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AUDIT OF
INDIRECT COST RATES CLAIMED BY
AFRICAN MEDICAL AND RESEARCH FOUNDATION
(AMREF)

AUDIT REPORT NO. 3-615-89-06-N
April 14, 1989

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

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April 14, 1989

MEMORANDUM FOR THE DIRECTOR, REDSO/ESA, Satish P. Shah
FROM: RIG/A/Nairobi, Richard C. Thabet *Richard C. Thabet*
SUBJECT: Audit of Indirect Cost Rates Claimed by African
Medical and Research Foundation (AMREF), Audit
Report No. 3-615-89-06-N

Attached is a copy of the subject final audit report. The report presents the results of a non-Federal audit of Indirect Cost Rates claimed for A.I.D.-funded projects managed by the African Medical and Research Foundation (AMREF). The audit was requested by the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA). The certified public accounting firm of Coopers and Lybrand prepared the report under the supervision of the Regional Inspector General for Audit/Nairobi (RIG/A/N).

The purpose of the audit was to report on the fairness of indirect cost rates claimed by AMREF for the years ended December 31, 1983, 1984, 1985, 1986 and 1987.

Coopers and Lybrand issued an unqualified opinion in their "Report on Schedule of African Medical and Research Foundation (AMREF) Overhead Rate Computation". The auditor's examination showed that AMREF had not included four headquarter departments as elements of direct cost, but concluded that the treatment used was reasonable. Schedule 1 to the Report on Supplemental Information shows that the effect of including these departments would have resulted in a higher indirect cost rate. The auditors expressed an unqualified opinion on compliance with Laws, Regulations and AID Agreements. Due to the limited scope of the audit, the auditors disclaimed an opinion in their report on Internal Accounting Controls.

The Regional Economic Development Services Office for East and Southern Africa, in their response to the audit, expressed concern about the wording of the CPA's opinion on the overhead rate computation, and asked if the RIG/A/N was satisfied with

the quality of work done. Subsequently, RIG/A/N briefed the Regional Contracting Officer on the audit steps that had been taken by RIG/A/N to verify the data. We also detailed the steps taken by RIG/A/N to confirm the quality controls followed during the audit. Finally, we stated that we concurred in the opinion expressed by Coopers and Lybrand. After briefing REDSO/ESA officials on RIG/A/N Quality Assurance Reviews, they stated that they had no further concern about the subject audit.

Although they did not develop a detailed finding or related recommendations, the auditors reported that AMREF was not properly accounting for fixed assets and had not conducted physical inventories. Lack of adequate property records and physical inventories, as required by OMB Circular A-122, Attachment B, paragraph 9(g), could result in improper charges to the Government on future grants or contracts.

REDSO/ESA officials agreed there was a need to improve accountability for fixed assets, but stated that REDSO/ESA does not have a grant with AMREF. Consequently RIG/A/N does not recommend corrective action at this time, but is providing copies of this report to both USAID/Sudan and USAID/Kenya for use in future negotiations with AMREF.

REPORT ON SCHEDULE OF AFRICAN MEDICAL AND RESEARCH FOUNDATION (AMREF) OVERHEAD RATE COMPUTATION

1. We have examined the schedule of AMREF Overhead Rate Computation for the period 1983 to 1987. Our examination was made in accordance with generally accepted auditing standards and the US Comptroller General's "Standards for Audit of Governmental Organisations, Programs, Activities, and Functions" (1981 Revision) and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2. It is AMREF's accounting policy to prepare its schedule of AMREF Overhead Rate Computation on a basis outlined by the terms and conditions of the agreements with the Agency for International Development and the applicable US Government laws and regulations. Accordingly, the accompanying schedule of AMREF Overhead Rate Computation is not necessarily presented in conformity with generally acceptable accounting principles.

3. Fixed Assets

3.1 AMREF does not maintain a fixed assets register and does not carry out a physical verification of assets every two years. This is contrary to the requirements of attachment B paragraph 9 (g) of Circular A-122.

Treatment of other cost centres' direct costs

3.2 The direct costs of four of AMREF's headquarter's departments (i.e. aviation services, vehicle repair unit, printing and book distribution units) have not been considered as direct costs as defined in paragraph B.3 of Circular A-122.

