PD-ABF-998

Financial Audits

AUDIT OF AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES A.I.D. Contract No. DPE-0453-C-00-2009-00 June 15, 1982 to October 14, 1985

Report No. 0-000-93-11-N May 14, 1993

"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."

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

May 14, 1993

MEMORANDUM FOR FA/OP, Frederick B. Will

FROM: IG/A/FA, Reginald Howard

SUBJECT: Audit of American Institute of Biological Sciences

The accounting firm of KPMG Peat Marwick performed a financial-related audit of Contract No. DPE-0453-C-00-2009-00 between the American Institute of Biological Sciences (AIBS) and A.I.D. Five copies of the report are enclosed for your action.

Under the contract, AIBS, a nonprofit organization, was to conduct research related to malaria vaccination. KPMG Peat Marwick audited $2,374,799 in expenditures incurred by AIBS during the period from June 15, 1982 through October 14, 1985.

The audit objectives were to determine whether: the Statement of Expenditures was presented fairly in accordance with the terms of the contract; the internal control structure was adequate for the contract's purposes and sufficient to capture contract data; and AIBS had complied with the terms of the contract, applicable laws and regulations.

KPMG Peat Marwick disclaimed an opinion on whether the Statement of Expenditures was presented fairly. Its auditors concluded that AIBS did not maintain adequate accounting records and sufficient evidential documentation to support the allowability of certain direct expenditures. The auditors stated further that they were unable to apply other auditing procedures to determine the allowability of these expenditures.

The auditors questioned a total of $1,046,026 of approximately $2.4 million included on the Statement of Expenditures. The questioned costs included $675,890 in potentially ineligible costs and $370,136 in costs that were considered unsupported.

Of the $675,890 in potentially ineligible costs, $605,189 represented amounts disbursed in excess of budget for specific categories. The contract's budget included $1,265,627 for subcontract costs. However, after terminating its only subcontract early, AIBS reallocated $605,189 remaining in the subcontract budget category to fund costs under other budget categories, such as salaries or travel.

The auditors believed that AIBS should not have diverted the funds from an approved category to other categories without specific approval from A.I.D. Contract No. DPE-0453-C-00-2009-00 did allow AIBS to adjust amounts among budget categories as reasonably necessary without prior approval from A.I.D. However, $605,189 represented a significant (23.8 percent) reallocation of overall contract funds and the reallocation caused individual budget categories to be exceeded by as much as 544 percent. Therefore, we believe that AIBS should have obtained specific, formal approval from A.I.D. before reallocating funds no longer needed for subcontractor expenditures.

Further, AIBS incorrectly recorded the $605,189 in its accounting records and in its claims for reimbursement from A.I.D. Thus, there was no official record of the reallocation in either the contractor's accounting records or its invoices. As a result, AIBS materially exceeded budgeted category amounts without apparent approval from A.I.D. and effectively kept the Agency from learning about the reallocation from subcontract costs to other types of expenditures.

The auditors considered that unsupported costs totalling $370,136 were due primarily to weaknesses in internal controls. The auditors identified as a material weakness in AIBS's internal control structure the fact that AIBS did not require the subcontractor to provide adequate supporting documentation for claimed expenditures. As a result, the auditors included as unsupported costs $177,421 in advances and reimbursements to the subcontractor. In addition, AIBS did not have support for $192,715 of its own expenditures.

With respect to their examination of compliance issues, the auditors found that for the items tested AIBS did not comply with 20 distinct provisions of the contract or applicable laws and regulations. Based on this level of noncompliance, the auditors concluded that there was more than a relatively low risk that AIBS may also have violated the provisions of Contract No. DPE-0453-C-00-2009-00 or applicable laws and regulations for items not tested.

AIBS's management did not agree with all findings. For example, AIBS stated that the auditors made incorrect assumptions in their analysis of the use of subcontract funds for other budget categories. In addition, AIBS claimed that some expenditures were not supported because original documents were misplaced or given to auditors and other reviewers during previous reviews of AIBS. AIBS' management also claimed that some of the questioned costs were incurred with the knowledge of or at the direction of A.I.D. officials. AIBS' management comments and auditor's responses are included in their entirety in Appendices C and D to this report.

AIBS' management stated they had improved their accounting system and internal controls since the audit period. We are therefore recommending that A.I.D.'s Office of Procurement verify that AIBS has strengthened its accounting procedures and internal controls.

b

Recommendation No. 1: We recommend that A.I.D.'s Office of Procurement (FA/OP) resolve the $1,046,026 ($675,890 ineligible and $370,136 unsupported) in questioned costs identified in the audit report.

Recommendation No. 2: We recommend that A.I.D.'s Office of Procurement (FA/OP) verify that AIBS has strengthened its accounting procedures and internal controls to ensure: (1) accurate recording and reporting of expenditures, (2) the collection and retention of adequate support documentation, and (3) adherence to Federal contract provisions.

The recommendations will be included in the Inspector General's audit recommendations follow up system. Within 30 days, please provide this Office with the status of actions planned or taken to resolve and/or close the recommendations.

KPMG Peat Marwick

Certified Public Accountants

AUDIT OF

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE-0453-C-00-2009-00

June 15, 1982 to October 14, 1985

(With Independent Auditors' Reports Thereon)

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE-0453-C-00-2009-00

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KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

February 16, 1993

Mr. Reginald Howard
IG/A/FA SA-16 (RPE)
Room 514
Washington, D.C. 20523-1604

Dear Mr. Howard:

This report presents the results of our audit we were engaged to perform of the American Institute of Biological Sciences (AIBS), Agency for International Development (A.I.D.) contract number DPE-0453-C-00-2009-00 for the period June 15, 1982 to October 14, 1985.

BACKGROUND

AIBS is a nonprofit organization chartered in 1947 to assist in the advancement and initialization of biological sciences and their application to human welfare. AIBS is composed of individual members and scientific societies with an aggregate membership of over 80,000 biologists.

AIBS had established a Special Sciences Programs Department to provide technical evaluation and advisory services, conduct short and long term studies on specific topics, and arrange and manage seminars, symposia, and workshops. Through this department, AIBS was able to procure a contract from A.I.D. for research related to malaria vaccination.

AIBS signed a contract with A.I.D. in July 1982 (A.I.D. contract number DPE-0453-C-00-2009-00) for an amount of $2,538,050, as amended on June 14, 1985. The primary objectives of the contract were to assist A.I.D. and the A.I.D.'s network of laboratories in the area of malaria research by: providing consultants and specialists for malaria research projects; conducting malaria research seminars and workshops; assisting in the writing of reports and dissemination of information about malaria research; providing computer capabilities in order to collate and store research data of the A.I.D. sponsored malaria research network; and administering a sub-contract with Instituto National de Salud (INS) in Bogota, Colombia.

Although the contract was funded from June 15, 1982 through October 14, 1985, requests for reimbursements for expenses incurred during this period continued until October 24, 1988.

Member Firm of
Klynveld Peat Marwick Goerdeler

AUDIT OBJECTIVES AND SCOPE

The objective was to perform a financial audit of A.I.D. contract number DPE–0453–C–00–2009–00 for the period June 15, 1982 to October 14, 1985 administered by AIBS.

We were to perform the audit in accordance with Generally Accepted Auditing Standards and Government Auditing Standards, issued by the Comptroller General of the United States (1988 Revision) and, accordingly, include such tests of the accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The Statement of Contract Expenditures presents fairly the expenditures from June 15, 1982 to October 14, 1985, according to the terms of the contract, identifying unsupported costs or those not considered appropriately allocable or allowable under the contract.

2. AIBS's internal control structure was sufficient to capture data under the contracts and was adequate for the contract's purposes.

3. AIBS complied with the terms of the contract and applicable laws and regulations.

The major audit procedures conducted during our work in order to meet the audit objectives consisted of:

Salaries

Analyzing employees' salaries individually to verify salary increases were in accordance with the terms of the contract.

Examining employees' timesheets on a selected basis to determine the propriety of the salaries charged to the contract.

Allowances

Analyzing allowances charged to the contract to verify employees' eligibility to receive the allowances and determine whether the allowances were in accordance with applicable laws and regulations.

Other Direct Costs

Examining supporting documentation for selected expenses to determine allowability of expenditures and compliance with the terms of the contract, subcontracts, applicable laws and regulations.

Indirect Costs

Examining supporting documentation for selected indirect costs to determine the allowability of expenditures as part of the indirect cost pools using final indirect cost rates audited and approved by the Defense Contractor Audit Agency (DCAA).

Internal Control Review

Studying and evaluating AIBS's internal control structure relative to A.I.D. contract number DPE–0453–C–00–2009–00 in order to assess the control risks and to determine our auditing procedures.

RESULTS OF THE AUDIT

Statement of Contract Expenditures

AIBS did not maintain adequate accounting records and sufficient evidential documents supporting the allowability of certain direct expenses. We were unable to apply other auditing procedures to satisfy ourselves as to the allowability of these expenses. Our audit disclosed questioned costs amounting to $1,046,026.48 of which $370,136.13 were unsupported.

Because of the above scope limitation, we are unable to express an opinion on the Statement of Contract Expenditures of A.I.D. contract number DPE-0453-C-00-2009-00, for the period June 15, 1982 to October 14, 1985.

Compliance with the Terms of the Contract and Applicable Laws and Regulations

As part of our audit, we performed tests of AIBS's compliance with certain contract provisions and laws and regulations. We performed those tests of compliance as part of obtaining reasonable assurance about whether the Statement of Contract Expenditures was free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our tests of compliance disclosed the following instances of noncompliance:

1. Reports of expenses incurred under the contract were not filed on a timely basis.

2. Drawdowns on letter of credit arrangements exceeded the maximum allowable under the contract.

3. Use of consultants was not properly approved.

4. International travel was not properly approved.

5. First class air travel was not properly justified.

6. Certain costs were unsupported.

7. Amounts billed for salaries expenses did not agree with the general ledger records.

8. Total costs included in the audited financial statements did not agree with the total costs billed on the vouchers submitted for reimbursement from A.I.D.

