organisations, Programs, Activities and Functions (1981 Revised).

For the purpose of this report, we have classified the significant internal accounting controls used in administering the CA in the following categories:

1. Purchases and disbursements.
2. Payroll.
3. Cost reimbursements received.

Our study included all of the control categories listed above except that we did not evaluate the accounting controls over cost reimbursements received because we believed the examination could be performed more efficiently by expanding substantive testing rather than placing reliance on internal accounting controls.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the program's Statement of Expenditures. Our examination was more limited than would be necessary to express an opinion on the internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of OSU/ELI is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use of disposition, and that transactions are executed in accordance with management's authorisation and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate

because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly we do not express an opinion on the system of internal accounting control of the program taken as a whole or any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

Contractor information contained in this report may be privileged. This report is intended solely for the management of OSU/ELI and the US Agency For International Development and should not be used for any other purposes.



M. Zohdi Mejanni
Associated Accountant
November 22, 1988

2-A AUDIT FINDINGS ON INTERNAL ACCOUNTING CONTROL

1. MICROFICHE OF ORIGINAL RECORDS.

During our examination we observed that OSU/ELI were not maintaining original records for the specified period. Although we have been able to undertake our tests on the microfiche copies we recommend that to comply with the procedures of the Cooperative Agreement OSU/ELI should maintain the original supporting documents or should obtain USAID approval for acceptance of microfiche copies. The management of OSU/ELI have agreed and are in the process of obtaining specific approval from the Area Contracting Officer to maintain microfiche copies in substitute of their original accounting records.

2. PAYMENT TO YEMENI VENDORS IN US DOLLARS

During our examination we observed a few instances where OSU/ELI was paying their suppliers in Yemen in US dollars while the invoices were submitted in the local currency. The auditors recommend that to comply with host government directions OSU/ELI should make payments in Yemeni Rials to their suppliers. The management stated that they were not aware of any such directions and shall comply with any directions of the host government or USAID treasury department.

3. RD ASSETS COMPANY - PURCHASE OF FURNITURE.

During our examination we observed that OSU/ELI purchased some furniture from RD Assets Co.. The normal competitive bidding procedures were not followed in the matter. The contention of the management that there were no other suppliers of the specialised was not documented on the bid appraisal document. The auditors recommend that OSU/ELI should comply with the competitive bidding procedures wherever possible.

4. AUTHORIZATION OF CERTAIN PAYMENT VOUCHERS

During our examination we observed that in some instances OSU/ELI had not followed a procedure for authorisation of the payment vouchers. Taking into consideration the fewer number of administrative staff at OSU/ELI Yemen the auditors recommend that a procedure be formulated for approval of all payment vouchers prior to their recording in the system on a regular basis.

The management of OSU/ELI stated that presently all vouchers are being processed for payment only after the Director of Courses' specific approval.

5. SEGREGATION OF DUTIES .

During our examination we observed instances where the persons receiving the supplies was checking the invoices of the suppliers and later also responsible for the payment of those invoices. We recommend that OSU/ELI within the limitations of the present staff instute a system to ensure that all items paid for are actually received. The management confirms that now all invoices are paid only after the Director of Courses' approval.

OREGON STATE UNIVERSITY/ ENGLISH LANGUAGE INSTITUTE
COOPERATIVE AGREEMENT NO. NEB-0080-A-00-5129-00

Report on Compliance with Laws, Regulations and Programs

We have examined the statement of program of USAID/ ELI Cooperative Agreement No. NEB-0080-A-00-5129-00 for the period from July 19, 1985 through to June 30, 1988 and have issued our report thereon dated November 22, 1988. Our examination was made in accordance with generally accepted auditing standards, the provisions of Standards for Audit Of Governmental Organisations, Programs, Activities and Functions (1981 revision) promulgated by the U.S. Comptroller General, as they pertain to financial and compliance audits; and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The management of OSU/ELI is responsible for the program's compliance with laws, regulations, and terms and conditions of the Cooperative Agreement.

In connection with our examination we found that for the items tested which are identified in Schedule of this report the program complied with laws, regulations, and the terms and conditions of the Cooperative Agreement.

