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**AUDIT OF  
A.I.D. COOPERATIVE AGREEMENT NO.  
LAC-0133-A-00-5058-00  
FLORIDA INTERNATIONAL UNIVERSITY  
MIAMI, FLORIDA**

**Audit Report No. 1-500-90-16  
July 5, 1990**

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
OFFICE OF THE REGIONAL INSPECTOR GENERAL  
**AMERICAN EMBASSY**  
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July 5, 1990

**MEMORANDUM**

TO: M/SER/OP/OS, Morton Darwin

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of A.I.D. Cooperative Agreement No. LAC-0133-A-00-5058-00 Florida International University Miami, Florida, Audit Report 1-500-90-16

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of A.I.D. Cooperative Agreement No. LAC-0133-A-00-5058-00 with Florida International University, Miami, Florida. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you on May 25, 1990 asking for your comments within 30 days. As of today's date, we have not received your comments to the draft report and are issuing the final report. All recommendations are unresolved. Please advise me within 30 days of any actions taken to implement the recommendations.

## EXECUTIVE SUMMARY

A.I.D./Florida International University Cooperative Agreement No. LAC-0133-A-00-5058-00 was part of the A.I.D. Regional Administration of Justice Project. The Cooperative Agreement was to provide support for a Florida International University program to establish its Center for the Administration of Justice in Latin America and the Caribbean and to provide technical assistance to the Latin America Institute for the Prevention of Crime and the Treatment of Offenders. The period of performance of the Cooperative Agreement was from July 8, 1985 through April 30, 1989 and the total amount authorized was \$3,362,543.

The Regional Inspector General for Audit/Tegucigalpa conducted an audit of the Cooperative Agreement costs. The field work was conducted from February 12 to March 1, 1990. The objectives of this audit were to determine: the allocability, allowability, and reasonableness of costs claimed, the adequacy of the Florida International University system of internal controls over Cooperative Agreement costs, and the extent of compliance with the cost-related terms and conditions of the Cooperative Agreement.

The audit resulted in the following findings:

- We identified questioned costs of \$114,468.
- We identified unsupported costs of \$127,109.
- We identified certain weaknesses or breakdowns in procedures and internal controls.

We recommend that the A.I.D. Agreement Officer take action to resolve the questioned and unsupported costs and obtain assurance from Florida International University that it is maintaining sound internal controls on its other A.I.D. grants and cooperative agreements.

*Office of the Inspector General*

Office of the Inspector General  
July 5, 1990

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**AUDIT OF  
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FLORIDA INTERNATIONAL UNIVERSITY  
MIAMI, FLORIDA**

**BACKGROUND**

In its 1984 report the National Bipartisan Commission on Central America recommended that the United States help to strengthen Central American judicial systems. In response, Congress approved such assistance in Section 534 of the Foreign Assistance Act. An executive order delegated authority for Section 534 to A.I.D. which in turn approved the Regional Administration of Justice Project in early 1985.

As part of the Regional Administration of Justice Project, the A.I.D./Florida International University Cooperative Agreement No. LAC-0133-A-00-5058-00 (Agreement) became effective July 8, 1985. The original Agreement was for \$2,575,578 and reflected an anticipated performance period through June 30, 1988; however it was amended six times and its performance period extended to April 30, 1989. The total amount authorized was also increased to \$3,362,543.

The Agreement was to provide support for a Florida International University program to establish its Center for the Administration of Justice in Latin America and the Caribbean and to provide technical assistance to the Latin American Institute for the Prevention of Crime and Treatment of Offenders (ILANUD).

**AUDIT OBJECTIVES AND SCOPE**

RIG/A/T made an audit of the A.I.D./Florida International University Cooperative Agreement costs in accordance with generally accepted auditing standards. The objectives of the audit were to determine: the allocability, allowability, and reasonableness of costs claimed, the adequacy of the Florida International University (FIU) system of internal controls over Agreement costs, and the extent of compliance with the cost-related terms and conditions of the Agreement.

We performed the audit field work from February 12, to March 1, 1990 at Florida International University in Miami, Florida. We examined \$3,362,543 in costs claimed applicable to the period July 8, 1985 through April 30, 1989. Our audit methodology included examining financial records and reports, reviewing Regional Administration of Justice Project progress reports, and interviewing FIU officials.

We conducted a limited review of the FIU internal control and cost accounting systems because the Office of the Auditor General for the State of Florida has conducted annual surveys of these functions. We did not audit the FIU indirect cost rates because they were established on a fixed, predetermined basis by the Department of Health and Human Services, the cognizant federal audit agency for FIU. We obtained reports from these two audit organizations and incorporated relevant issues in our report.

We distributed a draft copy of this report to the A.I.D. Agreement Officer on May 25, 1990. As of the issuance date of this report, we did not receive comments on the draft report.

## **RESULTS OF AUDIT**

For the period July 8, 1985 to April 30, 1989, FIU claimed and reported \$3,362,543 in costs. Of this total our audit identified: (1) total questioned costs of \$114,468, (2) unsupported costs of \$127,109, and (3) certain weaknesses or breakdowns in procedures. Findings and Recommendations, is a summary of the issues disclosed by our audit. These issues are discussed in detail in the Exhibit, Supporting Schedules, and Appendix to this report.

### **A. Findings and Recommendations**

#### **1. Summary of Questioned Costs**

We have questioned \$114,468 in claimed costs (Reference: Exhibit). We consider these costs to be potentially unallowable because they appear to be violations of provisions of the Cooperative Agreement or unreasonable expenditures.