9. Alterations were made to timesheets without employee approval.

10. Employee timesheets did not support the hours billed to A.I.D.

11. Travel expenses lacked proper supporting documentation.

12. Unallowable costs for entertainment and alcoholic beverages were billed to A.I.D..

13. Per diem was paid in excess of the maximum allowable per A.I.D.

14. Advances for salaries expenses were made to a subcontractor for which adequate supporting documentation was never received.

15. A subcontractor was reimbursed for expenses that were unallowable under the terms of the contract.

16. A subcontractor was reimbursed for expenses that were unsupported, or lacked proper supporting documentation.

17. Budget line items have been exceeded by amounts that are unreasonable.

18. Costs incurred for meals and accommodation at a conference were unreasonable.

19. Beginning salaries were in excess of the maximum allowed under the contract.

20. Salary increases were not in compliance with the contract terms.

The results of our tests of compliance indicate that, with respect to the items tested, AIBS did not comply, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to the items not tested, the extent of noncompliance noted in our testing indicates that there is more than a relatively low risk that AIBS may have violated the provisions of the contract or applicable laws and regulations.

Internal Control Structure

We studied and evaluated AIBS's internal control structure relative to A.I.D. contract number DPE–0453–C–00–2009–00 in order to assess the control risks and to determine our auditing procedures for the purpose of expressing an opinion on the Statement of Contract Expenditures of AIBS and not to provide assurance on AIBS's internal control structure taken as a whole.

We noted the following matters that we consider internal control findings. We believe that findings number 1, 2 and 3 are reportable conditions and finding number 8 is a material weakness under Generally Accepted Auditing Standards and Government Auditing Standards (1988 Revision).

1. Invoices were not effectively canceled to prevent duplicate payment.

2. Personnel files were not maintained or were inadequate.

3. Proper records for non-expendable government property were not maintained.

4 Timesheets were not approved.

5. Amounts shown on the audited financial statements were not consistent from year to year.

6. Certain disbursements and journal entries were not properly approved.

7. The documentation of rates used to calculate currency translations was not adequate.

8. Reimbursements for certain expenses incurred by the sub-contractor were made without proper supporting documentation.

9. Support for other disbursements was inadequate.

10. File copies of documentation supporting correspondence between AIBS and the other entities were not on AIBS letterhead and were not signed.

11. Alterations were made to timesheets without employee approval.

12. Amount claimed for reimbursement was in excess of per diem rate.

13. Beginning salaries were in excess of the maximum allowed under the contract.

14. Salary increases were not in compliance with contract terms.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

MANAGEMENT COMMENTS

Management's response to the questioned costs is included on page 51, Appendix C. Management's response includes various explanations regarding the compliance findings, including but not limited to: insufficient time to locate additional documentation; expenditures incurred with the approval and knowledge of USAID officials; accounting records moved and refiled due to several previous audits of the project and certain original documents submitted to the Inspectors General Office and others; and AIBS was made to administer an unwanted subcontractor and had to work under very unusual circumstances.

Management did not respond to the internal control findings.

We have chosen to respond to certain of management's responses. These comments begin on page 56, Appendix D, of this report.

* * * * * * * * * * *

Very truly yours,

KPMG Peat Marwick

KPMG Peat Marwick

John H. Hummel
Partner

KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

Independent Auditors' Report on the Statement of Contract Expenditures

We were engaged to audit the accompanying Statement of Contract Expenditures of the American Institute of Biological Sciences (AIBS), Agency for International Development (A.I.D.) contract number DPE–0453–C–00–2009–00, for the period June 15, 1982 to October 14, 1985. The Statement of Contract Expenditures is the responsibility of AIBS's management.

As described in note (c), the accompanying Statement of Contract Expenditures presents AIBS's expenditures related to A.I.D. contract DPE-0453-C-00-2009-00, and is not intended to indicate AIBS's financial position, results of operations, cash flows, or changes in its fund balance in accordance with generally accepted accounting principles.

As described in the accompanying Schedules of Findings and Questioned Costs, the Statement of Contract Expenditures includes expenditures of $1,046,026.48 considered questioned costs, of which $370,136.13 are unsupported costs. A.I.D. will make a final determination as to whether the questioned costs are allowable under the terms of the contract.

Because of the possible material effects on the Statement of Contract Expenditures of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, we are unable to, and do not express, an opinion on the accompanying Statement of Contract Expenditures.

This report is intended solely for the use of the Agency for International Development and management of the American Institute of Biological Sciences. This restriction is not intended to limit the distribution of this report if a matter of public record.

KPMG Peat Marwick

December 2, 1992

Member Firm of
Klynveld Peat Marwick Goerdeler

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE–0453–C–00–2009–00

Statement of Contract Expenditures

For the period June 15, 1982 to October 14, 1985

Expenditures	Budget	Actual
Salaries	$202,078	261,010
Travel	171,250	126,573
Per diem	72,875	46,095
Honorarium	156,520	199,121
Data processing	88,345	30,431
Other direct costs	84,093	173,874
Subcontracts	1,265,627	1,046,490
Indirect costs	497,262	491,205
Total expenditures	$2,538,050	2,374,799

See accompanying notes to the Statement of Contract Expenditures.

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE–0453–C–00–2009–00

Notes to the Statement of Contract Expenditures

For the period June 15, 1982 to October 14, 1985

Nature of Operations and Summary of Significant Accounting Policies

(a) ***Background***

AIBS is a nonprofit organization chartered in 1947 to assist in the advancement and initialization of biological sciences and their application to human welfare. The Institute is composed of individual members and scientific societies with an aggregate membership of over 80,000 biologists.

AIBS had established a Special Sciences Programs Department to provide technical evaluation and advisory services, to conduct short and long term studies on specific topics, and arrange and manage seminars, symposia, and workshops. Through this department, AIBS was able to procure a contract from A.I.D. for research related to malaria vaccination.

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Although the contract was funded from June 15, 1982 through October 14, 1985, requests for reimbursements for expenses incurred during this period continued until October 24, 1988.

(b) ***Basis of Accounting***

Expenditures are related to the disbursing of funds provided by A.I.D. to accomplish the objectives of the projects discussed above. Expenditures are recognized as incurred, in accordance with generally accepted accounting principles.

(c) ***Basis of Presentation***

The accompanying Statement of Contract Expenditures presents AIBS's expenditures related to A.I.D. contract DPE-0453-C-00-2009-00 and is not intended to indicate AIBS's financial position, results of its operations, cash flows, or changes in fund balance, in accordance with generally accepted accounting principles.

KPMG Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.
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Independent Auditors' Report on Compliance with the Terms of the Contract and Applicable Laws and Regulations

We were engaged to audit the Statement of Contract Expenditures of the American Institute of Biological Sciences (AIBS), Agency for International Development (A.I.D.) contract number DPE-0453-C-00-2009-00, for the period June 15, 1982 to October 14, 1985, and have issued our report thereon dated December 2, 1992 on which we disclaimed an opinion due to the inadequacy of supporting documentation.

Compliance with the provisions of the contract and the laws and regulations applicable to AIBS is the responsibility of AIBS's management. As part of planning our audit, we performed tests of AIBS's compliance with certain provisions of the contract and laws and regulations. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Statement of Contract Expenditures was free of material misstatement; our objective was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of the contract provisions and laws and regulations, that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement of Contract Expenditures. The results of our tests of compliance disclosed material instances of noncompliance disclosed in the accompanying Schedules of Findings and Questioned Costs.

We considered these material instances of noncompliance in preparing our report on whether AIBS's Statement of Contract Expenditures is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report on the Statement of Contract Expenditures dated December 2, 1992.

The results of our tests of compliance indicate that, with respect to the items tested, AIBS did not comply, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to the items not tested, the extent of noncompliance noted in our testing indicates that there is more than a relatively low risk that AIBS may have violated the provisions of the contract or applicable laws and regulations.

This report is intended solely for the use of the Agency for International Development and management of the American Institute of Biological Sciences. This restriction is not intended to limit the distribution of this report if a matter of public record.

KPMG Peat Marwick

December 2, 1992

Member Firm of
Klynveld Peat Marwick Goerdeler

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE-0453-C-00-2009-00

Compliance with the Terms of the Contract and Applicable Laws and Regulations

Schedule of Questioned Costs

For the Period June 15, 1982 to October 14, 1985

According to A.I.D. applicable regulations, costs charged to a project must meet th following general criteria:

a) Be reasonable for the performance of the project. A cost is reasonable i in its nature or amount, it does not exceed that which would be incurred b a prudent person under the same circumstances.

b) Be allocable to the project. A cost is allocable in accordance with th relative benefits received.

c) Conform to any limitations or exclusions set forth in the agreement i which the project is based.

d) Be adequately documented.

Ineligible costs are all those costs unallocable and/or unallowable in accordance with th terms of the contract, applicable laws and regulations. Unsupported costs are costs nc properly supported by the recipient.

The following costs were questioned because they were not adequately supported or wer not in compliance with the contract provisions, applicable laws or regulations:

Finding	Ineligible Costs	Unsupported Costs	Total
3	$1,641.06	$--	$1,641.06
4	21,978.12	--	21,978.12
5	1,838.22	--	1,838.22
6	--	156,715.69	156,715.69
7	--	2,340.90	2,340.90
8	--	10,226.00	10,226.00
9	--	21,580.30	21,580.30
10	--	29.45	29.45
11	--	1,822.47	1,822.47
12	2,796.82	--	2,796.82
13	368.00	--	368.00
14	--	146,966.03	146,966.03
15	7,341.46	--	7,341.46
16	--	30,455.29	30,455.29
17	605,189.00	--	605,189.00
18	29,021.00	--	29,021.00
19	2,000.00	--	2,000.00
20	3,716.67	--	3,716.67
Total Questioned Direct Costs	$675,890.35	$370,136.13	$1,046,026.48

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE–0453–C–00–2009–00

Compliance with the Terms of the Contract and Applicable Laws and Regulations

Schedule of Findings

1. **AIBS did not comply with the contract requirements for reporting expenditures**

Condition:

AIBS did not prepare and submit reports of expenditures within 30 days of disbursement as required by the provisions of the contract for 5 out of the 43 vouchers submitted for reimbursement from A.I.D.