Contractor information contained in this report may be privileged. This report is solely for the use of the management of OSU/ELI and the US Agency For International Development and should not be used for any other purpose.

Further, with respect to items not tested by us, nothing came to our attention to indicate that the program had not complied with laws, regulations, and the terms and conditions of the Cooperative Agreement. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of noncompliance with such requirements, terms and conditions.



M. Zohdi Mejanni
Associated Accountant
November 22, 1988

Misc Items Tested For Compliance

	A	B	C	D	E
1	Item	Date	Description/Payer	Document Number	Amount
5	1	6/24/88	Van Hammen	Y383678	1781.85
6	2	6/22/88	Icon Review	1719527	4.90
7	3	4/12/88	Systems NW	1698747	894.80
8	4	4/6/88	Professional Book Center	1698756	264.30
9	5	4/5/88	Navtrans International Freight	1700639	121.98
10	6	2/17/88	Berdinner	Y366278	1172.45
11	7	5/23/88	Pod & Lock	1695005	76.00
12	8	4/27/88	Central Stores	Y360677	329.25
13	9	3/9/88	Warp Nine Engineering I	1657613	13.00
14	10	3/22/88	Omnet Inc	1655507	137.65
15	11	3/25/88	OSU Bookstore	Y352617	44.92
16	12	2/3/88	Class Reunion	1641470	58.70
17	13	12/31/87	Bahrain Communications	1609766	269.83
18	14	1/26/88	Navtrans International Freight	1609775	51.36
19	15	6/11/87	Correct JV	Y366853	502.54
20	16	1/2/88	G5213 Communications	Y337346	239.45
21	17	11/25/87	Kinkos	Y333600	6.75
22	18	12/21/87	Attic Mini Warehouse	1574621	62.00
23	19	12/4/87	OSU Bookstore	Y327803	69.92
24	20	11/25/87	Inkwell	Y328572	438.00
25	21	12/10/87	Christian Science Monit	1552388	20.00
26	22	12/9/87	OPELI SPILL	Y870430	65.77
27	23	12/21/87	First Interstate Bank	1549127	16.00
28	24	10/16/87	Scholastic Book Service	1511437	10.40
29	25	11/4/87	Cummings Transfer Co.	1503944	30.00
30	26	9/10/87	Robert Finner	1514344	162.10
31	27	11/5/87	Letroset USA	1500156	75.00
32	28	10/26/87	Corvallis Moving and Storage	1497353	94.80
33	29	8/23/87	Della Systems Company I	1460933	119.00
34	30	9/18/87	OSU Freight and Express	1457825	37.31
35	31	9/11/87	Cummings Transfer Co	1467741	226.70
36	32	8/12/87	DC-Finner Spencer MSTR	Y877265	722.42
37	33	8/2/87	51287 Telecommunications	Y303897	1023.75
38	34	7/28/87	Compuerve	1421257	10.00
39	35	4/30/87	Towin House Motor Inn	1420310	118.40
40	36	12/23/85	North American Van Lines	1563783	6066.75
41	37	7/14/87	Central Stores	Y380003	633.96
42	38	6/1/87	Cummings Transfer Co	1334737	220.00
43	39	3/30/87	Regents Publishing Co	1307426	4.75
44	40	4/29/87	Ultimate Computer Supply	1326408	100.00
45	41	3/23/87	Learning Services	1281208	63.00
46	42	1/28/87	QUEUE Inc	1252997	59.05
47	43	7/10/87	Cummings Transfer Co	1223557	223.60
48	44	1/31/87	Owens Bros Transfer	222893	44.00