Following is a summary of questioned costs by major element:

- a. Salaries and Fringe Benefits. The questioned cost of \$76,737 consists of two items: a portion of the FIU Project Director's compensation which appears unreasonable (\$7,745) and salary and fringe benefit costs of certain administrative personnel which do not appear allocable to the Agreement as a direct charge (\$68,992).
- b. Overhead. The questioned cost of \$25,601 was computed by the application of predetermined overhead rates to questioned base salary and fringe benefit costs.
- c. Travel and Transportation. The questioned cost of \$7,826 represents transportation and per diem related to trips which do not appear to be allocable to the Agreement and a calculation error.
- d. Consultants. The questioned cost of \$4,304 represents a portion of the costs of a study to evaluate two organizations which appear not to be covered by the provisions of the Cooperative Agreement (\$3,600) and compensation which exceeds the maximum daily rate (\$704).

#### **Recommendation No. 1**

We recommend that the A.I.D. Agreement Officer take action to resolve the \$114,468 in questioned costs.

## **2. Summary of Unsupported Costs**

We have classified \$127,109 as unsupported costs (Reference: Exhibit). We consider these costs to be unsupported because we were unable to obtain sufficient evidence to establish their allocability or allowability at the time of the audit.

Following is a summary of unsupported costs by major element:

- a. Salaries and Fringe Benefits. Unsupported costs of \$3,535 represent salary and related benefits which may not be allocable to the Agreement.
- b. Travel and Transportation. Unsupported costs of \$53,287 represent the costs of international trips which do not appear to have been authorized by A.I.D. officials as required by the Cooperative Agreement.
- c. Consultants. Unsupported costs of \$68,399 consist of two items: payments to professionals in the FIU San Jose, Costa Rica office which were not adequately documented (\$50,943) and payments for consultant services which had not been certified by a FIU official (\$17,456).
- d. Other Direct Costs. Unsupported costs of \$1,888 consist of two items: undocumented long distance telephone charges (\$1,763) and an unapproved purchase of computer software (\$125).

## **Recommendation No. 2**

We recommend that the A.I.D. Agreement Officer take action to resolve the \$127,109 in unsupported costs.

## **3. Summary of Procedural Issues**

We identified several weaknesses or breakdowns in procedures and internal controls applicable to the Agreement. Following is a summary of the areas identified:

- a. FIU did not maintain controls to ensure that costs were not reported to A.I.D. until properly recorded in the FIU cost accounting system.
- b. FIU did not always obtain advance approval from A.I.D. for international travel.
- c. FIU did not always separate key duties. The following are examples: (1) an employee in the Dominican Republic and one in Guatemala signed their own time cards as both employee and supervisor, (2) the FIU Project Director signed his own travel voucher as both traveler and supervisor and signed a check to reimburse himself for a small purchase, and (3) internal control techniques in contracting for consultants were not established for the FIU San Jose office in Costa Rica. Unlike the FIU's consultant contracts in Miami which required two or more signatures, the San Jose office's contracts had only one

signature. Thus, the determination of need for consulting services and the actual selection of the consultant appear to have been made by one person.

- d. FIU did not adequately control telephone charges. Long-distance telephone calls charged to the FIU Miami and San Jose offices lacked adequate controls such as a log of calls.
- e. FIU did not always ensure that certain transactions were adequately documented. We identified three examples of this: (1) payments for the rental of a photocopy machine in San Jose were made--although the bills do not show any indication of the length or date of the rental period being paid, (2) payment was made for a rental car in Guatemala City which was rented for less than two days and driven a very short distance--without an explanation of why a rental car was needed, and (3) payments were made for San Jose employees to fly on foreign flag carriers--without their certifications on why the use of a non-US flag carrier was necessary.

Because FIU has other cooperative agreements and grants with A.I.D., these procedural issues are potentially significant in terms of long-range impact. The procedural or internal control issues which we identified during this audit may also have applicability to other A.I.D. agreements. By implementing new controls or by strengthening those already in existence, FIU will be able to exercise greater financial control over its other A.I.D. agreements.

### **Recommendation No. 3**

We recommend that the A.I.D. Agreement Officer obtain assurance from Florida International University that it is maintaining an improved internal control system on its other grants and cooperative agreements with A.I.D.

#### **B. Compliance and Internal Controls**

##### **1. Compliance**

Our audit identified issues of noncompliance as follows:

- a. FIU did not fully comply with the cost principles contained in Office of Management and Budget Circular A-21 (Reference: Exhibit).
- b. FIU did not comply with the terms and conditions of the Cooperative Agreement requiring A.I.D. advance approval for international travel (Reference: Schedule 1-B).

Our review of compliance was limited to the areas affected by our audit work in answering the objectives identified in this report.

## **2. Internal Controls**

Our audit disclosed internal control problems as follows:

- a. Controls were not maintained to ensure that costs were not reported to A.I.D. until properly recorded in the FIU cost accounting system (Reference: Exhibit).
- b. Key duties were not always separated (Reference: Schedule 1-B and Schedule 1-D).
- c. Internal control techniques in contracting for consultants were not established for the FIU office in San Jose, Costa Rica (Reference: Schedule 1-C).
- d. Certain transactions lacked clear documentation (Reference: Schedules 1-B, 1-C, 1-D).
- e. Long-distance telephone calls charged to the FIU Miami and San Jose offices lacked adequate controls such as a log of calls (Reference: Schedule 1-D).

Our review of internal controls was limited to the areas affected by our audit work in answering the objectives identified in this report.

## **C. Other Pertinent Matters**

During our audit of the Agreement, we identified cost allocation problems which can occur when different offices of A.I.D. contract directly with employees whose organizations have closely-related concurrent cost reimbursable contracts/grants with the Agency. The following situation generated our concern.