Voucher #	Period Covered	Date Filed	Days Late	Amount
1	6/1/82-9/30/82	11/4/82	5 - 96	$87,635.10
8	7/1/83-7/31/83	9/16/83	16	51,069.10
26	1/1/85-1/31/85	3/12/85	10	57,646.17
39	2/1/86-2/28/86	6/11/86	71	43,593.18
40	4/1/87-4/30/87	6/23/86	24	31,041.24
Total				$270,984.79

Criteria:

General provision number 48 (d) (6) of the contract states: "A report of expenditures is prepared and submitted to the Office of Financial Management, within thirty days of disbursement. This report, submitted on Standard Form 1034, 'Public Voucher for Purchase and Services Other Than Personal', and supported by certifications, listing of withdrawals, and documentation as required, itemizes expenditures made, identifying funds expended by line item of the approved budget and/or category supporting the agreement."

Effect:

5 of the 43 expenditure reports were not filed with A.I.D. within the required time period.

Recommendation:

AIBS should determine the due date of all reports required to be filed and submit all reports on a timely basis.

2. **Drawdowns on the letter of credit agreement exceeded the maximum allowable amount**

Condition:

AIBS made a withdrawal on the letter of credit agreement with A.I.D. for an amount in excess of the limits set forth by A.I.D. AIBS did not obtain the necessary written approval needed from the A.I.D. contracting officer.

Date of Withdrawal	Amount
September 6, 1985	$400,000

Criteria:

General Provision number 48 as amended by Contract Modification Number 1, states that: "...the maximum amount drawn during any calendar month of the contract shall not exceed $125,000 without prior written authorization of the A.I.D. contracting officer."

Effect:

The excess withdrawal of $275,000 was not approved by the A.I.D. contracting officer.

Recommendation:

AIBS should not withdraw more than the maximum allowable on the letter of credit arrangement without obtaining written approval from A.I.D.

3. **AIBS hired a consultant without prior written approval from the A.I.D. contracting officer**

Condition:

Compensation for a consultant was paid without prior written approval by the A.I.D. contracting officer.

Name	Date	Check Number	Amount
Benjamin Blood	2/28/85	200483	$1,641.06

Criteria:

Article 6 (A)(5) of the contract states that: "No compensation for consultants will be reimbursed unless their use under the contract has the advance written approval of the A.I.D. contracting officer."

Effect:

Consultant expenditures amounting to $1,641.06 were not approved by the A.I.D. contracting officer. These costs are included as ineligible costs in the Schedule of Questioned Costs.

Recommendation:

AIBS should obtain written approval for all consultants paid under the contract. Copies of these approvals should be filed along with other supporting documentation required for disbursement of funds.

4. **Written approval was not obtained from the A.I.D. contracting officer for international travel**

Condition:

In 14 out of 53 travel related items tested, written approval was not obtained for international travel in the following instances:

Item Description	Date	Check Number	Amount
Adams & Associates	09/02/83	170	$1,938.00
Carter's Travel	04/29/83	3281	2,113.00
Columbia Travel	08/05/85	201715	3,875.80
Dorothy Jordan	10/14/83	373	594.84
Ellen Winchell	09/30/82	3717	1,774.20
Ellen Winchell - Travel	11/30/82	2753	473.00
EWA Business	09/15/83	205	1,109.56
Four Seasons Travel	02/21/84	848	2,049.00
Richard Beaudoin	02/28/83	3127	1,928.80
Thomas Cook agency	03/01/84	896	1,532.00
WIT Travel	10/31/83	0415	699.75
WIT Travel	11/16/83	0459	1,236.02
WIT Travel	11/30/82	2755	1,707.30
WIT Travel	03/21/85	200879	946.85
Total			$21,978.12

Criteria:

Clause 3 (a) of the Additional General Provisions of Cost Reimbursement Type Contracts states that: "Prior written approval by the A.I.D. contracting officer is required for all international travel directly and identifiably funded by A.I.D. under this Contract."

Effect:

Travel expenditures amounting to $21,978.12 were not approved by the A.I.D. contracting officer. These costs are included as ineligible costs in the Schedule of Questioned Costs.

Recommendation:

Approval for all international travel should be obtained in writing from A.I.D. as required under the contract provisions.

5. **AIBS employees traveled by first-class fare without adequate justification or approval from the A.I.D. contracting officer**

Condition:

In 1 of 53 travel related items tested, AIBS personnel traveled charging an airfare other than economy without proper justification or approval from the A.I.D. contracting officer as follows:

Item Description	Date	Check Number	Amount
WIT Travel	11/28/84	2038	$1,838.22

Criteria:

Clause 5 (a) of the General Provisions of Cost Reimbursement Type Contracts states that: "...transportation costs shall not be reimbursed in an amount greater than the cost of and, time required for economy class commercial scheduled air travel by the most expeditious route unless economy air travel or economy air travel space are not available and the Contractor certifies to the facts in the voucher or other documents retained as part of his contract records to support his claim for post audit."

Effect:

Travel expenditures amounting to $1,838.22 were not justified or approved in writing by the A.I.D. contracting officer. These costs are included as ineligible costs in the Schedule of Questioned Costs.

Recommendation:

AIBS should only use economy air travel. In the instances where economy fares are not available, the justification for the additional expense should be adequately documented, and appropriate approvals maintained in the AIBS file. These approvals should be filed with all other supporting documentation required for the disbursement.

6. Certain direct costs were unsupported

Condition:

In 90 of 222 disbursements tested, AIBS did not have adequate documentation, or could not locate supporting documentation, to permit a determination of allowability under the contract.

Documentation not located	$108,755.10	(See Appendix A)
Inadequate documentation	47,960.59	(See Appendix B)
Total amount of unsupported costs	$156,715.69	

Criteria:

Under Attachment A of the Cost Principles for Nonprofit Organizations (paragraph 18.810.10 of OMB Circular A-122), costs must be adequately documented to permit a determination of the allowability and necessity in accordance with the terms of the contract.

Cause:

The contract was for an extended period of time and began approximately 10 years ago. AIBS has undergone numerous audits and in the process the accounting records have been moved and re-filed several times.

Effect:

The allowability of the expenditures could not be determined. These costs are included in the Schedule of Questioned Costs as unsupported costs.

Recommendation:

AIBS should maintain adequate documentation of expenses to reduce the likelihood of questioned costs.

7. **The total amount of salaries billed to A.I.D. did not agree with the amounts recorded in the general ledger**

Condition:

Amounts billed to A.I.D. for salary expenses did not agree with amounts recorded in the general ledger. The unreconciled amount was determined by comparing the amounts billed to A.I.D. to the amounts recorded on the general ledger for each year as follows:

Year	Amount per G/L	Amount billed to A.I.D.	Variance
1982	$56,034.14	(no voucher submitted)	$56,034.14
1983	22,495.10	78,529.24	(56,034.14)
1984	79,415.58	79,415.58	--
1985	100,723.98	103,064.88	2,340.90
Total	$258,668.80	$261,009.70	$2,340.90

Criteria:

Under clause 14 (b) of the General Provisions of Cost Reimbursement type contracts: "...the Contractor shall maintain, and the A.I.D. contracting officer or his representatives shall have the right to examine books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred and anticipated to be incurred for the performance of this contract (emphasis added)." Amounts billed to the A.I.D. should reconcile with AIBS's financial records.

Effect:

$2,340.90 of salary expenses are included in the Schedule of Questioned Costs as unsupported costs.

Recommendation:

All billings made to A.I.D. should be checked for accuracy and consistency with the financial records from which the billings were prepared.

8. **Amounts shown on the audited financial statements did not agree with total costs submitted on vouchers for reimbursement from A.I.D.**

Condition:

AIBS did not maintain adequate records to reconcile the total costs on the audited financial statements to the amounts recorded in the general ledger.

Cumulative total of amounts billed to A.I.D.	Cumulative amount of expenses reported on audited financial statements	Variance
$2,374,799.00	2,364,573.00	10,226.00

Criteria:

Under clause 14 (b) of the General Provisions of Cost Reimbursement type contracts: "...the Contractor shall maintain, and the contracting officer or his representatives shall have the right to examine books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred and anticipated to be incurred for the performance of this contract (emphasis added)."

Cause:

AIBS did not maintain financial records on a full accrual basis of accounting. AIBS relied on the independent auditors to make the necessary accounts payable adjustments at the end of each fiscal year. Documentation of these adjustments was not maintained by AIBS to facilitate reconciling the detail to the general ledger.

Effect:

The total costs incurred under the A.I.D. contract as shown in the audited financial statements did not agree with the cumulative costs shown on the final voucher submitted for reimbursement by AIBS. The unsupported overbilling of $10,226.00 is included in the Schedule of Questioned costs as unsupported costs.

Recommendation:

AIBS should maintain all necessary documentation to support adjustments made during audits by the independent auditors.

9. **Alterations were made to timesheets without employee approval**

Condition:

12 out of 25 instances tested, changes had been made to timesheets without documentation of employee authorization as follows:

Name of Employee	Dates of Timesheets	Total amount
Suzanne Buck	6/83, 7/83	$1,098.75
Dorothy Jordan	11/83, 7/84, 8/85, 5/85	8,966.68
Virginia Mc Call	5/84, 6/84, 8/84, 5/85	5,254.63
Peter Contacos	1/85	5,000.00
Roxanna Melloni	2/85	1,260.24
Total		$21,580.30

Criteria:

All timesheets submitted as support for contract billings must be signed by the employee to verify that the information on the timesheet accurately reflects the time spent during the respective time period. When corrections are made to the timesheet, the employee should initial the correction to indicate authorization of the change.