Misc Items Tested For Compliance

	A	B	C	D	E
49	45	2/3/87	DAJKA Corp	1237528	214.95
50	46	1/16/87	Fred Meyer	Y336738	22.85
51	47	12/16/86	Kensington Microwave	1197881	29.95
52	48	11/13/86	University of Michigan	1175512	10.00
53	49	11/19/86	Howard & Sams & Co Inc	1152401	19.95
54	50	10/2/86	Cortland Computer Inc	1118003	59.95
55	51	9/30/86	Warp Nine Engineering I	1132099	199.00
56	52	8/7/86	Harper & Row Publishers	198561	30.00
57	53	8/27/86	OSU Bookstore	Y306484	3.55
58	54	8/25/86	Hayden Software Co	167059	10.00
59	55	6/2/86	Sports Illustrated	112421	29.70
60	56	7/11/86	OSU Business Manager	Y886189	78.00
61	57	4/25/86	Alta California Book CE	1662922	6143.71
62	58	4/23/86	Hendersons	Y357906	14.85
63	59	1/24/86	American Vanpac Carriers Inc	1538021	516.70
64	60	9/30/85	Away Travel Service	1473503	1834.00
65	61	8/21/85	US Postmaster	1408466	41.50
66	62	5/22/88	Towne House Motor Inn	Y888193	220.12
67	63	6/17/88	Marino	Y376020	410.26
68	64	6/28/88	PAC-10 Airporter	1709947	18.00
69	65	11/28/86	San Sierra Business Systems	144286	213.93
70	66	2/17/88	Palmer	Y366278	358.97
71	67	3/2/88	Jasmine Computer Systems	1631397	649.00
72	68	11/9/87	International Press Inc	1503680	2.40
73	69	11/3/87	Superintendent of Docum	1498225	30.00
74	70	10/7/87	Chronicle of Higher Ed	1494505	106.40
75	71	8/25/87	Marino	1486441	1353.21
76	72	6/5/87	Longmen Inc	1469983	28.95
77	73	6/18/87	Wilbeck	1461744	141.99
78	74	7/30/87	McDonald Wholesale	1424262	590.70
79	75	5/28/87	Prentice Hall	1344597	142.50
80	76	6/10/87	Wright & Co	1331643	10648.00
81	77	5/11/87	Delta Systems Co.	1323381	1152.00
82	78	5/21/87	US Postmaster	1315875	41.00
83	79	3/23/87	Jamestown Publishers	1292490	220.00
84	80	2/17/87	Alenony Press	1263996	11.93
85	81	3/17/87	Pilot Air Frieght Intl	1278418	115.55
86	82	2/11/87	Heizer Software	1227653	3.00
87	83	11/10/86	Solar Elect Spec	1152962	4325.00
88	84	10/28/86	DC-Sellers Allen	Y876360	2064.50
89	85	11/24/86	Apple Computer	1187932	4895.00
90	86	9/25/86	Lennerts Office Supply	1138373	135.40
91	87	8/15/86	Geo S Bush & Co Inc	1140586	40.00
92	88	11/17/86	Frank Chaplen	1154476	4600.00
93	89	11/20/86	Dream Electronics	Y323691	756.00
94	90	8/5/86	Holiday Films	161561	98.65
95	91	6/9/86	Raja Sued Ali Mohamed	152750	108.80
96	92	3/29/88	Broderbund Software	1699504	3.50

Misc Items Tested For Compliance

	A	B	C	D	E
97	93	3/17/88	ICON Review	1655646	62.00
98	94	11/6/87	Thunder wave	1655632	29.00
99	95	3/18/88	Apple Computer	1657414	1000.00
100	96	10/12/87	ICON Review	1549701	19.50

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YEMEN / FAR REPUBLIC-UNITED STATES TECHNICAL ASSISTANCE COOPERATION
BIOGRAPHICAL DETAILS FOR ADVISOR

Project: **YEMEN-AMERICA LANGUAGE INSTITUTE**
 Cooperating Ministry/Agency:
 Name: **SUAD ALI BATA**
 Nationality: **YEMENI**
 Job Title: **ESL INSTRUCTOR**
 Passport No.: **B 300271**
 Date/Place of Issue: **SANAA, MAY 12, 1984**
 Born In (City/State/Country): **CAIRO, EGYPT**
 Date of Birth: **3/24/49**
 Grew Up In (City/State/Country): **EGYPT, ETHIOPIA,
 YEMEN AND THE U.S.**

2 Photographs

Marital Status (IF Married, Give Date of Marriage):
 Name of Spouse and Children Who Will be in Yemen:

Job to be Performed:

Education:

Experience:

Honors/Awards:

Publications:

Rec'd 14 Apr 87

APPENDIX 2

UNITED STATES GOVERNMENT

memorandum

DATE: April 11, 1987

REPLY TO
ATTN OF

ACO:PWShirk; *[Signature]*

SUBJECT:
REF:

Ms. Suad Raja, Determination of Employment Status.
a) Drobnic/Shirk Memo dtd 4-2-87; b) Cooperative Agreement
(CA) No. NEB-0080-A-00-5129-00

TO: Karl Drobnic, YALI

In response to your request (Ref a) for a determination of Suad Raja's status I assume you are referring to the allowances and benefits to which she is entitled under the CA. I understand that the Ms. Raja is a Yemeni citizen and that she was hired while residing in Yemen. As a full time employee she would be entitled to a basic compensation package including salary, sick leave, annual leave, EID bonus, and official local holidays.

Any agreements either previous or current which provided a housing allowance for anyone hired locally and particularly a cooperating country national are in conflict with the Standardized Regulations, A.I.D. policy regarding housing allowances, and prudent business practices. The fact that Ms. Raja was incorrectly provided a housing allowance under a previous agreement (which incidently was fraught with errors and problems) is insufficient justification for continuing the allowance under the referenced CA without proper authorization.

cc: K. Schwartz, EHR
B. Sorte



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-78)
GSA FPMR (41 CFR) 101-11.6
5010-112

October 17, 1988

Steven Wisecarver, Area Contracting Officer

Salary Approval for Ms. Fawzia Radman, YALI Instructor

David Van Hammen, Director of Courses, YALI

Ref: Your Memo Dated 9/24/88

I have reviewed your request for approval of Ms Radman's proposed salary of \$30,000 as detailed in your referenced memo.

Based on the additional justifications you have cited in that memo (updated from your memo of 8/21/88 on the same subject) I hereby approve the proposed \$30,303 per annum adjusted gross rate.

Per our telecon of October 16, the new proposed base salary of \$26,400 (Ms. Radman's 1985 salary level) is supported by her biodata sheet (which lists her earnings as \$26,400/year from 1983 to 1985, plus \$30/hour as an instructor at YALI and a consultant history of \$125/day in 1981/84). Therefore, her compensation history supports a higher rate than the \$19,072/year base rate proposed earlier. In addition, as you confirmed that OSU/YALI's established policy is to grant OSU institutional raises to local, as well as to offshore hires, the adjustments which you have applied to Ms. Radman's base salary appear to be reasonable and in line with OSU/YALI established policies and procedures.

As stated in my earlier memo, Ms Radman would not be eligible for any of the allowances granted to offshore hires (Post Differential, Sunday Pay, etc.) I believe your 9/24/88 memo, which refers to Ms. Radman's "eligibility for Post Differential and Sunday Pay" should more properly read her "non-eligibility."

On a final note, it has recently come to my attention that, since 1985, Ms. Radman has been paid differentials and allowances for which she was ineligible, per AID and OSU policy. It should be understood that the current salary approval of a \$26,400 base salary is predicated upon entirely different justifications and assumptions than was her earlier (lower) proposed base. Therefore, although I am approving an adjusted gross salary which is roughly equivalent to her previous base plus differentials and allowances, this current approval should in no way be construed as a determination of allowability of any differentials or allowances paid to her in the past.