During the same period when the cost-reimbursable A.I.D. Cooperative Agreement with FIU was being performed, the FIU Project Director contracted directly with USAID/Bolivia to perform a justice sector project from December 1, 1988 to January 31, 1989. The contract was awarded to this individual on a fixed price basis for \$28,700. The FIU Project Director disclosed his private contracting activities to FIU management who concluded that there would be no conflict of interest because the FIU Project Director was employed, at that time, on the Agreement on a 50 percent basis with the remainder of his time devoted to a University teaching assignment. Although the FIU Project Director disclosed the contract to FIU and A.I.D., our audit of costs charged to the A.I.D. Agreement identified two instances in which improper charges may have been made. These instances involved the direct costs of two FIU advisors under the Agreement, both of whom worked directly for the FIU Project Director.

The first instance involves the travel and salary costs of an individual who served full-time as Advisor to ILANUD on the Agreement from September 30, 1988 to April 30, 1989. This individual was sent to Bolivia--ostensibly on Cooperative Agreement business--during the approximate time frame that

the fixed price contract was negotiated and performed. The USAID/Bolivia contract shows that this individual negotiated the contract on behalf of the person serving as FIU Project Director. Therefore, it appears to us that this individual's travel costs to Bolivia are not allocable to the Agreement but instead to the private fixed price contract with USAID/Bolivia (Refer to Schedule 1-B, note b). We were not able, however, to determine through normal audit procedures the exact amount of his salary costs allocable to that contract (Refer to Exhibit, note 3b).

The second instance involves December 1988 long distance telephone charges made by an individual who served intermittently as a part-time Research Scholar/Scientist on the Agreement. Services of this individual, who resides in Montreal, Canada, were included in the USAID/Bolivia contract. He was not under contract with FIU in December 1988. Although this individual did not charge salary costs to the Agreement during this period, FIU records show that long distance telephone calls (Montreal, Canada to San Jose, Costa Rica and Miami, Florida) were charged to the Agreement in December 1988. We could not determine by normal audit procedures whether his calls were allocable to the Agreement or to the USAID/Bolivia contract (Refer to Schedule 1-D, note a).

in an exit conference with FIU officials, the auditors explained the involvement of these two individuals on the USAID/Bolivia contract and the cost allocation problems which resulted. The FIU officials stated that they were unaware of the involvement of these two individuals. They stated that in order for FIU to adequately monitor and control costs generated by such involvement could require additional internal control procedures.

Similar cost allocation problems can continue to occur on the Regional Administration of Justice Project. There is a follow-on FIU/A.I.D. Cooperative Agreement (No. LAC-0002-A-00-9C18-00) which is effective from May 1, 1989 to December 31, 1992. FIU records indicate that the FIU Project Director had been contemplating working--either directly or as an employee of a contractor--with USAID Missions in Ecuador and Colombia during the latter half of calendar year 1989.

This contracting practice inadvertently caused cost control and allocation problems on the overall Regional Administration of Justice Project. In our opinion, A.I.D. contract administration and program officials should discuss it and issue policy clarification guidance to other USAID missions throughout Latin America.

**AUDIT OF  
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**EXHIBIT, SUPPORTING SCHEDULES, AND APPENDIX**

**FLORIDA INTERNATIONAL UNIVERSITY  
MIAMI, FLORIDA  
STATEMENT OF COOPERATIVE AGREEMENT COSTS  
AND RESULTS OF AUDIT REVIEW**

	<u>Amount Budgeted</u> (Note 1)	<u>Amount Reported and Claimed</u> (Note 2)	<u>Results of Audit Review</u>		<u>Notes</u>
			<u>Questioned Costs</u>	<u>Unsupported Costs</u>	
Salaries and Fringe Benefits	\$1,244,929	\$1,540,868	\$ 76,737	\$ 3,535	3
Overhead	406,579	398,129	25,601		4
Travel and Transportation	745,404	455,581	7,826	53,287	5
Consultants	510,790	373,349	4,304	68,399	6
Other Direct Costs	<u>454,841</u>	<u>594,616</u>	<u>          </u>	<u>1,888</u>	7
	<u>\$3,362,543</u>	<u>\$3,362,543</u>	<u>\$114,468</u>	<u>\$127,109</u>	

**Explanatory Notes:**

1. Amount Budgeted

The final budgeted amount for A.I.D. Cooperative Agreement No. LAC-0133-A-00-5058-00 is \$3,362,543 and is reflected in Modification No. 6.

2. Amount Reported and Claimed

In accordance with the terms and conditions of the Cooperative Agreement, FIU submitted periodic financial reports (SF 269 Financial Status Report and SF 272 Federal Cash Transactions Report) to A.I.D. FM/PAFD. These reports contained data pertinent to expenditures, obligations, and receipts. The reports were used by A.I.D. to monitor program expenditures to ensure that letter of credit withdrawals were not excessive.

We attempted to reconcile the monthly expenditures data reported to A.I.D. to FIU's books of account for the same periods. We were unable to accomplish this for the monthly periods occurring during the early years of the Cooperative Agreement. Consequently, we requested FIU to reconcile its Cooperative Agreement costs reported to those recorded in its accounting records.