Cause:

AIBS did not have a written policy in place to implement time sheet correction procedures.

Effect:

Direct labor charges amounting to $21,580.30 are included in the Schedule of Questioned Costs as unsupported costs. Without employee approval of the changes made to the timesheets tested, we cannot determine whether the hours charged are correct.

Recommendation:

AIBS should review all employee timesheets for completeness and accuracy and require all alterations to be initialed by the employee as evidence of approval.

10. Employee timesheets did not support the hours billed

Condition:

1 out of the 25 timesheets selected for testing did not support the hours billed as follows:

Name	Date of Timesheet	Number of Hours Overcharged	Rate	Total
Roxanna Melloni	2/85	5	$5.89	$29.45

Criteria:

Under Attachment A of the Cost Principles for Nonprofit Organizations (paragraph 18.810.10 of OMB Circular A-122), costs must be adequately documented to permit a determination of the allowability and necessity in accordance with the terms of the contract.

Cause:

AIBS did not reconcile the employee timesheet to the contract billings to ensure that the number of hours billed were accurate.

Effect:

Direct labor hours amounting to $29.45 are included in the Schedule of Questioned Costs as unsupported costs.

Recommendation:

AIBS should reconcile the timesheets to the contract billing for each billing cycle and review the bill for accuracy.

11. **Supporting documentation for certain travel expenses did not include travel expense vouchers**

Condition:

Supporting documentation for 3 out of 29 travel expenditures tested did not include expense reimbursement vouchers. These vouchers are used to determine the business purpose of the travel and provide other information needed to determine the allowability of the costs.

Payee	Date	Check #	Amount
Ann Huber	3/31/83	3135	$214.00
Wassim Siddiqui	6/18/85	201368	883.47
Yupin Charonevit	1/31/83	2979	725.00
Total			$1,822.47

Criteria:

Under Attachment A of the Cost Principles for Nonprofit Organizations (paragraph 18.810.10 of OMB Circular A-122), costs must be adequately documented to permit a determination of the allowability and necessity in accordance with the terms of the contract.

Effect:

$1,822.47 of travel expenses are included in the Schedule of Questioned Costs as unsupported costs.

Recommendation:

AIBS should not make any disbursements without the proper supporting documentation .

12. **Unallowable entertainment costs billed to A.I.D.**

Condition:

AIBS paid for alcoholic beverages and other entertainment costs during a conference held in Ft. Lauderdale, Florida as follows:

Type	Date	Amount
Alcoholic Beverages	10/08/85	$26.74
Entertainment - Movies	10/08/85	6.04
Alcoholic Beverages	10/09/85	607.50
Alcoholic Beverages	10/09/85	280.00
Entertainment - Harpist	10/09/85	225.00
Entertainment - Movies	10/09/85	6.04
Alcoholic Beverages	10/12/85	595.50
Entertainment - Band	10/12/85	1,050.00
Total		$2,796.82

These amounts were paid by AIBS check number 202464, to Marriott Harbor Beach Hotel on 11/6/85. This finding was also reported in a General Accounting Office audit report dated October 17, 1989.

Criteria:

All costs reimbursed by A.I.D. should be reasonable, allocable, and allowable. According to Circular A-122 attachment B (12); "Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable."

Effect:

$2,796.82 has been included in the Schedule of Questioned Costs as ineligible costs.

Recommendation:

AIBS should adhere to Federal regulations in determining amounts billed to A.I.D.

13. Amount claimed for reimbursement was in excess of per diem rate

Condition:

The amount billed to A.I.D. for reimbursement exceeded the allowable per diem rate. A.I.D was billed at a rate of $98 a day for 16 days.

Payee	Date	Check Number	Amount
Pan American Health Organization.	9/19/85	202127	$368.00

Criteria:

Clause 5 of the General Provisions of Cost Reimbursement Type Contracts, inlcuded in the contract under audit, states that: "Such travel allowances shall be in accordance with the established practice of the contractor for travel within the United States provided that it shall not exceed the rates and basis for computation of such rates provided in the federal Travel regulations, as from time to time amended.

The maximum per-diem rate according to GSA Bulletin FPMR A-40, Supplement 8, effective December 18, 1983 was $75 per person. Based on this information, 368.00 of the total amount billed of $1,568 was in excess of the maximum per-diem of $ $75.

Cause:

AIBS did not review the per diem rate included in the billing to ensure that the rate charged was not in excess of Federal regulations.

Effect:

$368.00 was claimed for reimbursement which exceeded the per diem rate. These costs are included in the Schedule of Questioned Costs as ineligible costs.

Recommendation:

AIBS should establish appropriate internal control procedures to ensure that per-diem rates billed to government contracts are not in excess of Federal regulations.

14. **AIBS made advances to a subcontractor for which supporting documentation subsequently submitted to AIBS, was inadequate and inconsistent. In addition, these advances went directly to an individual and not the legal entity the contract was with**

Condition:

AIBS made advances payable to the Instituto National De Salud, a subcontractor in Bogota, Colombia. The advances which were to cover salary expenses were made payable to the subcontractor's "Malaria Immunology Unit" and "Carlos Espinal" (Principal Investigator - Malaria Immunology Department). These payments were made with the understanding that proper supporting documentation would be obtained from the subcontractor. Documents received from the subcontractor in support of the salaries expenses were incomplete, inconsistent, and did not provide evidence of actual time spent on A.I.D. contract related activities. The total amount paid in the form of salary advances was $146,966.03. (AIBS currently has a lawsuit pending in the U.S. District Court in an attempt to recover all of the amounts paid to the Malaria Immunology Unit).

Criteria:

Under OMB Circular A-122 (paragraph 18.811.06)(6)(l) and (2): "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports...except when a substitute system has been approved in writing by the cognizant agency...Reports reflecting the distribution of activity of each employee must be maintained for all staff members...whose compensation is charged, in whole or in part, directly to awards."

The Statement of Work of the contract was modified by Modification number one (1) C. Article I-Statement of Work. "The Contractor shall enter into a 33-month subcontract with the Instituto Nacional de Salud (INS), Bogota, Colombia for the conduct of research towards the development of an effective vaccine against faciparum malaria, subject to General Provisions-Cost Reimbursement Type Contracts; clause 15 - Subcontractor Cost or Pricing Data and clause 18 - Subcontracts."

Cause:

AIBS believed that the copies of payment vouchers showing amounts paid to subcontract workers in Columbia was adequate documentation. Although these documents were reviewed, the inconsistencies noted were not resolved.

Effect:

The $146,996.03 paid for salary expenses under the subcontract are included as unsupported costs in the Schedule of Questioned Costs.

Recommendation:

All advances paid should be reconciled to the supporting documentation on a timely basis. When proper supporting documentation is not received, subsequent payments should not be made until all items have been resolved.

15. **AIBS reimbursed the subcontractor in Bogota, Columbia for expenses that were unallowable under the terms of the contract**

Condition:

AIBS made payments to the subcontractor for the following items that were unallowable under the terms of the subcontract agreement:

Item Description	Voucher Number	Amount
Payments to Cuervo & Nicholls, a consultant hired by the subcontractor but never authorized by AIBS as required by the subcontract agreement	6	$1,408.66
	10	409.10
	16	1,247.30
	24	1,176.94
	26	491.73
		4,733.73
Payments for repairs to automobiles	7	400.63
Maintenance contracts not authorized by AIBS	16	1,682.10
Payment for 100% of food for monkeys when the subcontract provides for 50% of these costs to be borne by the subcontractor ($525 is the 50% share)	12	525.00
Total		$7,341.46

Criteria:

Article VII, Section B of the subcontract states that "No compensation for consultants will be reimbursed unless their use under the contract has the advance written approval of the AIBS..." Article VI, Section V. of the subcontract states "Gasoline, maintenance and repairs of vehicle(s) will be covered by INS." and Section VI states "INS will cover 50% of animal per diem in Bogota and Armero."

The Statement of Work of the contract was modified by Modification number one (1) C.Article I-Statement of Work. "The Contractor shall enter into a 33-month subcontract with the Instituto Nacional de Salud (INS), Bogota, Colombia for the conduct of research towards the development of an effective vaccine against faciparum malaria, subject to General Provisions-Cost Reimbursement Type Contracts; clause 15 - Subcontractor Cost or Pricing Data and clause 18 - Subcontracts."

Cause:

AIBS did not adequately review the documentation submitted by the sub-contractor requesting reimbursement for payments. This review was sometimes difficult because documents provided by the sub-contractor were in Spanish.

Effect:

The $7,341.46 is included in the Schedule of Questioned Costs as ineligible costs.

Recommendation:

AIBS should review all requests for reimbursements from subcontractors and should not reimburse costs that are unallowable under the subcontract or have not been approved by AIBS.

16. **AIBS reimbursed the sub-contractor for expenses that were not supported by invoices or other proper documentation**

Condition:

AIBS reimbursed the sub-contractor for costs, as itemized below, for which no supporting documentation was obtained.

Payment Voucher #	Amount paid without supporting documentation	Amount paid with photocopies of invoices provided as supporting documentation	Total
1	$--	$1,590.10	$1,590.10
3	--	4,385.44	4,385.44
4	--	3,518.13	3,518.13
5	--	2,677.16	2,677.16
6	1,129.00	745.59	1,874.59
7	1,000.00	671.10	1,671.10
8	5,305.53	--	5,305.53
9	589.54	425.30	1,014.84
10	270.30	53.50	323.80
12	--	562.30	562.30
14	--	1,075.37	1,075.37
16	--	1,214.46	1,214.46
17	--	578.43	578.43
18	--	1,798.17	1,798.17
19	--	681.98	681.98
20	--	2,171.39	2,171.39
22	--	12.50	12.50
Total	$8,294.37	$22,160.92	$30,455.29

Criteria:

Under clause 14 (b) of the General Provisions of Cost Reimbursement type contracts: "...the Contractor shall maintain, and the contracting officer or his representatives shall have the right to examine books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred and anticipated to be incurred for the performance of this contract (emphasis added). Under OMB Circular A-122 (paragraph 18.810.10) (A)(2)(g), costs must be adequately documented to permit a determination of the allowability and necessity in accordance with the terms of the contract. Photocopies are not considered adequate supporting documentation because effective cancellation of the document is not adequate to prevent duplicate billing.

