
FINANCIAL RELATED AUDIT OF SELECTED EXPENDITURES OF FAMILY HEALTH INTERNATIONAL

Report No. 9-000-94-011
July 29, 1994





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 29, 1994

MEMORANDUM FOR M/OP, Marcus L. Stevenson

FROM: IG/A/PSA, Toby L. Jarman

SUBJECT: Financial Related Audit of Selected Expenditures of Family Health International (Audit Report No. 9-000-94-011)

This memorandum is our report on the Financial Related Audit of Selected Expenditures of Family Health International (FHI). We considered your comments on the draft report and have included them as an appendix to this report (see Appendix II). Based on your comments, we consider recommendations 1.2 and 2.2 to be resolved. These recommendations can be closed upon implementation of the recommended procedures. We consider recommendations 1.1 and 2.1 to be unresolved. These recommendations can be resolved upon the Office of Procurement and the Office of the Inspector General agreeing on the dollar amount of questioned costs.

Please respond to this report within 30 days, describing all actions your office has taken or plans to take to implement the recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

Family Health International (FHI) receives U.S. Agency for International Development (USAID) funds under the Bureau for Global Programs, Field Support and Research. Our financial related audit included four cooperative agreements with obligations and expenditures as follows:

	<u>\$ Amounts in Millions</u>	
	<u>Obligations</u>	<u>Expenditures</u>
DPE-0537-A-00-4047-00 (Population)	\$41.1	\$40.8
DPE-3041-A-00-0043-00 (Population)	50.1	29.0
DPE-5972-A-00-7057-00 (AIDSTECH)	15.1	14.1
DPE-5972-A-00-1031-00 (AIDSCAP)	<u>75.5</u>	<u>27.3</u>
TOTAL	\$181.8	\$111.2

Two of the agreements relate to population activities and two to controlling the spread of HIV/AIDS. The total estimated life of project costs for these four agreements is \$349.2 million as of July 1993.

Because of the magnitude of FHI's activities and expenditures under these agreements, a financial related audit of selected expenditures was performed by auditors from the Inspector General's Office of Programs and Systems Audits, with assistance from the Certified Public Accounting (CPA) firm of Cotton & Company.

Audit Objective

The audit was performed to answer the following objective:

Were Family Health International charges to USAID adequately supported, reasonable, allocable, and allowable?