FIU's analysis revealed significant discrepancies between costs reported and booked. The analysis indicates that costs were reported to A.I.D. before they had been formally recorded in the accounting records:

<u>Fiscal Year Ended June 30</u>	<u>Cooperative Agreement Costs</u>	
	<u>Total Per FIU Books</u> (000)	<u>Total Reported to A.I.D.</u> (000)
1986	\$ 593	\$ 826
1987	1,485	1,245
1988	815	823
1989	519	468
1990	(50)	-
Total	<u>\$3,362</u>	<u>\$3,362</u>

FIU representatives stated that the above condition was probably caused by timing differences in the recording of expenses incurred by the FIU Costa Rican field office. The FIU accountant in Miami responsible for reporting total cost activity may have maintained memorandum-type records of Costa Rican costs and included such data in FIU reports to A.I.D. This data, however, was not formally recorded in the FIU accounting system until later periods. The condition appears to have been corrected by the final year of the Cooperative Agreement.

A consequence of the above reporting practice was that FIU may have been provided excessive funds during the early years of the Agreement. Moreover, the timing differences between FIU's books of account and the reports submitted to A.I.D. hindered our ability to track and review costs incurred during the early years of the Agreement.

Our audit identified three other differences in FIU's accounting and/or reporting of Agreement costs.

- The actual levels of costs incurred and recorded for individual cost elements may not have been reported to A.I.D. For example, FIU's books of account show \$1,549,180 was recorded for salaries and fringe benefits. The reports to A.I.D. show a total of \$1,540,868 or a difference of \$8,312.
- Salary costs of certain employees in the FIU Costa Rica office appear to have been inconsistently classified as "Salaries" or "Consultants" during the early years of the Agreement.
- FIU did not claim approximately \$153,000 in overhead costs allocable to the Cooperative Agreement from the period October 1987 to October 1988. FIU representatives stated that it did not record, claim, or report these overhead costs because it did not wish to exceed budgetary limitations on the Agreement.

We note that the Agreement required FIU to maintain a financial management system which provides for: (1) accounting records that are supported by documentation that at a minimum will identify, segregate, accumulate, and record all costs incurred under a cooperative agreement, (2) procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the FIU, whenever funds are advanced by Federal Government, and (3) accounting records which will facilitate an effective audit.

3. Salaries and Fringe Benefits

a. Questioned Costs

Total questioned costs of \$76,737 consist of two elements:

- i. Reasonableness of FIU Project Director's Compensation. Refer to Schedule 1-A for details pertinent to the \$7,745 in salary and fringe benefit questioned costs.
- ii. Allocability of Certain Administrative Salaries as Direct Charges. The total amount claimed and questioned is \$68,992. A discussion of the history of these charges and our rationale for questioning them follows:

During the early years of the Agreement, FIU charged, as direct costs, salary and fringe benefit costs applicable to three administrative personnel: an accountant, a travel clerk, and a procurement clerk.

In February 1987 USAID/Costa Rica conducted a financial systems survey of FIU as it pertains to the Cooperative Agreement. The USAID evaluator noted the following in his report dated July 1, 1987:

FIU Miami has hired and is partially paying for a procurement clerk and travel clerk with funds provided under the Cooperative Agreement. These positions are not contemplated nor budgeted for in the Cooperative Agreement with FIU and therefore no funds are legally available to cover these expenses. Because of this we feel a determination should be made by the A.I.D. Contracting Officer as to the appropriateness of those costs charged directly by FIU for the above mentioned services. If costs incurred are found allowable, then the budget in the Agreement should be amended to include these two positions. If costs billed and paid for are not found allowable, then FIU should be required to reimburse these costs to A.I.D..

FIU responded on September 14, 1987. According to the FIU response:

The University's funding of these positions was in compliance with the terms of the contract. The purchasing position was funded as reflected on the proposal budget for year one and by the University during the second and third years of the contract. The travel position was funded

as budgeted for, that is, 100% for year one and two and 50% for year three.

During our audit, FIU representatives provided us with the budget proposal which had been submitted to USAID (LAC/AJDD) on December 19, 1986. The proposal shows these functions as proposed direct charges to the Agreement. At the time of our audit, however, FIU representatives did not provide us with documentation demonstrating that the A.I.D. Agreement Officer had formally approved the direct charging of these three functions. FIU ceased direct charging these functions effective its fiscal year 1989.

These types of functions are normally recovered by FIU through its indirect cost rates. The Department of Health of Human Services (DHHS), which is the cognizant audit agency for FIU and establishes predetermined rates with the University, has included the following in rate agreements with FIU:

ACCOUNTING CHANGES: If a fixed or predetermined rate is in this Agreement, it is based on the accounting system purported by the institution to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this rate require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

We have questioned these claimed costs in their entirety. We have questioned them because: (1) we have not been provided documentation from FIU indicating that the A.I.D. Agreement Officer or cognizant audit agency (DHHS) had formally approved the direct charging of these costs, (2) the aggregate costs charged are material in amount, and (3) we believe they should be evaluated by the A.I.D. Agreement Officer in the context of the quality of financial management during these same early years of the Agreement.