Cause:

AIBS made payments to the sub-contractor expecting the proper supporting documentation to be forwarded to AIBS upon request. Even though AIBS made several requests, the subcontractor did not submit the proper supporting documents.

The Statement of Work of the contract was modified by Modification number one (1) C. Article I-Statement of Work. "The Contractor shall enter into a 33-month subcontract with the Instituto Nacional de Salud (INS), Bogota, Colombia for the conduct of research towards the development of an effective vaccine against faciparum malaria, subject to General Provisions-Cost Reimbursement Type Contracts; clause 15 - Subcontractor Cost or Pricing Data and clause 18 - Subcontracts."

Effect:

The $30,455.29 is included in the Schedule of Questioned Costs as an unsupported cost.

Recommendation:

AIBS should not make payments to subcontractors for items requested that do not have proper supporting documentation.

17. **AIBS continued to bill A.I.D. for costs under the sub-contract budget line item after the sub-contract had been terminated. After taking into account reclassification of the amounts billed as subcontract expenses, certain budget line items have been exceeded by amounts that are unreasonable**

Condition:

AIBS classified $605,189 of costs billed to A.I.D. as subcontract expenses even though the sub-contract had been terminated and therefore no new costs could be incurred. The contract with A.I.D. was not amended to revise budget estimates to reflect the increased costs of other project activities. KPMG reclassified these expenses to determine the effect on the budget as follows:

Category	Budget	Amount Claimed by AIBS	Reclass by KPMG	Amount After Reclass	(Over)/ Under budget	% (Over)/ Under
Salaries	$202,078	$261,010	$24,948	$285,958	$(83,880)	(41.51)%
Travel	171,250	126,573	144,632	271,205	(99,955)	(58.37)
Per Diem	72,875	46,095	--	46,095	26,780	36.75
Honorarium	156,520	199,121	67,703	266,824	(110,304)	(70.47)
Data Process	88,345	30,431	--	30,431	57,914	65.55
Other Direct	84,093	173,874	367,906	541,780	(457,687)	(544.26)
Subcontract	1,265,627	1,046,490	(605,189)	441,301	824,326	65.13
Indirect	497,262	491,205	--	491,205	6,057	1.22
Total	$2,538,050	$2,374,799	0	$2,374,799	$163,251	6.43%

Criteria:

Article VIII of the contract states "Within the total amount obligated set forth below, the Contractor may adjust line item amounts as reasonably necessary for the performance of work under this contract."

Cause:

AIBS believed that the unexpended funds budgeted for the subcontract could be used to offset expenses incurred for projects under the main contract based on the clause that allowed for the adjustment of the budget line items as reasonably necessary for performance of work under the contract. The unexpended funds on the subcontract line item thus became a large discretionary account.

Effect:

$605,189 of expenses billed through the subcontract line item are included in the Schedule of Questioned Costs as ineligible costs. A.I.D. will make a final determination of the allowability of these costs.

Recommendation:

AIBS should obtain contract amendments when significant changes occur to existing contracts.

18. **AIBS billed A.I.D. for meal and accommodation expenses that exceeded allowable per diem rates**

Condition:

AIBS billed A.I.D. for excessive costs of meals and lodging expenses incurred during a conference held in Ft. Lauderdale, Florida for four days. Based on actual costs incurred for approximately 50 attendees, the average daily cost per person for meals and lodging was approximately $220.

Criteria:

Clause 5 of the General Provisions of Cost Reimbursement Type Contracts, included in the contract under audit, states that: "Such travel allowances shall be in accordance with the established practice of the contractor for travel within the United States provided that it shall not exceed the rates and basis for computation of such rates provided in the federal Travel regulations, as from time to time amended.

The maximum per diem rate according to GSA bulletin FPMR A-40, Supplement 8, effective December 18, 1983 was $75 per person. Based on this information, the total amount billed in excess of the maximum per-diem rate of $75 is $29,021.00.

Cause:

AIBS did maintain accurate adequate records to account for the total expenses incurred at the conference in Florida. Meals, banquets, and coffee breaks contributed to the high cost per participant.

Effect:

The $29,021.00 is included in the Schedule of Questioned Costs as ineligible costs.

Recommendation:

When planning meetings and conferences, AIBS should prepare and use budgets so that maximum costs allowable under federal regulations, per participant are not exceeded.

19. Beginning salaries were in excess of the maximum allowed under the contract

Condition:

In 1 out of 4 instances tested, an employee received a salary in excess of the highest rate of annual salary or wage received during the preceding three years, without written approval of the A.I.D. contracting officer.

Name	Date Employed	Excess Amount
Dorothy Jordan	9/1/82	$2,000.00

Criteria:

Article XI, paragraph (A) (1) of the contract states: "...nor may any individual salary or wage, without the approval of the A.I.D. contracting officer, exceed the employee's current salary or wage or the highest rate of annual salary or wage received during any full year of the immediately preceding three years..."

Cause:

Starting salaries were not adequately reviewed for compliance with the contract.

Effect:

Excess salary amounting to $2,000.00 was paid to an employee. These costs are included in the Schedule of Questioned Costs as ineligible costs.

Recommendation:

Salaries should be reviewed for compliance with the contract regulations.

20. Salary increases were not in compliance with the contract terms

Condition:

In 2 out of 4 instances tested, employees received raises during their first six months of employment:

Name	Date Employed	Excess Amount
Roxanna Melloni	9/4/84	$2,250.00
Dorothy Jordan	9/1/82	1,466.67
Total		$3,716.67

Criteria:

Article XI, paragraph (A)(4) of the contract states: "Merit or promotion increases may not exceed those provided by the Contractor's established policy and practice." AIBS policies allow for a merit or promotion increase only after one full year of employment has been completed.

Cause:

Merit increases were not properly reviewed for compliance with AIBS established policies.

Effect:

Excess salaries amounting to $3,716.67 were paid to employees. These salaries are included in the Schedule of Questioned Costs as ineligible costs.

Recommendation:

Merit increases should be reviewed for compliance with the contract regulations.

KPMG Peat Marwick

Certified Public Accountants

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AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE–0453–C–00–2009–00

Independent Auditor's Report on the Internal Control Structure

We were engaged to audit the Statement of Contract Expenditures of the American Institute of Biological Sciences (AIBS), A.I.D. contract number DPE–0453–C–00–2009–00, for the period June 15, 1982 to October 14, 1985, and have issued our report thereon dated December 2, 1992 on which we disclaimed an opinion due to the inadequacy of supporting documentation.

In planning our audit of AIBS, we considered its internal control structure in order to determine our auditing procedures for the purpose of attempting to express an opinion on the Statement of Contract Expenditures and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

The management of AIBS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Statement of Contract Expenditures in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting processes
- Payroll procedures
- Disbursement procedures

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation described in findings number 1, 2, 3, and 8 on the Schedule of Internal Control Structure Findings that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the Statement of Contract Expenditures.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the Statement of Contract Expenditures being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the matter described in finding number 8 on the Schedule of Internal Control Structure Findings is a material weakness.

This report is intended solely for the use of the Agency for International Development and management of the American Institute of Biological Sciences. This restriction is not intended to limit the distribution of this report if a matter of public record.

KPMG Peat Marwick

December 2, 1992

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

A.I.D. Contract Number DPE-0453-C-00-2009-00

Internal Control Structure

Schedule of Findings

1. Invoices for certain disbursements were not stamped "Paid" upon issuing of the checks as required by the AIBS disbursement policy

Condition:

4 out of 113 invoices tested for disbursements were not stamped "Paid" as required by AIBS internal control policies and procedures to prevent duplicate payments on invoices.

Sample Item	Date	Check Number	Amount
Sally Stansfield-Honorarium	02/05/85	200395	$3,765.00
Rent - Plaza East	07/30/85	201680	3,780.00
C&P Telephone	10/02/85	202150	1,060.77
Dorothy Jordan	10/07/85	50956	2,500.00
Total			$11,105.77

Criteria:

The AIBS internal control policy is that supporting documentation for all disbursements made should be stamped "Paid", to effectively cancel the document and prevent duplicate payments.

Effect:

Due to the state of the financial records maintained by AIBS, we could not determine whether any of the items above were paid more than once. Thus, we do not question these costs.

Recommendation:

AIBS should follow its established internal control policies when making disbursements. Invoices should be stamped "Paid" upon payment.

2. **AIBS did not maintain adequate employee personnel records for the salaries billed to A.I.D.**

Condition:

AIBS could not locate 1 out of 4 personnel files requested for verification of salary rates. For all 4 employees, AIBS did not maintain adequate detail summaries of salaries billed to the A.I.D. contract. Because of the lack of proper documentation, verification of base salaries and pay increases for one of the four employees could not be obtained and tested.

Employee	Period Covered	Amount
Linda Shapira	6/85	$480.64

Criteria:

Under clause 14 (b) of the General Provisions of Cost Reimbursement type contracts: "...the Contractor shall maintain, and the contracting officer or his representatives shall have the right to examine books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred and anticipated to be incurred for the performance of this contract (emphasis added). Under OMB Circular A-122 (paragraph 18.810.10) (A)(2)(g), costs must be adequately documented to permit a determination of the allowability and necessity in accordance with the terms of the contract.

Cause:

The contract was for an extended period of time and began approximately 10 years ago. AIBS has undergone numerous audits and in the process the accounting records have been moved and re-filed several times.

Effect:

Salary levels and increases could not be verified to adequate authorization documents. This cost is included as unsupported costs in the Schedule of Questioned Costs finding number 7.

Recommendation:

All salary levels and increases should be approved and documented in each employee's personnel file.