3.3 AMREF considers that these departments provide services similar to those of other service units in their HQ and they maintain that they exist primarily to support direct project work. In an attempt to fully cover the costs of these departments, they carry out a certain amount of work for third parties. The policy that is followed is that revenue from these activities is accounted for as general income and these units are expected to break-even. In our opinion, this is a reasonable point of view. The financial effect of including the direct costs and income of these departments is shown as Schedule 1 to the Report on Supplemental Information.

4. In our opinion, the schedule of AMREF Overhead Rate Computation presents fairly the incurred direct and indirect costs and the Overhead Rate Computation of AMREF during the period 1983 to 1987 in accordance with the terms and conditions of the A.I.D. agreements and the applicable US Government laws and regulations.

5. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of AMREF or the Agency for International Development and should not be used for any other purposes.

Captivitybound.
 Certified Public Accountants of Kenya
 Nairobi,
9th March....1989

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AFRICAN MEDICAL AND RESEARCH FOUNDATION
OVERHEAD RATE COMPUTATION FOR THE FINANCIAL YEARS 1983 - 1987

	1987 KShs. '000		1986 KShs. '000 9 Months Period		1985 KShs. '000		1984 KShs. '000		1983 KShs. '000	
	1. Institutional Costs		27,651		17,389		19,046		16,069	
Adjustment for (Profit) loss on sale of fixed assets		(212)		(246)		(811)		(944)		3
Adjusted institutional costs		27,439		17,143		19,185		15,125		12,257
Less: <u>Expenditure disallowed</u>										
Contribution to overseas office costs	345		310		390		340		252	
Overdraft interest	248		176		86		227		302	
Entertaining	76		90		22		40		16	
Publicity, advertising and filming	10		107		135		-		-	
Provision for doubtful debts	112	(791)	43	(616)	299	(972)	-	(602)	40	(616)
Net institutional costs		25,642		16,527		18,213		14,517		11,645
2. Project Costs										
Direct project expenditure	112,212		57,793		61,217		48,314		21,819	
Project deficits written off	(3,279)		-		-		(192)		-	
Aviation recovery from projects	9,600	118,533	6,890	14,983	5,286	66,503	5,186	53,307	5,803	35,691
3. Institutional costs as percentage of project expenditures		22.45%		25.63%		27.29%		27.23%		32.69%

E. W. Wood
 Director General

13/10/88
 Date

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AID AGREEMENTS OF AMREF

1. We have examined the schedule of AMREF Overhead Rate Computation for the years 1983 to 1987 and have issued our report thereon dated October 13, 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 AMREF is responsible for AMREF's compliance with laws, regulations, and terms and conditions of the Federal Award Agreements.

2. In connection with our examination, we found that for the items tested which are identified in Schedule 1 of this report, AMREF complied with laws, regulations and the terms and conditions of the Federal Award agreements. However, there was one immaterial instance of non-compliance referred to in paragraph 3 of the "Report on Schedule of AMREF Overhead Rate Computation", (Report No. 1) attached.

3. Further, with respect to the items not tested by us, nothing came to our attention to indicate that AMREF had not complied with laws, regulations and the terms and conditions of the Federal Award Agreements. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of non-compliance with such requirements, terms and conditions.

4. Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of AMREF or the Agency for International Development and should not be used for any other purpose.

Coopers & Lybrand
Certified Public Accountants of Kenya

Nairobi,

9th March
.....1988

SCHEDULE 1 TO REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AID AGREEMENTS
OF AMREF

<u>Circular A-122 Reference</u>	<u>Audit work</u>	<u>Description</u>
	(C & L audit program para. references)	

General Principles

A/A2	4	Factors affecting availability of costs.
A/A4	3	Allocable costs.
A/A5	5	Applicable credits.
A/B4	7	Direct costs of activities performed primarily as a service to members, clients or the general public.