Salary and allocable fringe benefit questioned costs are computed as follows:

	<u>Fiscal Year Ended June 30</u>			
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Total</u>
Accountant	\$ 6,555	\$12,261	\$11,409	\$30,225
Travel Clerk		8,570	8,464	17,034
Procurement Clerk	6,250			6,250
Total Salary (a)	<u>\$12,805</u>	<u>\$20,831</u>	<u>\$19,873</u>	<u>\$53,509</u>

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Total</u>
Fringe Benefit Rate	28.75%	28.75%	29.25%	
Fringe Benefit Costs (b)	3,681	5,989	5,813	15,483
Total Salary and Fringe Benefits (a+b)	<u>\$16,486</u>	<u>\$26,820</u>	<u>\$25,686</u>	<u>\$68,992</u>

b. Unsupported Costs

We have classified a portion of the salary and fringe benefit costs of the Advisor to ILANUD as unsupported costs. During the period November 25, 1988 through December 8, 1988, this individual was in Bolivia and his total effort was charged to the Agreement. We are, however, unable to determine whether he actually expended his total effort during this period on the objectives of the Agreement. We learned that during this period he negotiated a fixed price contract on behalf of another person with USAID/Bolivia. Moreover, we do not preclude the possibility that he worked on that contract during the early part of December 1988. If such were the case, all or a portion of the salary and fringe benefit costs of the Advisor to ILANUD during that period would be allocable to the fixed price contract and not to the Agreement (for further discussion, see "Other Pertinent Matters"). Unsupported costs were computed as follows:

Base Salary Costs (a)	\$ 2,735
Fringe Benefit Rate	<u>29.25%</u>
Fringe Benefit Costs (b)	<u>800</u>
Total Unsupported Costs (a+b)	<u>\$ 3,535</u>

4. Overhead

Questioned cost is computed by applying the predetermined, fixed indirect cost rates negotiated by FIU and the Department of Health and Human Services to questioned base salary and fringe benefit costs:

	<u>Fiscal Year Ended June 30</u>				
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Total</u>
Questioned Base Costs:					
Project Director	\$ -	\$ -	\$ 3,433	\$4,312	\$ 7,745
Administrative Functions	<u>16,486</u>	<u>26,820</u>	<u>25,686</u>	<u>-</u>	<u>68,992</u>
Total (a)	<u>\$16,486</u>	<u>\$26,820</u>	<u>\$29,119</u>	<u>\$4,312</u>	<u>\$76,737</u>
Indirect Cost Rate (b)	32.0%	31.7%	31.7%	60.1%	
Questioned Overhead Costs (axb)	<u>\$5,276</u>	<u>\$8,502</u>	<u>\$9,231</u>	<u>\$2,592</u>	<u>\$25,601</u>

5. Travel and Transportation

Refer to Schedule 1-B for details pertinent to questioned and unsupported costs.

6. Consultants

Refer to Schedule 1-C for details pertinent to questioned and unsupported costs.

7. Other Direct Costs

Refer to Schedule 1-D for details pertinent to unsupported costs.

**FLORIDA INTERNATIONAL UNIVERSITY  
MIAMI, FLORIDA**

**SCHEDULE OF FIU PROJECT DIRECTOR'S SALARY  
CLAIMED AND QUESTIONED COSTS**

	<u>July 1985- August 1985</u>	<u>August 1985- August 1986</u>	<u>August 1986- August 1987</u>	<u>August 1987- June 1988</u>	<u>July 1988- August 1988</u>	<u>August 1988- April 1989</u>	<u>Total</u>	<u>Notes</u>
<b>Annual Salary Rate:</b>								
Actual	\$48,531	\$50,368	\$55,467	\$63,964	\$63,964	\$75,600		a
Audit Adjusted	\$48,531	\$50,368	\$55,467	\$61,013	\$61,013	\$67,114		b
Difference	\$ -	\$ -	\$ -	\$ 2,951	\$ 2,951	\$ 8,486		
<b>Percentage of Time</b>								
Charged to Agreement	100%	100%	100%	100%	50%	50%		c
<b>Salary Costs</b>								
Claimed							\$197,930	d
Questioned							\$ 5,992	d
<b>Fringe Benefit Costs</b>								
Claimed							\$ 57,346	
Questioned							\$ 1,753	e
<b>Total Salary and Fringe Benefit Costs:</b>								
Claimed							<u>\$255,276</u>	
Questioned							<u>\$ 7,745</u>	

**Explanatory Notes:**

a. During the period of performance of the Agreement, the annual rate of compensation for the FIU Project Director increased significantly. His annual salary rates, and their percentages of increase, were as follows:

<u>Twelve Month Period Ended August</u>	<u>Annual Salary Rate</u>	<u>Percentage Increase Over Prior Period</u>
1986	\$50,368	4
1987	\$55,467	10
1988	\$63,964	15
1989	\$75,600	18

In accordance with FIU policies, the Project Director, who is also a member of the University faculty, negotiates an employment contract and salary level each year with the University. Generally, there appears to have been a great deal of variation in the awarding of salary increases to faculty members. An annual salary increase consisted of several components such as:

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- across the board
- cost of living
- equity dollars
- merit
- discretionary

Some of the above components were mandated by the State of Florida for all employees. For example, the "across the board" increases ranged from 3 to 5 percent per year. "Cost of living" increases may or may not have been mandated annually. FIU representatives describe the "equity dollars" component as a mechanism to correct past job discrimination practices which may not be applicable to all categories of employees.

FIU management appears to have been able to exercise a great deal of judgement in awarding "merit" and "discretionary" salary increases to faculty members. Criteria for the awarding of merit increases are: (a) production of written materials; (b) service to the community; and (c) addition to the reputation of the University.

FIU representatives did not provide written justification detailing the components of the annual salary increases for the FIU Project Director. During interviews, however, they indicated that most of the his annual salary increases were probably awarded based on the "merit" component. They stated that, as a result of his management of the Cooperative Agreement, the Latin American community benefitted and the reputation of the University was enhanced, thus justifying substantial salary increases. They also point out that he was promoted to full professor status during the performance period of the Cooperative Agreement and needed to be justly compensated for the increased responsibilities of that position.