3. **AIBS did not maintain proper records for non-expendable property acquired using AID funds**

Condition:

AIBS did not have adequate records showing the identification number, location, date of purchase, and costs of equipment purchased which were billed to A.I.D.

Criteria:

Clause 19 (d) of the General Provisions of Cost Reimbursement type contracts states: "The Contractor shall be directly responsible for and accountable for all Government property provided under this contract. The contractor shall establish and maintain a system to control, protect, preserve, and maintain all Government property...the contractor shall identify Government property by marking, tagging, or segregating in such manner as to clearly indicate its ownership by the Government." Clause 19(e) states: "The Government property shall, unless otherwise provided herein or approved by the A.I.D. contracting officer, be used only for the performance of this contract."

Cause:

During the length of time that has elapsed between the time the contract was signed and the performance of the audit, AIBS has been audited several times by various government agencies. During this process financial records have been moved and re-filed several times causing the records to be lost.

Effect:

We could not verify the amount, existence, or use of other fixed assets purchased which were billed to A.I.D. However, our testing results indicate that such amounts were not significant. Thus, we do not question these costs.

Recommendations:

AIBS should establish written policies concerning the purchase, use, and maintenance of fixed assets purchased using government funds. AIBS should maintain an accurate listing of this equipment. Regular physical inventories of fixed assets should be taken and the results compared to the written records.

4. **Timesheets were not approved by the project director**

Condition:

In 3 out of 25 timesheets tested were not approved by the project director:

Name	Timesheet Date	Amount
Dorothy Jordan	04/85	$2,916.67
Dorothy Jordan	08/85	2,916.67
Roxanna Melloni	10/84	1,260.24
Total		$7,093.58

Criteria:

Under OMB Circular A-122 (paragraph 18.811.06)(6)(l) and (2): "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization."

Effect:

A lack of review and approval of timesheets increases the risk of improper allocation of salary expenses. This costs is included as unsupported costs in the Schedule of Questioned Costs finding number 7.

Recommendation:

All timesheets should be reviewed and the approval should be documented. Errors should be noted and any changes to the timesheet should be initialed by the employees.

5. **Amounts shown on the audited financial statements were not consistent from year to year**

Condition:

The beginning balances in the contract receivable account as shown on the audited financial statements for 1987 and 1988 did not agree with the ending balances as reported on the audited financial statements of the previous years.

Criteria:

Under clause 14 (b) of the General Provisions of Cost Reimbursement type contracts: "...the Contractor shall maintain, and the A.I.D. contracting officer or his representatives shall have the right to examine books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly all direct and indirect costs of whatever nature claimed to have been incurred and anticipated to be incurred for the performance of this contract (emphasis added)."

Effect:

The ending balance in accounts receivable as shown on the audited financial statements at the end of fiscal year 1987 differed from the beginning balance in fiscal year 1988 by $28,609. The ending balance in accounts receivable at the end of fiscal year 1986 differed from the beginning balance in fiscal year 1987 by $962. Because this does not have a direct affect on amounts billed to A.I.D., we have not included these amounts as questioned costs.

Recommendation:

All financial records showed be reviewed for accuracy and consistency between accounting periods.

6. **Certain disbursements and journal entries did not have evidence of approval by the business manager**

Condition:

The following disbursements and journal entries did not have evidence of approval by the business manager:

Description	Date	Check #	Amount
Journal Entry 11770	8/31/83	N/A	$8,040.75
George Diaz	4/13/84	1172	5,375.00
Cimplex LTDA	5/10/84	1189	2,734.89
Gibco Labs	3/16/84	0931	327.86
Total			$16,478.50

Criteria:

AIBS internal control procedures require that all disbursements and journal entries be approved by the business manager.

Effect:

Payments without proper approval increase the likelihood that errors in amounts paid to vendors and amounts billed to the government contract will occur. Because these items have adequate documentation and are reasonable costs of the contract, we have not included these amounts as questioned costs.

Recommendation:

AIBS should follow its internal control procedures to reduce the likelihood of errors in the accounting records used to prepare billings for government contracts.

7. **The currency translation calculations were not adequately documented**

Condition:

AIBS made payments to the sub-contractor in US dollars. Expenditures under the sub-contract were incurred in Colombian Pesos. The exchange rates used to convert the payments from Colombian Pesos to US dollars could not be reconciled to an authoritative source.

Criteria:

Payments were documented, but documentation does not exist for the exchange rates.

Effect:

Proper documentation does not exist to verify the exchange rates. The effects of this finding have been included as questioned costs in the Schedule of Questioned Costs, finding number 14.

Recommendation:

AIBS should establish proper internal control procedures to ensure that exchange rates used to make payments in other than US dollars are documented by listing the source, rate, and date of translation. These rates should then be reviewed by an employee authorized to sign checks or disburse funds.

Material Condition

8. **Reimbursements for expenditures incurred by the sub-contractor were made without proper supporting documentation.**

Condition:

Payments were made to the sub-contractor without adequate supporting documentation.

Criteria:

Expenditures must be adequately documented to permit a determination of the allowability and reasonableness of the expenditures in accordance with the terms of the contract.

Cause:

AIBS made payments to the sub-contractor without proper documentation. Numerous attempts were made to obtain the documentation but certain items were not received. In addition, many of the expenditures were supported by photocopies of invoices. Photocopies are not considered adequate documentation because duplicate payments cannot be prevented through cancellation of the copied documents.

Effect:

The unsupported costs have been included in the Compliance with the Terms of the Contract and Applicable Laws and Regulations Schedules of Findings and Questioned Costs.

Recommendation:

AIBS should not make payments to subcontractors unless adequate documentation has been received.

9. **Support for other direct expenses was inadequate**

Condition:

Support for 90 disbursements out of 222 tested for other direct costs, had the following weaknesses :

- Invoices were not canceled by stamping "Paid" to prevent duplicate payment and processing:
- Supporting documentation was not original invoices. Some items were supported only by internal memos requesting disbursement of funds; and
- Supporting documentation could not be located.

Criteria:

Expenditures should be adequately documented to permit a determination of the allowability and reasonableness of expenditures in accordance with the terms of the contract.

Cause:

The contract was for an extended period of time and began approximately 10 years ago. AIBS has undergone numerous audits and in the process the accounting records have been moved and re-filed several times.

Effect:

The lack of proper documentation increases the risk that unallowable disbursements are made. Duplicate payments are possible when supporting documentation is not effectively canceled. The effects of this finding have been included as questioned costs in the Schedule of Questioned Costs, finding number 6.

Recommendation:

AIBS should enforce internal control structure policies and procedures by denying payment for those items that are not supported by adequate documentation. In addition, all supporting documentation for disbursements already made should be stamped "Paid" to prevent duplicate payment and processing.

10. **File copies of documentation supporting correspondence between AIBS and the other entities were not on AIBS letterhead and were not signed**

Condition:

File copies of documentation supporting correspondence between AIBS and other entities were not on AIBS letterhead and were not signed.

Criteria:

Documentation maintained in AIBS files should match the correspondence sent out.

Cause:

File copies of documents were made before they were signed.

Effect:

Documents without the signature of the person who created them are poor audit evidence because the source of the document cannot be verified. Because this does not have a direct effect on amounts billed to A.I.D., we have not included this as a questioned cost.

Recommendation:

File copies of correspondence documents should be signed and on AIBS letterhead.

11. **Alterations were made to timesheets without employee approval**

See finding number 9 on the Schedule of Compliance with the Terms of the Contract and Applicable Laws and Regulations.

12. **Amount claimed for reimbursement was in excess of per diem rate**

See finding number 13 on the Schedule of Compliance with the Terms of the Contract and Applicable Laws and Regulations.

13. **Beginning salaries were in excess of the maximum allowed under the contract**

See finding number 19 on the Schedule of Compliance with the Terms of the Contract and Applicable Laws and Regulations.

14. **Salary increases were not in compliance with contract terms**

See finding number 20 on the Schedule of Compliance with the Terms of the Contract and Applicable Laws and Regulations.

APPENDIX A

Listing of expenditures for which supporting documentation could not be found.

Description	Date	Check #	Amount
Ann Huber	05/31/83	4857	$184.40
Ann Huber	02/16/84	811	66.81
Benjamin Blood	11/14/83	530	114.20
Carlos Espinal	03/31/83	4504	57.00
Carlos Espinal	11/16/83	434	89.46
Charles Chambers	05/31/84	1243	313.94
Charles Davis	05/16/84	1178	66.81
Charles Davis	09/16/85	50033	100.00
Clinton Computer	12/30/82	2947	2,550.00
Clinton Computer	03/31/83	3198	298.00
Computer Service - D. Jordan	03/21/85	54	116.00
David Wildt	08/05/85	1822	233.96
Dorothy Jordan	06/30/83	5000	1,000.00
Dorothy Jordan	09/30/82	2545	1,000.00
Dorothy Jordan	04/29/83	3255	1,132.07
Dorothy Jordan	04/29/83	unknown	759.20
Elsie Rosales	12/31/85	3160	2,270.00
George Diaz	08/05/85	1788	930.54
George Diaz	06/30/85	3506	688.00
George Diaz	07/10/85	unknown	4,300.00
George Diaz	12/15/83	0686	3,225.00
George Diaz	06/7/84	1469	3,224.00
George Diaz	10/31/84	2104	5,375.00
George Diaz	12/21/84	2080	2,083.76
George Diaz	02/21/86	203423	13,115.00
George Diaz	02/21/86	203424	11,486.91
George Diaz	08/05/85	130	1,050.00
George Diaz	04/05/85	50130	502.00
George Diaz	10/17/83	331	1,348.34
George Diaz de Acre	05/31/83	4956	1,935.00
Intuition Inc.	03/31/83	3137	2,912.00
Irwin Sherman	10/14/83	374	50.00
Jorge Diaz	04/13/84	1172	1,075.00
Jorge Diaz	10/29/82	1667	275.00
Kay Amann-Buck	08/31/82	2407	2,400.00
McClean & Co. Ltd	11/30/83	591	3,500.00
McClean & Co. Ltd.	06/30/83	4999	2,500.00
McClean & Co. Ltd	10/14/83	373	8,840.00
Medical Consultations	03/31/83	4485	1,213.75
Miodrag Ristic	09/15/83	271	2,178.00

APPENDIX A (Continued)

Listing of expenditures for which supporting documentation could not be found.