Selected items of cost

B/2	9.23	Bad debts
B/3	6	Bid and proposal costs.
B/6	9.1	Compensation for personnel services.
B/8	9.2	Contributions.
B/9	9.3	Depreciation and use allowances.
B/10	9.3	Donations.
B/11	9.4	Employee morale, health and welfare costs and credits.
B/12	9.4	Entertainment costs.
B/14	9.5	Fines and penalties.
B/16	9.6	Idle facilities and idle capacity.
B/18	9.7	Insurance and indemnification.
B/19	9.8	Interest, fund raising and investment and management costs.
B/21	9.9	Losses on other awards.
B/22	9.10	Maintenance and repair costs.
B/24	9.11	Meetings, conferences.
B/34	9.12	Professional service costs.
B/35	9.13	Profits and losses on disposition of depreciable or other capital assets.
B/36	9.14	Public information service costs.
B/38	9.15	Rearrangement and alteration costs.
B/39	9.15	Reconversion costs.
B/40	9.16	Recruiting costs.
B/41	9.17	Relocation costs.
B/44	9.18	Severance pay.
B/45	9.19	Specialised service facilities.
B/48	9.20	Training and education costs.
B/49	9.21	Transportation costs.
B/50	9.22	Travel costs.

REPORT ON INTERNAL ACCOUNTING CONTROL OF AMREF

1. We have examined the schedule of AMREF Overhead Rate Computation for the years 1983 to 1987, and have issued our report thereon dated October 13, 1988.
2. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office STANDARDS FOR AUDIT OF GOVERNMENTAL ORGANISATIONS, PROGRAMS, ACTIVITIES, AND FUNCTIONS. Solely to assist us in planning and performing our examination, we made a study and evaluation of the internal accounting controls of AMREF. That study and evaluation was limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because of the comparatively small number of staff in AMREF which makes the establishment of a complete system of controls impracticable, our study and evaluation of the internal accounting controls did not extend beyond this preliminary review phase. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.
3. Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the system of internal accounting control. However, our examination did not disclose any conditions that could result in errors or irregularities that could have a material effect on the schedule of AMREF Overhead Rate Computation, or that may occur and not be detected within a timely period.
4. Contractors information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of AMREF or the Agency for International Development and should not be used for any other purpose.

Coopers & Lybrand
Certified Public Accountants of Kenya

Nairobi,

.....*9th March*.....198*9*.

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REPORT ON SUPPLEMENTAL INFORMATION

We have examined the Schedule of AMREF Overhead Rate Computation (hereafter referred to as the Schedule) for the period 1983 to 1987. Our examination was made for the purpose of forming an opinion on the schedule taken as a whole. The following Schedule 1 to this report is presented for the purpose of additional analysis and is not a required part of the basic Schedule. Such information has been subjected to the auditing procedures applied in the examination of the basic Schedule and, in our opinion, is fairly stated in all material respects in relation to the basic Schedule taken as a whole.

Coopers & Lybrand .

Certified Public Accountants of Kenya

Nairobi,

..... *9th March* 1987 .

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SCHEDULE 1 TO REPORT ON SUPPLEMENTAL INFORMATION

**AFRICAN MEDICAL AND RESEARCH FOUNDATION
OVERHEAD RATE COMPUTATION FOR THE FINANCIAL YEARS 1983 - 1987**

Institutional Expenses	1987 KShs '000		1986 KShs '000		1985 KShs '000		1984 KShs '000		1983 KShs '000	
	1. Expenses of HQ									
Administrative cost centres		27,651		17,389		19,986		16,069		12,278
Expenses of HQ service cost centres (net of income)		2,016		2,053		3,603		2,845		200
Adjustment for (profit)/loss on sale of fixed assets		(212)		(246)		(801)		(944)		3
		<u>29,455</u>		<u>19,196</u>		<u>22,788</u>		<u>17,970</u>		<u>12,481</u>
Less expenditure disallowed										
Contribution to overseas office costs	345		310		390		340		252	
Overdraft interest	248		116		86		227		308	
Entertaining	76		40		22		40		16	
Publicity, advertising and filming	10		107		175		1		-	
Provision for doubtful debts	112	(791)	43	(616)	299	(972)	-	(608)	40	(616)
Net Institutional expenses		<u>28,664</u>		<u>18,580</u>		<u>21,816</u>		<u>17,362</u>		<u>11,865</u>
2. <u>Project Costs</u>										
Direct project expenses	112,212		57,793		61,217		48,314		29,829	
Project deficits written off	(3,279)		-		-		(193)		-	
Aviation recovery from projects	9,600	118,533	6,690	64,483	5,286	66,503	5,186	53,307	5,862	35,691
3. <u>Institution expenses as percentage of project expenditures</u>		24.2%		28.8%		32.8%		32.5%		33.2%

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