FIU representatives stated that proposed annual salary increases aggregating more than 10 percent are closely scrutinized by University officials to ensure that they are reasonable and do not become excessive.

b. Because most of the FIU Project Director's annual salary increases (and allocable fringe benefits) from 1985 to 1989 had been charged to the A.I.D. Cooperative Agreement, we believe that A.I.D. officials should also participate in the determination of the overall reasonableness of the annual salary levels.

OMB Circular A-21 (Cost Principles for Educational Institutions) is incorporated into the Cooperative Agreement. Section C.3 of OMB Circular A-21 states that a cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Factors determining the reasonableness of a cost are: (a) whether or not it is of a type generally recognized as necessary for the operation of the institution or the performance of the agreement, (b) the restraints or requirements imposed by such factors as arms-length bargaining, Federal and State laws and regulations and agreement terms and conditions, (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its

students, the Government, and the public at large, and (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including agreements.

To assist A.I.D. officials in determining the overall reasonableness of the FIU Project Director's compensation, we have developed audit adjusted rates limiting the rate of annual increase to 10 percent per annum. We referred to general A.I.D. reasonableness guidelines when selecting this annual increase factor. We have based this 10 percent per annum figure on A.I.D.AR, Appendix D, Section 4.(f)(5) regarding setting salary on personal service contracts.

c. From the period of July 8, 1985 through the FIU fiscal year ended June 30, 1988, 100 percent of the FIU Project Director's annual salary was charged to the Agreement. Subsequently, through the end of the period of performance, 50 percent of the Project Director's annual salary was charged to the Agreement. The remaining 50 percent of his time was devoted to other University duties.

d. Salary costs claimed and questioned on the Agreement are computed by applying actual and questioned bi-weekly salary rates to the actual number of bi-weekly pay periods as follows:

<u>Fiscal Period</u>	<u>Number of Pay Periods</u> (a)	<u>Bi-Weekly Rate</u>		<u>Amount</u>	
		<u>Actual</u> (b)	<u>Questioned</u> (c)	<u>Claimed</u> (axb)	<u>Questioned</u> (axc)
7/85 to 8/85	2.05	\$1,859.43	-	\$ 3,812	
8/85 to 8/86	26.00	\$1,937.23		50,368	
8/86 to 8/87	26.10	\$2,125.17		55,467	
8/87 to 6/88	23.40	\$2,460.15	\$113.50	57,568	\$2,656
7/88 to 8/88	2.60	\$1,230.07	\$113.50	3,198	235
8/88 to 4/89	19.00	\$1,448.28	\$163.19	27,517	3,101
Total Salary Cost				<u>\$197,930</u>	<u>\$5,992</u>

e. Questioned fringe benefit costs are computed by the application of the FIU fringe benefit rate to questioned base salary costs:

$$\$5,992 \times 29.25\% = \underline{\underline{\$1,753}}$$

**FLORIDA INTERNATIONAL UNIVERSITY**  
**MIAMI, FLORIDA**

**SCHEDULE OF TRAVEL AND TRANSPORTATION**  
**QUESTIONED AND UNSUPPORTED COSTS**

<u>Item</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>	<u>Notes</u>
Trips Lacking Authorization		\$15,341	a
Trip to San Jose <sup>1</sup>		264	b
Trip to Miami <sup>1</sup>		1,317	c
Trip to Bolivia <sup>1</sup>	\$2,185		d
Trips to Spain <sup>1</sup>	3,468	35,258	e
Trip to Ecuador <sup>1</sup>		1,107	f
Trips by ILANUD Personnel <sup>1</sup>	2,079		g
Calculation Error	<u>94</u>	<u>          </u>	h
Total	<u>\$7,826</u>	<u>\$53,287</u>	

**Explanatory Notes:**

a. Trips Lacking Authorization

The Cooperative Agreement's Standard Provision 8 required FIU to advise A.I.D. of its international travel and to obtain written concurrence from the A.I.D. project officer at least 30 days in advance. However, some international travel was performed without the required A.I.D. authorization, according to a July 1987 USAID/Costa Rica survey report on FIU's financial system and procedures. Our review of travel charges identified 33 trips costing at least \$15,341 that lacked such concurrences. The following table provides specifics.

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<sup>1</sup> These trips also lacked proper authorization but are discussed separately due to additional problems.

**SCHEDULE 1-B**  
**Page 2 of 5**

<b><u>Destination</u></b>	<b><u>Date</u></b> <b><u>1987</u></b>
1. San Jose (SJ)-Guatemala-Honduras-SJ	Feb 9-Mar 12
2. SJ-Tegucigalpa-SJ	Feb 24
3. SJ-San Salvador-SJ	Mar 3-6
4. SJ-Panama	Mar 30
5. SJ-San Salvador-SJ	Mar 30-31
6. SJ-San Salvador-SJ	Mar 30-31
7. Guatemala-SJ-Guatemala	Oct 29
8. SJ-Guatemala-SJ	Nov 2-4
9. SJ-Guatemala-SJ	Nov 2-4
10. Guatemala-SJ-Guatemala	Nov 19-20
11. SJ-Guatemala-SJ	Nov 23-24
12. SJ-Guatemala-SJ	Nov 23-24
13. SJ-Santo Domingo-SJ	Nov 30-Dec 3
14. SJ-Santo Domingo-SJ	Nov 30-Dec 3
15. SJ-Guatemala-SJ	Dec 7-9
16. Spain-SJ-Guatemala-SJ	Dec 5-15
17. Guatemala	Dec 10-12
18. Guatemala	Dec 10-12
19. SJ-Guatemala-SJ	Dec 10-14
20. SJ-Santo Domingo-Miami-Montreal	Dec 17-19
<b><u>1988</u></b>	
21. Guatemala-SJ-Santo Domingo	Jan 16-21
22. Miami-SJ-Miami	May 24-28
23. Montreal-SJ-Montreal	Oct 7-12
24. Miami-SJ-Miami	Nov 6-10
25. SJ-Miami-SJ	Nov 11
26. Miami-SJ-Miami	Nov 23
27. SJ-Miami-Santo Domingo-Miami-SJ	Nov 25-Dec 6
28. Miami-SJ-Miami	Nov 27-Dec 2
29. Montreal-Miami-SJ-Miami-Montreal	Nov 28-Dec 2
30. Miami-Toronto-Montreal	Dec 17-18
<b><u>1989</u></b>	
31. SJ-Miami-SJ	Jan 11-16
32. Montreal-SJ-Miami	Feb 1-7
33. SJ-Miami-SJ	Feb 10