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APPENDIX 4

May-86						
	Mo./ Sal	Base Pay	P.D. Paid	Sunday Pay	P D . to adjust	Sundays Pay
Drobnic	\$4,309.50	\$3,315.00	\$828.75	\$165.75	\$828.75	\$165.75
Marino	\$3,483.33	\$2,679.48	\$669.87	\$133.97	\$669.87	\$133.97
Healey	\$2,916.58	\$2,243.52	\$560.88	\$112.18	\$560.88	\$112.18
Palmer	\$2,916.61	\$2,243.55	\$560.89	\$112.18	\$560.89	\$112.18
Crowell	\$2,916.61	\$2,243.55	\$560.89	\$112.18	\$560.89	\$112.18
Van Hammen	\$2,916.61	\$2,243.55	\$560.89	\$112.18	\$560.89	\$112.18
Boxberger	\$2,917.23	\$2,244.02	\$561.01	\$112.20	\$561.01	\$112.20
Jan./87						
Drobnic	\$4,439.00	\$3,414.62	\$853.65	\$170.73	\$281.71	\$42.68
May-87						
Drobnic	\$4,438.78	\$3,414.45	\$853.61	\$170.72	\$853.61	\$170.72
Marino	\$3,588.00	\$2,760.00	\$690.00	\$138.00	\$345.00	\$69.00
Healey	\$3,064.08	\$2,356.98	\$589.25	\$117.85	\$194.45	\$294.62
Palmer	\$3,004.00	\$2,310.77	\$577.69	\$115.54	\$577.69	\$115.54
Boxberger	\$3,003.59	\$2,310.45	\$577.61	\$115.52	\$577.61	\$115.52
Winters	\$3,003.75	\$2,310.58	\$577.64	\$115.53	\$577.64	\$115.53
					\$7,710.89	\$1,784.25
				Grand Total	\$9,495.14	

UNITED STATES GOVERNMENT
memorandum

DATE: January 11, 1988
 REPLY TO: Kenneth H. Sherper, Director *KHS*
 ATTN OF:
 SUBJECT: Mission Response to the Draft Audit Report of YALI under
 CA # HED-0080-A-00-5129-00
 TO: Mr. Richard Thabet. RIG/A/Nairobi
 Ref: Your Memo dated January 3, 1989

USAID/Yemen is pleased to concur with findings of the subject
Audit Report. OSU's response is attached for your necessary
action.

Clearance: COIT: RPJacobs *RP*
 ACO : Wisecatver *30*
 EHR : JBurton *JB*

Business Affairs
Office

Oregon
State
University

P.O. Box 1086
Corvallis, OR 97339-1086

January 5, 1989

Mr. Homi Jamshod, Controller
PO Box 1139
Sana'a Yemen Arab Republic
(Telefax: 251578)

Dear Homi:

Thank you for the chance to respond so quickly to the YALI audit. We appreciate the quick turn around of this audit.

I want to complement the auditors that worked both here and in Sana'a on their performance of the YALI audit. I know that it was not the easiest one to put together because of the two different locations.

As you know from the exit conference, we agree with most of the auditors' findings. However, there are a couple of findings that we are unable to accept in any instance because of their affect on Higher Education and the State of Oregon. The findings dealing with housing would be acceptable only if all of the facts are considered and if USAID were to live up to their prior agreement. The remaining items are differences in opinion as to the correct application of the Cooperative Agreement or lack of information on our part.

If I can furnish you with additional information that may clear some of the points raised in the response, please let me know.

Sincerely,



Thomas W. Pederson

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**RESPONSE TO THE
FINANCIAL AND COMPLIANCE AUDIT REPORT
YEMEN AMERICA LANGUAGE INSTITUTE
U.S.A.I.D. - OSU/ELI**

1-B/2. Questioned Costs & Disallowed Costs

Costs recommended for Disallowance

1-B/2A 1. - Ms. S.R.: Yemen national hired locally on Expatriate Basis

This person was hired as an instructor and accordingly paid the same benefits as other instructors. These benefits included Housing Allowance, Sunday Pay Allowance, Post Differential, and Cost of Living Allowance.

We agree with the auditor's finding; however, we do not agree with the amount as reflected in the Audit Report because the auditor failed to take into consideration the retroactive payroll adjustment of \$1,558.50 as approved by USAID/Yemen. In lieu of OSU issuing a payroll check for the retroactive pay, OSU requested and received approval from USAID/Yemen to transfer the amount represented by the retroactive pay increase from the "Allowance" line of the expenditure report to the "Payroll" line. The net affect of this was to shortcut the issuance of a paycheck to the employee and having the employee write OSU a personal check for the same amount. The auditor was provided copies of correspondence to and from USAID/Yemen requesting approval and receiving it for this action. The auditor was provided copies of the document reflecting the transfer in the YALI Cooperative Agreement General Ledger.

The reason for this adjustment is discussed in the auditor's finding 1-B/2A.6 Housing Allowance.