Description	Date	Check #	Amount
P. Ambroise-Thomas	11/15/83	528	1,942.00
PC trip - Calgary	09/28/84	12417	134.00
Peter Contacos	02/28/83	3098	612.80
Peter Contacos	10/14/83	371	227.50
Peter Contacos	06/30/83	3469	688.00
Peter Contacos	02/28/83	4455	758.22
Peter Contacos	08/05/85	201717	870.00
Richard Beaudoin	04/29/83	4770	875.55
Richard Beaudoin	12/30/82	2915	2,000.25
Richard Beaudoin	01/31/82	4258	2,100.00
Richard Weller	06/30/83	3503	868.00
Sheila Avrin McLean	02/15/83	683	627.69
Sheila Avrin-McLean	04/29/83	4754	2,350.00
Steven Kelly	11/15/83	532	141.76
Steven Kelly	04/30/84	1159	1,764.00
Susan Goodwillie	09/14/84	1717	180.00
The Supply Cabinet	09/25/84	1783	567.01
Theresa Coons	11/30/82	4058	227.77
Thomas Cook Travel	01/29/85	unknown	1,721.00
UMAB Foundation	02/29/84	0887	318.72
Wasim Siddiqui	09/13/85	202014	2,837.00
Werner Zolg	02/28/83	3124	398.40
Werner Zolg	04/29/83	4701	574.48
Werner Zolg	03/31/83	4483	1,153.80
Werner Zolg	12/30/82	4252	258.00
	Total		$108,755.10

APPENDIX B

Listing of expenses for which AIBS did not have adequate documentation tc permit a determination of allowability of costs incurred under the contract.

Description	Date	Check #	Amount
Benjamin Blood	01/07/85	2109	$3,249.80
Benjamin Blood	06/10/85	201340	150.00
Cimplex Ltda	05/10/84	1189	2,734.38
Cimplex Ltda	09/19/84	1731	75.00
Joe Rutherford	12/30/82	2859	9,304.00
Journal Entry 11770	08/31/83	11770	8,040.75
Leonel Rosales Loessener	02/21/86	203426	784.00
Marriott Harbor Beach Hotel	09/30/85	202138	1,773.12
Moises Wasserman	02/29/84	0988	324.00
Pan American Health Org.	07/09/85	201519	9,600.00
Potomac Computers	06/26/84	1359	3,681.45
Rent-a-computer	09/26/86	202131	451.50
Richard Beaudoin	02/28/83	3127	1928.30
Richard Beaudoin	01/31/84	0846	1,249.77
Sigma Chemical	04/29/83	3347	180.00
Steve Kelley	09/14/83	174	807.00
WIT Travel	11/30/82	2807	212.00
WIT travel	05/31/84	1282	3,415.52
	Total		$47,960.59

APPENDIX C

AMERICAN INSTITUTE OF BIOLOGICAL SCIENCE

February 10, 1993

Ms. Jennifer M. Conley, Manager
KPMG Peat Marwick
2001 M Street, N.W.
Washington, D.C. 20036

Dear Ms. Conley:

Re: KPMG Audit Report on AIBS - USAID Contract NO. DPE-0453-C-00-2009-00

As I indicated to you in our telephone conversation of February 8, we are experiencing some difficulty in responding fully to your request for an analysis of your audit findings by noon Wednesday the 10th. The difficulties involve the necessity of allocating personnel to the task of closing our books for fiscal 1992, but more importantly the arrival, on one day notice, of DCAA to audit 1989, 1990, and 1991 operations. We have been attempting to schedule this audit for over a year and had no recourse but to adjust our work schedule to comply with their requests. Even had we been able to devote full time to the AID work, the time allotted would have been insufficient to research and retrieve archival documents. The lack of an exit interview with your auditor, and no access to his work-papers have added to the difficulty of knowing just what documents are needed. Consequently our response to your audit document is not as organized nor as thorough as we would like. We will continue, however, to search our archives and address all of your findings as time permits.

As requested, we are responding to each item of your audit report as our limited research of archival information will allow at this time.

1. Contract Reporting Requirements

Gathering the pertinent vouchers and approvals in this initial stages contributed to the delay in submitting invoices. AIBS was also installing a fully automated accounting system that probably contributed to the delays. For the past four years, the invoices have generally been submitted within 30 days after closing the books for the month.

730 11th Street, NW • Washington, DC 20001-4584 • Telephone/Fax: 202-628-1500 • Telex: 209061 AIBS UR

2. Drawdowns on Letter-of-Credit Agreement Exceed the Maximum Allowable Amount, $400,000.

For a short period of time there were unusually high subcontract costs incurred to meet the requirements of work in process as initiated by USAID. The AIBS Business Manager inadvertently overdrew the ceiling amount. All amounts drawn were maintained in a seperate USAID holding account. The funds were not dispersed to AIBS until actual expenses had been accrued.

3. Benjamin Blood: USAID Approval of Check #200483 for $1,641.06

Dr. Blood was engaged under a consulting agreement. Documentation for the payment is attached.

4. Written Approval for International Travel. $21.978.12

All international travel and the expenditures for the travel were undertaken with the knowledge and approval of USAID and for USAID purposes. All travel costs were incurred at the request of USAID; AIBS executed the requests accordingly. Some of the work tasks of the contract required international travel. We will attempt to locate the necessary documentation.

5. First Class Air Travel. WIT Travel Check #2038 for $1,838.22

Authorized air travel is to be at coach class. Travel at other than coach class is allowed if coach class is unavailable or there are mitigating circumstances such as health concerns, such as, one individual was extremely large and could not travel at all in a coach airline seat.

6. Certain Direct Costs Were Unsupported. $318,391.80

All of these costs were actually paid by AIBS. There were authorizations for all of these expenditures. AIBS did not record any transaction to the General Ledger without the proper invoice payment procedure.

As noted by the KPMG auditors, there have been several previous audits of the project and certain original documents submitted to the Inspectors General Office and others. In the process, the accounting records have been moved and refiled several times. We have located several documents, and will continue to seek others. However under the circumstances as noted by KPMG, KPMG should accept secondary evidence of payment.

7. Total Salaries Billed Do Not Agree With Amounts Recorded in the General Ledger

The $2,340.90 variance from G/L to that billed USAID is caused by the accrued annual leave adjustment in the year-end financial statements. There is no over billing to AID on salaries. In accordance with DCAA policy, all fringe benefits are prorated on a contract allocation basis at the end of the accounting period, and are not specifically posted for each individual.

8. Amounts Shown on the Audited Financial Statements Did Not Agree With Total Costs Submitted on Vouchers for Reimbursement From USAID: Variance $10,226.00.

The amounts billed to USAID are the actual true costs. The variance comes from the accruals made at year-end by independent auditors retained by AIBS. The charges were removed from the following year's books because they became part of the balances in the prior year's statements. Such changes could not be recorded in the General Ledger because the books were closed.

9. Alterations Were Made to Time Sheets Without Employees Approval. $21,580.30.

All employees in question were employed to work on the AID project <u>only</u> and charged time to the AID contract <u>only</u>. Certain minor corrections were made to reflect the actual hours worked with the concurrence of the employee. In questioning the minor amounts of time involved, the auditor elected to disallowed the entire salary reflected on the time sheet. We believe this is an inappropriate inflating of auditor findings. We have made copies of the time sheets of all employees in question and they will be reviewed with AID. Several years ago, AIBS instituted a new written policy for time sheets which corrected the situation. A copy is attached.

10. Overcharge of $29.45 for Roxanna Melloni.

There should be no overcharge and the item is being reviewed.

11. Supporting Documentation for Certain Travel Expenses Did Not Include Travel Expense Vouchers as Required by AIBS Internal Control Policies. Amount $1,822.47.

These charges are being reviewed. They are necessary expenses incurred for authorized travel.

12. Alcoholic Beverage/Entertainment Expenses. Amount $2,796.82.

These expenses were incurred at the instruction USAID officials. They were considered necessary in order to establish diplomatic hospitality expected by the visiting foreign dignitaries

attending the meeting. They were incurred with the knowledge of the USAID Assistant Administrator.

13. Amount Claimed for Reimbursement was in Excess of Per Diem Rate. Pan American Health Organization, $368.00.

These were the actual expenses incurred, billed and paid.

14. AIBS Made Advances for Salary Expenses Incurred by Sub-contractor. Amount $146,996.00.

These amounts were paid under contract obligations established by AID officials and based on vouchers submitted by Malario Immunology Unit and certified by Carlos Espinal. The Columbia working relations were established by USAID officials. These expenses were paid by AIBS as submitted. When improprieties were discovered by AIBS, corrective measures were taken. The vouchers are attached.

15. AIBS Reimbursed the Subcontractor in Bogota, Columbia for expenses that were unallowable. Amount $7,341.46.

There is insufficient information in the audit document to allow AIBS to respond to this query. We assume that the expenses are allowable in the context of the subcontract and were paid in that light.

16. AIBS Reimbursed the Sub-contractor in Bogota, Columbia for Expenses Not Supported by Invoices or Other Proper Documentation. Amount $30,445.29.

As stated above, contractual relations with the Bogota unit were established by the AID project officer, contracting officer, and others in USAID. AIBS was made to administer an unwanted sub-contract and had to work under very unusual circumstances. In many instances, only photo copies of documents, written in spanish, were provided. AIBS raised concerns about much of this procedure trying to take in to account the difficult arrangements and the desire of USAID to go forward with the work. However, after a period of failure to obtain adequate documentation for some invoices, AIBS refused payment of questionable charges. As a result AIBS was sued in Federal District Court in Washington, D.C. for payment of $100,000 in disallowed charges. USAID has been unwilling to provide AIBS any assistance in the still pending litigation.