b. Trip to San Jose

A political science professor's trip taken May 24 thru 28, 1988, from Miami to San Jose to Miami appeared to be of no obvious benefit in furthering the objectives of the Agreement and lacked A.I.D. authorization. FIU approved this trip to San Jose by one of its political science faculty to "review program that FIU has in Costa Rica, and to discuss future possibilities" at a time in 1988 when the San Jose office was being closed. This explanation appears inadequate, since the subject area of the Agreement was criminal justice and not political science, and the person responsible to review the performance of the project was the FIU Project Director's Dean and not this professor. A trip report of activities conducted was not submitted by the traveler.

A FIU official provided us the professor's resume and highlighted statements that the professor was: (1) involved in the development and negotiation of A.I.D. agreements received by FIU, (2) a member of A.I.D.'s Consultative Working Group on Democratic Development and Administration of Justice, and (3) a co-chair for a critique of the U.S. General Accounting Office's review of U.S. foreign policy in Central America during the Reagan administration. However, not one of his specific activities listed (publications, book reviews, and panel participations) referred to criminal justice.

Consequently, we have classified the \$264 as an unsupported cost because FIU did not provide specific justification of how the trip implemented an objective of the Agreement.

c. Trip to Miami

The FIU Project Director's 19-day trip taken December 21, 1987 to January 8, 1988 from San Jose to Miami to San Jose lacked A.I.D. authorization. FIU had questioned him about this trip and, subsequently, in a February 1988 memorandum he explained that he (1) was on home leave and (2) had met with over 12 FIU officials separately.

We have classified the \$1,317 as an unsupported cost since the trip lacked A.I.D. authorization. Of the 12-plus meetings held by the traveler, only four meetings with the Vice President, the Dean, the Director of Grants Management, and the Controller appeared Agreement-related. Moreover, \$938 was for per diem and is questionable because federal regulations do not provide for the payment of per diem during home leave.

d. Trip to Bolivia

A FIU employee's trip from San Jose to La Paz, Bolivia to San Jose taken November 25 to December 8, 1988 was questionable and lacked A.I.D. authorization. We have questioned that trip for the following reasons:

- The purpose of the trip appeared outside the scope of duties of the traveler, who was hired to advise and assist ILANUD. His La Paz trip was for a different purpose, i.e., to design a scope of work for a proposed sector assessment of the Bolivia justice system by USAID/Bolivia.
- A task performed by the traveler was outside the scope of duties of the traveler. Specifically, he negotiated a fixed price contract with USAID/Bolivia in behalf of the person serving as the FIU Project Director. The work on this fixed price contract appears to have been performed December 2 to 16, 1988, a period which overlapped the trip.
- The work in Bolivia or any place outside of Central America and the Dominican Republic appeared outside the scope of the Cooperative Agreement. In a similar case where another employee was to travel to three South American countries in October 1987, USAID/Costa Rica approved the trip as a one-time event and advised that additional services in South America would require an amendment to the appropriate project documents. Later amendments to the Agreement did not expand scope in this area.

e. Trips to Spain

FIU paid \$38,726 for transportation, per diem, and miscellaneous for 15 people to attend a meeting in February 1989 in Spain to evaluate problems identified in the sector assessments of Central American countries and the Dominican Republic. FIU reported two other purposes of the meeting in Spain as (1) to seek Spanish cooperation due to its influence on Latin America legal developments, and (2) to facilitate meetings between Spanish officials and an ILANUD official for the subsequent promise of \$500,000 in Spanish assistance.

Of this amount, \$3,468 is a questioned cost because payments were made for two who did not attend. That is to say, FIU records did not reflect reimbursement for the air fares paid for both persons and the hotel room paid for one of the persons.

The balance of \$35,258 is an unsupported cost because there were no A.I.D. authorizations for the 15 people to travel to Spain and a modification to the Agreement provided for a regional meeting to follow up the sector assessments in 1988 and not in 1989.

Obtaining prior A.I.D. authorization was especially important in this instance, since a regional meeting was to be held outside the region of Central America and would consequently be more costly in Spain. We estimated that at least \$5,000 in extra costs was incurred by holding the meeting in Spain instead of Central America.

f. Trip to Ecuador

A FIU employee's trip from San Jose to Ecuador to San Jose taken December 11 to 17, 1988, lacked A.I.D. authorization to go outside the region of Central America. Previously, USAID/Costa Rica approved a trip by the same FIU employee to provide services in three South American countries in October 1987 only as an one-time event and advised that additional activities in South America would require an amendment of the appropriate project documents. Since later amendments of the Agreement contained no such specific change, we have classified the \$1,107 as an unsupported cost.

g. Trips by ILANUD Personnel

Trips for two ILANUD people to travel from San Jose to Ecuador to San Jose in January 1989 were paid by FIU but were not reimbursed by ILANUD. These trips also lacked A.I.D. authorizations. The \$2,079 cost was indicated on FIU, San Jose office records for collection from ILANUD as an account receivable--an indication that it was a non-Agreement related expense. Moreover, the FIU Miami accounting records did not show collection. Consequently, \$2,079 is a questioned cost.

h. Calculation Error

In calculating the May 1988 moving expense of a FIU employee from San Jose to Miami an error was made. The total should have been \$7,266 instead of the \$7,360 charged. The difference of \$94 is a questioned cost.