ELI and OSU will accept the disallowance of \$28,879 reduced by the \$1,559 that was treated as retroactive pay as explained above. This leaves a balance due on this finding of \$27,320.

We are surprised and perplexed as to why the auditors failed to consider evidential matter presented by OSU during the conduct of the audit.

1-B/2A.2 Ms. F.R.: T.C.N. Locally Hired On Expatriate Basis

We agree with this disallowance of \$20,703.00. Ms. F.R. was hired as an instructor and was being paid on a basis comparable with other instructors.

1-B/2A.3 Ms. R.K.: American Hired Locally.

We agree with this disallowance of \$4,484.44.

YALI AUDIT RESPONSE

1-B/2A.4 Per-diem during R&R Travel: Vr. No. 22 June 1986

We agree with this disallowance of \$66.00.

1-B/2A.5 Travel Expenses enroute R&R Travel: VR. No. 22 June 1986

We agree with this disallowance of \$188.70.

1-B/2A.6 Housing Allowances

In 1987, USAID objected to the payment of set housing allowances without receipts. Although we believed that we had verbal approvals from USAID officials, we agreed not to press the issue if we could apply the retroactive pay increases approved by USAID/Yemen to the retroactive disallowances. OSU telexed USAID/Yemen's Contract Officer for approval and received it. Instead of YALI/OSU issuing retroactive payroll checks and then having the employees issue checks to YALI/OSU for a like amount, YALI/OSU, with USAID/Yemen's approval, transferred the approved amount from the allowance section of the Cooperative Agreement Expenditure Report to the payroll section. The remaining balance of the disallowed housing allowance was then repaid to the Cooperative Agreement.

As can be seen by the computation below, YALI/OSU repaid \$523 too much to USAID. We provided all of the documentation to the auditors, and we are surprised that our evidential documentation was ignored.

The following reflects the auditor's findings and the actual facts.

	<u>AUDITOR</u>	<u>ACTUAL</u>
Total housing allowance paid	\$ 63,350	\$ 63,350
Less amt. transferred to 1-B/2A 1	<u>(5,550)</u>	<u>(5,550)</u>
Balance	57,800	57,800
Less housing agreed to	<u>(35,836)</u>	<u>(35,836)</u>
Balance	21,964	21,964
Less amount transferred to payroll cost category (31 person months @ \$519.50)		(16,104)
Less amount refund to USAID	<u>(6,383)</u>	<u>(6,383)</u>
Balance due USAID	<u>\$ 15,581</u>	
Balance due OSU		<u>\$ (523)</u>

Based on the auditors' amounts and our method of retroactively paying the employees involved in the housing allowance issue, we contend that the Cooperative Agreement owes OSU \$523 from this finding.

YALI AUDIT RESPONSE**1-B/2A.7 Cost of living adjustment Paid to Local Hires**

We agree to this disallowance of \$1,951.70.

1-B/2A.8 Bank Charges

We agree to this disallowance of \$478.07.

1-B/2A.9 Entertainment Expenses

The auditor recommends the disallowance of "...\$2,206 of costs which constituted entertainment expenditures on the occasion of visits by OSU/ELI Corvallis staff to Yemen, and of the expenditures incurred for lunch during George Bush's visit to Yemen." We are only able to arrive at \$746 of expenses associated with these two events. It may be that the auditor forgot to comment on the costs associated with a professional conference and costs associated with interaction with YALI students, Yemeni people, USAID officials, and school award functions.

We do not agree with the disallowance of costs applicable to the visits of the Vice-President of the United States, the President of Oregon State University, and the Head of the English Language Institute. We believe that these costs are beneficial to the well-being of the YALI program and fosters a greater unity between the two people.

We also believe that reasonable interaction between the Yemeni people and the YALI personnel leads toward a better working and teaching environment that enhances the YALI program.

The YALI program employees participated and incurred expenses applicable to a professional conference (ELT Conference). The other Federal Agencies that participated in this conference also contributed toward the cost. We contend that these costs were necessary for the maintenance of the YALI program.