17. AIBS Continued to Bill USAID For Costs Under the Subcontract Budget Line After the Subcontract Had Been Terminated. After

Taking Into Account Reclassification of the Amounts Billed as Subcontract Expenses, Certain Budget Line Items Have Been Exceeded by Amounts That are Unreasonable. Amount $606,189.00.

The assumption made in your analysis of subcontracts is not correct. In the budget allocation AIBS with concurrence of USAID, established a budget procedure of allocating all expenditures of subcontractors in whatever category (i.e, salary, travel, honoraria, odc) to be reported under one category of "Subcontractor". Only AIBS direct personnel charges are included in the "Salaries" cost. In recording expenses, AIBS used its existing line item accounting system. These line items are the same as those that appear in the budget.

The expenses incurred were for the same purposes that were stated in the budget. No reclassification, as suggested by KPMG, was required. These were legitimate charges to the contract and were paid without exceeding the limits of the contract. Fiscal reports with the correct line item amounts were submitted monthly to USAID, and USAID did not ask that any budget line item be changed.

18. AIBS Billed USAID for Meals and Accommodation Expenses Incurred During The Latin American Conference Held In Ft. Lauderdale, Florida. Per Diem Rate Questioned. Amount $29,021.00.

AIBS paid only substantiated costs. Costs were paid on an actual expense basis. No individual was paid per diem as well as actual expenses incurred.

19. Beginning Salaries Were in Excess of the Maximum Allowed Under The Contract. Dorothy Jordan, $22,000.00.

These salaries were set in consultation and with the concurrence of the USAID officials. We are searching for the documentation.

20. Salary Increases Were Not in Compliance With the Contract Terms. Amount $3,716.67.

These salary increases were awarded under the advisement of USAID officials. We are searching for the documentation.

Summary

Finally, each of the above items reflect a particular finding based on a very unique circumstance. Each such finding can only effectively be considered on its own. Adding up all of the items into a lump sum serves no purpose regarding project management and only makes KPMG appear boastful about the aggressiveness in

preforming the audit. We do not believe such a conclusion is appropriate for an independent accounting firm.

As you are aware, we are trying to reconstruct a period ranging back to over 10 years with none of the staff that originally worked on this project available for consultation. The documents are in some disarray, in part, because of the previous four audits of the project. Many of the documents were required for the audits by the General Accounting Office, USAID Inspectors General Office, and the Public Integrity Section of the Justice Department. Many original documents are in the possession of the Inspectors General and may have to be retrieved, if possible, to satisfy this audit. This complicates our task of verifying various items but if we are given a reasonable amount of time to work exclusively on these matters, we believe we can confirm, or at least document, all of them.

AIBS fully cooperated with the above mentioned audits, and was able to provide information that led to the successful prosecution of an AID employee of accepting an illegal gratuity, and others for misappropriation of government funds. The Institute was exonerated of any wrong doing by those audits. We are pleased to note that AIBS nor any of its employees used USAID funds for any purpose other than the operation of the USAID project as directed and supervised by USAID officials. We shared with your auditor over a dozen examples of directions, authorizations, and confirmation of project activities by key USAID officials. Since they were not included in your report, we are attaching them here.

We thank you for your patience with this audit, and your understanding of the difficulties AIBS experienced during the early years of the USAID project.

Sincerely,

Ronald R. Ninala

Ronald R. Ninala
Business Manager

APPENDIX D

KPMG Peat Marwick's Response to Certain of Management's Comments

6. Certain Direct Costs Were Unsupported. $318,391.80

Management comment

All of these costs were actually paid by AIBS. There were authorizations for all of these expenditures. AIBS did not record any transaction to the General Ledger without the proper invoice payment procedure.

As noted by the KPMG auditors, there have been several previous audits of the project and certain original documents submitted to the Inspectors General Office and others. In the process, the accounting records have been moved and refiled several times. We have located several documents, and will continue to seek others. However under the circumstances as noted by KPMG, KPMG should accept secondary evidence of payment.

KPMG response

In accordance with generally accepted auditing standards and A.I.D. audit regulations, we do not accept secondary evidence of payment. We require original documents to make a determination of allowability and reasonableness. Original documents were not available to us to determine whether proper invoice payment procedures were performed.

7. Total Salaries Billed Do Not Agree With Amounts Recorded in the General Ledger

Management comment

The $2,340.90 variance from the G/L to that billed USAID is caused by the accrued annual leave adjustment in the year-end financial statements. There is no over billing to AID on salaries. In accordance with DCAA policy, all fringe benefits are prorated on a contract allocation basis at the end of the accounting period, and are not specifically posted for each individual.

KPMG response

We were provided no support for the assertion that "the $2,340.90 variance from the general ledger to the A.I.D. billing is caused by the accrued annual leave adjustment."

8. Amounts Shown on the Audited Financial Statements Did Not Agree With Total Costs Submitted on Vouchers for Reimbursement from USAID: Variance $10,226.00.

Management comment

The amounts billed to USAID are the actual true costs. The variance comes from the accruals made at year-end by independent auditors retained by AIBS. The charges were removed from the following year's books because they become part of the balances in the prior year's statements. Such changes could not be recorded in the general ledger because the books were closed.

KPMG response

We were provided no support for the assertion that the $10,226.00 variance from the general ledger to the A.I.D. billing is caused by the accrual adjustments made at year-end by the independent auditors retained by AIBS.

9. Alterations Were Made to Time Sheets Without Employees Approval. $21,580.30.

Management comment

All employees in question were employed to work on the AID project only. Certain minor corrections were made to reflect the actual hours worked with the concurrence of the employee. In questioning the minor amounts of time involved, the auditor elected to disallowed the entire salary reflected on the time sheet. We believe this is an inappropriate inflating of auditor findings. We have made copies of the time sheets of all employees in questions and they will be reviewed with AID. Several years ago, AIBS instituted a new written policy for time sheets which corrected the situation.

KPMG response

AIBS is correct in its assumption. We did question 100% of the pay for the period tested.

12. Alcoholic Beverage/Entertainment Expenses. Amount $2,796.82.

Management comment

These expenses were incurred at the instruction USAID officials. They were considered necessary in order to establish diplomatic hospitality expected by visiting foreign dignitaries attending the meeting. They were incurred with the knowledge of the USAID Assistant Administrator.

KPMG response

Written documentation did not exist to support the A.I.D. Assistant Administrator's approval of the alcoholic beverages/entertainment expenses as an allowable expenditure. Therefore, these costs are not billable to A.I.D.

14. AIBS Made Advances for Salary Expenses Incurred by Subcontractor. Amount $146,996.00.

Management comment

These amounts were paid under contract obligations established by AID officials and based on vouchers submitted by Malario Immunology Unit and certified by Carlos Espinal. The Columbia working relations were established by USAID officials. These expenses were paid by AIBS as submitted. When improprieties were discovered by AIBS, corrective measures were taken.

KPMG response

AIBS did attempt to take corrective actions concerning improprieties of the subcontractor. However, AIBS entered into a 33-month subcontract with Instituto National de Salud (INS) and was subject to the General Provisions-Cost Reimbursement Type Contracts, Clause 15 - Subcontractor Cost or Pricing Data and Clause 18 - Subcontracts. The salary advances were in direct violation of OMB Circular A-122 (paragraph 18.811.06(6)(1) and (2)), because payments to the subcontractor should be made based on payroll documents and not verbal confirmation. AIBS did not receive payroll vouchers prior to disbursing funds to INS.

17. AIBS Continued to Bill USAID for Costs Under the Subcontract Budget Line After the Subcontract Had Been Terminated. After Taking Into Account Reclassification of the Amounts Billed as Subcontract Expenses, Certain Budget Line Items Have Been Exceeded by Amounts That are Unreasonable. Amount $606,189.00.

Management comment

The assumption made in your analysis of subcontracts is not correct. In the budget allocation AIBS with concurrence of USAID, established a budget procedure of allocating all expenditures of subcontractors in whatever category (i.e., salary, travel, honoraria, odc) to be reported under one category of "Subcontractor". Only AIBS direct personnel charges are included in the "Salaries" cost. In recording expenses, AIBS used its existing line item accounting system. These line items are the same as those that appear in the budget.

The expenses incurred were for the same purposes that were stated in the budget. No reclassification, as suggested by KPMG, was required. These were legitimate charges to the contract and were paid without exceeding the limits of the contract. Fiscal reports with the correct line item amounts were submitted monthly to USAID, and USAID did not ask that any budget line item be changed.

KPMG response

The $605,189 did not represent costs incurred by the subcontractor but represented costs incurred by AIBS for its contract with A.I.D. Also, we did not receive any documented evidence from A.I.D officials to support changes to the budget line items except as recorded in the contract, which are represented by the "Budget" column included in this finding number on page 30.

AIBS also violated Article VIII of the contract which states "Within the total amount obligated set forth below, (referring to the budget line items) the Contractor may adjust line item amounts as reasonably (emphasis added) necessary for the performance of work under this contract." The $605,189 adjusted from the subcontract line item to various other line items is not a reasonable amount. This represents 25% of the total contract costs and was expended after discontinuing payments to the subcontractor.

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Office of Financial Management, FA/FM/CONT	1
Office of External Affairs, XA/PR	1
Bureau for Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
Center for Development Information and Evaluation, POL/CDIE	3
Management Control Staff, FA/MC	1
IG	1
AIG/A	1
AIG/I&S	1
D/AIG/A	1
IG/LC	1
IG/A/PPO	2
IG/A/PSA	1
RIG/A/B	1
RIG/A/C	1
RIG/A/D	1
RIG/A/N	1
RIG/A/S	1
RIG/A/T	1
RIG/A/EUR/W	1
RAO/M	1
IG/RM/C&R	5