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**SCHEDULE OF CONSULTANT**  
**QUESTIONED AND UNSUPPORTED COSTS**

<u>Item</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>	<u>Notes</u>
San Jose Office		\$50,943	a
Guatemala		17,456	b
Twelve-Day Consultancy	\$4,304		c
Total	<u>\$4,304</u>	<u>\$68,399</u>	

**Explanatory Notes:**

a. San Jose Office

A review of the \$5,878 salary payments (charged as "Consultant Costs") for the five professionals in the San Jose office for the nine-week period, January 3 to March 6, 1986, revealed payments made without timecards or other documentation of the hours worked. Moreover, the Office of the Auditor General for the State of Florida report for fiscal year ended June 30, 1987 stated that \$6,619 in salaries to employees working on the Agreement in foreign countries was not supported by attendance records and recommended that timecards or attendance records be used. This recommendation was subsequently implemented. Timecards, however, were not submitted by the San Jose office's professional staff for at least the period, January 1986 to June 1987, which represents \$50,943 in unsupported costs.

b. Guatemala

A review of only the December 1987 and January 1988 payments of \$17,456 to seven Guatemalan consultants found that none of the required certifications that services had been rendered had been signed. As a consequence, we have classified the \$17,456 as an unsupported cost.

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c. Twelve Day Consultancy

The FIU Miami office paid a consultant \$5,400 for 12 days in July 1988 to evaluate the capabilities and management systems of three organizations (ILANUD, CAPEL, and IIHR). The effective daily rate of pay for this consultancy was \$450 (\$5,400/12 days).

We questioned \$4,304 of the total incurred cost for the following reasons:

- (i) We questioned two-thirds, or \$3,600, because the activities of CAPEL and IIHR appeared to be outside the scope of the Agreement. The Agreement authorized FIU to assist ILANUD but did not appear to include the other two organizations. Cost questioned is computed as follows:

\$5,400 x 2/3 \$3,600

- (ii) We questioned a portion of the remaining \$1,800 because the effective daily rate of pay exceeded the ceiling authorized by A.I.D. The maximum rate for 1988 was \$274 per day. Cost questioned is computed as follows:

Daily Rate:

Effective	\$450
Less: Maximum	<u>274</u>
Questioned	\$176

Estimated Number of Days x 4

704

Total Questioned Cost

\$4,304

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**SCHEDULE OF UNSUPPORTED OTHER DIRECT COSTS**

<u>Item</u>	<u>Unsupported Costs</u>	<u>Notes</u>
Long Distance Telephone Calls (Miami Charges)	\$ 370	a
Long Distance Telephone Calls (San Jose Charges)	1,393	b
Software Purchase	125	c
Total	<u>\$1,888</u>	

a. Long-Distance Calls, (Miami Charges)

Long-distance telephone calls charged to the FIU Miami office were not subject to internal controls such as a control log. We reviewed one month of calls (December 20, 1988 to January 18, 1989 billing), which contained 51 calls costing \$521. Calls were made (1) from or to locations other than the expected Miami, Washington, San Jose, and Latin American countries participating in A.I.D.'s Regional Administration of Justice Project, and (2) to private residences in San Jose usually in the evenings or during the weekends. For example, seven calls from Montreal to Spain were charged to the Miami office and another six calls were made to private residences in San Jose. We were unable to determine through normal audit procedures whether these calls were Agreement-related. Since no control log of Agreement-related calls was kept, 28 of the 51 calls represents unsupported costs of \$370, or about 65 percent of the month's bill.

Approximately \$25,000 in long-distance charges were charged to the Agreement during its period of performance. During 1989, other locations called included Argentina, France, United Kingdom, Panama, California, and Tennessee.

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b. Long-Distance Calls, (San Jose Charges)

Long-distance telephone calls charged to the FIU San Jose office were not subject to internal controls such as a control log. We identified calls made to locations other than the expected Miami, Washington, and Latin American countries participating in A.I.D.'s Regional Administration of Justice Project. For example, in the six-week billing, January 28 to March 9, 1987, there were 333 calls costing \$2,703. However, these 333 calls included 123 costing \$1,393 (or 52 percent) to such locations as San Diego, San Francisco, Los Angeles, Bakersfield, Houston, Vermont, Nebraska, Massachusetts, New York, Montreal, Toronto, Mexico, Virgin Islands, and Panama. The last was the most frequent accounting for 73 calls of the 123--which seems unwarranted since an earlier FIU quarterly program report cited no new activities for Panama due to political events there. Since no log was kept, we have classified the \$1,393 charge for the 123 calls as an unsupported cost.

c. Software Purchase

A San Jose office purchase from the U.S. lacked justification and documentation as a complete procurement transaction. In June 1988 the FIU Project Director reimbursed himself \$125 for the mail-order purchase of a computer software package. This transaction lacked (1) a justification for need and (2) documentation of purchase such as a cancelled check or a vendor's receipt or shipping invoice. Remarking on this transaction a FIU official said that the San Jose office made such direct purchases several times instead of requisitioning through FIU's procurement office in Miami.

**APPENDIX**

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