We contend that the costs associated with the above activities should be provided for under the YALI Cooperative Agreement. Since YALI has been excluded from FAR requirements by the Cooperative Agreement, and since we believe that we have provided adequate justification for these expenditures, we believe that they should be allowed as ordinary and necessary expenditures applicable to the Cooperative Agreement.

1-B/2A.10 Payroll Expenditures

The auditor recommends the disallowance of a \$72.85 "payroll expenditure". The fact is that the \$72.85 is an "other payroll expenditure" (OPE) that should have tagged on to the transfer of a payroll item. The payroll

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YALI AUDIT RESPONSE**1-B/2A.10 Payroll Expenditures (cont)**

system is such that OPE automatically follows the payroll entry. However, due to the size of the item, we will not attempt to prove that it did follow the payroll nor will we contest it. This absence of protest does not constitute an acceptance.

1-B/2A.11 Security Deposit Expensed

We agree that the \$200.00 deposit on the YALI/Yemen telephone was expensed. We would have redeposited the amount to the YALI account when it is returned. This disallowance will cause OSU to deposit the \$200 deposit into their own account when refunded.

1-B/2A.12 R&R And Travel Expenses

We agree that this amount should not have been paid by the Cooperative Agreement and accept the disallowance of \$2,347.46.

1-B/2A.13 Allowances During Period Away From Post

We agree with this disallowance of \$9,495.14.

Questioned Costs**1-B/2B.1 Inadequate Supports**

We object to the disallowance of \$342.39 of expenditures because of inadequate support. We do not have the identification of items disallowed but understand that they contain items that were prepaid at the time of order and as a result did not have a vendor invoice. We defy any agency to obtain documents from the Library of Congress without sending the check with the purchase order. We contend that the fact that a purchase order was issued; the merchandise was received; the check was payable to the vendor; and the vendor normally requires payment in advance provides adequate documentation to support such payments.

We believe that a prudent auditor would accept such information as a preponderance of evidence that a valid transaction occurred.

1-B/2B.2 Misclassified Expenditures

We agree that we will reclassify \$35,226.22 of expenses to fit USAID's requirements.

YALI AUDIT RESPONSE**1-B/2B.3 Payment in Lieu of Strike Litigation**

During the year ended June 30, 1987, OSU classified employees' union contract was negotiated by the State of Oregon and the Oregon Public Employees Union (OPEU). As a result of this negotiation, each member of the OPEU received a \$70 payment. This payment was a negotiated item, and the expenditure was charged to the account from which the employee was paid. If the employee was paid from more than one account, the \$70 was apportioned between them.

We are at a loss as to why the auditors questioned this \$99.43 item of cost since it was a valid expenditure that was directly assigned to the employees' pay accounts.

1-B/2B.4 Executive Department Charges

The Executive Department of the State of Oregon passes their operating costs to the State Agencies of which the Oregon State System of Higher Education (OSSHE) is one. This method of funding is authorized by Oregon Revised Statute (ORS) 291.274 and ORS 291.276 and has been approved by OSU's cognizant Federal Agency, the Department of Health and Human Services.

These costs are distributed to all of the benefiting General Ledger Accounts at the Colleges and Universities by the Controller's Office of OSSHE. The distribution of applicable to the YALI Cooperative Agreement as processed by the Controller's Office in the current Fiscal Year ending June 30, 1989 is \$7 per month per FTE (Full Time Equivalent employee). The Colleges and Universities do not have an option as to the amount nor the method of distribution of the executive department charge. Any over or under distribution is adjusted against the amount determined for the subsequent year by the State of Oregon Executive Department.

We contend that the \$3,888.00 of Executive Department charges and the method of passing it to users are in accordance with generally accepted accounting and cost principles and should be an allowable cost of the YALI Cooperative Agreement. The auditor has not provided a reason for questioning these charges.

REPORT DISTRIBUTION

American Ambassador to Yemen	1
Director USAID/Yemen	5
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XA/PR	1
LEG	1
GC	1
AA/M	2
AA/PFM	1
SAA/S&T	1
PPC/CDIE	3
RFMC/Nairobi	1
IG	1
DIG	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
AIG/I	1
RIG/I/N	1
IG/PSA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/W	1

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