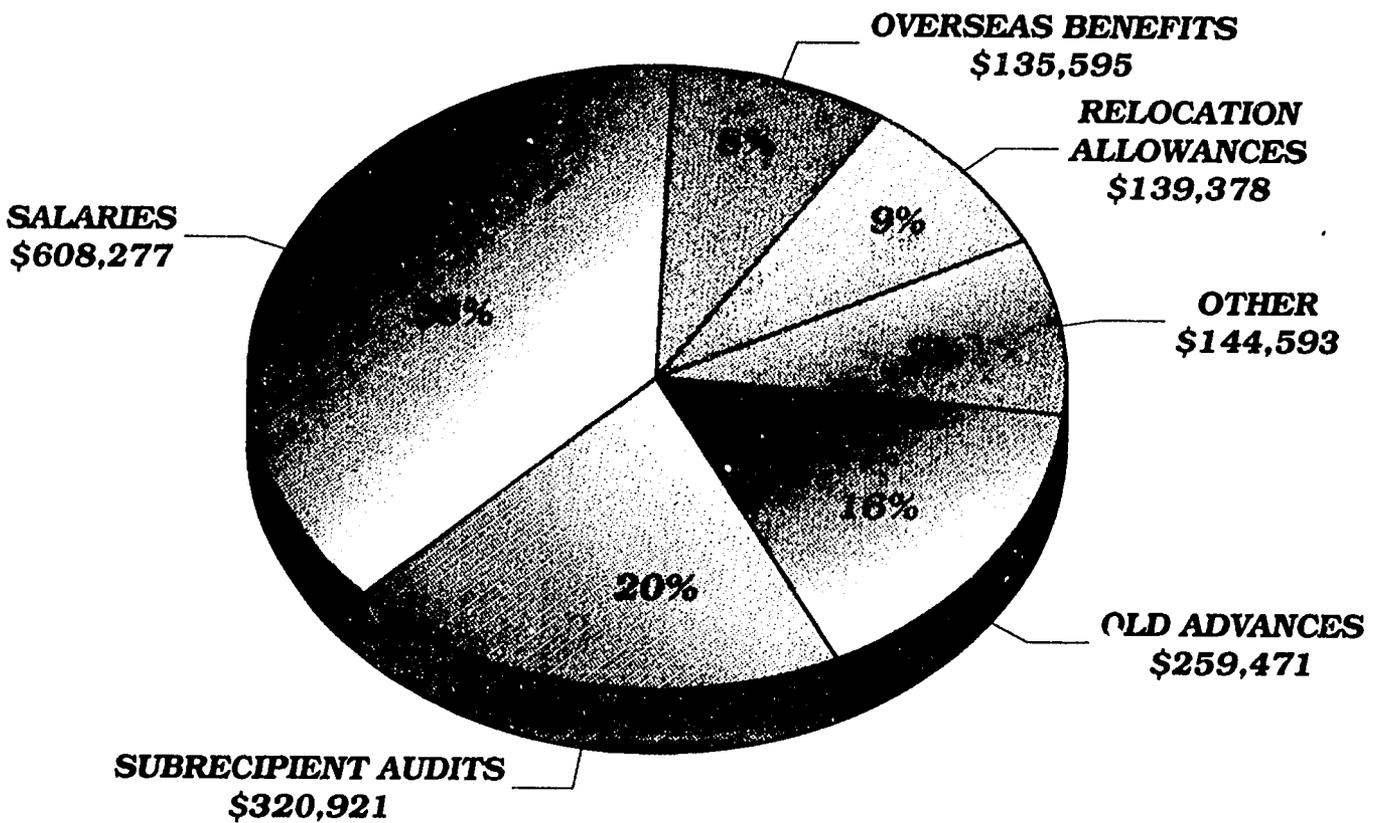
Audit Finding

Family Health International charges to USAID were not always adequately supported, reasonable, allocable, and allowable.

Federal regulations require that, to be chargeable to the Government, costs incurred--purportedly on behalf of the Government--must be adequately supported, reasonable, allocable, and otherwise allowable within agreed-upon understandings (see Appendix III). FHI expenditures charged to USAID did not always meet these requirements. As a result, FHI charged \$1,608,235 of costs (1.5 percent of total expenditures) to USAID which are questioned in this report. All of the questioned costs noted during our audit are shown on page 3 and in Appendices IV, V and VI of this report.

Except for the items noted in our report, the items tested complied with the USAID/FHI agreements and regulatory cost principles. However, because of the large amount of FHI financial transactions (expenditures totaling \$111.2 million), the limited amount of our testing (\$14.6 million), and the nature of questioned items noted, we cannot conclude that all untested items are in compliance with the USAID/FHI agreements and regulatory cost principles. Had we performed further procedures, additional matters might have come to our attention that would have been disclosed in this report.

TOTAL QUESTIONED COSTS
\$1,608,235



1. FHI Questioned Costs of \$1,287,314

Our review showed that FHI incurred and charged \$1,287,314 of costs (see Appendix IV) to USAID which, in our opinion, do not appear to be reasonable, allocable, or otherwise allowable in accordance with OMB guidelines described in Appendix III. Below are five examples of such costs:

- For 53 positions reviewed in our audit, FHI charged salary costs of \$608,277 to USAID (see Appendix V, Sub-schedule A-1) that were in excess of the costs originally proposed to and accepted by USAID in FHI's cooperative agreement proposals. Although FHI had salary policies and procedures, these were silent regarding management controls/efforts to keep actual salaries in line with those proposed to USAID, resulting, in our view, in unacceptable charges. For example, the AIDSCAP proposal targeted the salary of one senior management official at \$107,944 in 1992 and \$114,421 in 1993. Whereas the employee's actual salary was \$119,584 in 1992 and \$127,200 in 1993 -- resulting in a combined excess for the two years of \$24,419.

Further, several FHI employees received higher annual salary increases than the six percent amount targeted in the proposal. An FHI personnel officer stated that these higher increases were attributable to the higher salaries given to FHI employees as an incentive to relocate from North Carolina to the Washington, D.C. area. However, after taking into account the current four percent Federal employees locality pay for the Washington, D.C. area (or a total of ten percent), we still concluded the salaries were substantially above those proposed. For example, 28 employees (33 percent of all AIDSCAP employees) received average yearly increases from the beginning of the AIDSCAP agreement (August 1991) to July 1993 of over 10 percent. Of these, 8 employees received salary increases that averaged over 20 percent during this period.

OMB Circular A-122, Attachment A, Section A.3, "Reasonable Costs", states:

"...In determining the reasonableness of a given cost, consideration shall be given to:...Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Government."

In our opinion, which is based on the section of OMB Circular A-122 quoted above, FHI did not act prudently or in the Government's best interest by paying salaries that significantly exceeded salaries it proposed

to pay before the agreements were awarded.

- FHI had \$259,471 of advances to its subrecipients that were in excess of 90 days old (see Appendix V, Sub-Schedule A-2). USAID Handbook 19 says that cash advances can be given for 30 days of cash needs, and with the proper approval this period may be extended to 90 days. Our initial review in September 1993 disclosed advances in excess of 90 days old of \$667,072. When informed of this situation, FHI took aggressive action and (as of March 4, 1994) accounted for \$407,601 of these advances. Some of the remaining cash advances (as of March 1994) have been outstanding for more than twelve months.
- Fourteen AIDSCAP employees received relocation allowances totaling \$139,378 (see Appendix V, Sub-schedule A-3) which were not allowable under the provisions of OMB Circular A-122 ("Cost Principles for Nonprofit Organizations"). For example four senior management employees received "temporary" monthly stipends--up to \$1,000 per month for 22 months--totaling \$60,340 (included in Appendix V, Sub-schedule A-3). Federal regulations limit employees to reimbursement for costs actually incurred and documented normally for a period of 30 days after assignment to a new location. In addition, other employees received a total of \$40,069 as reimbursement for their mortgage payments on their former residences and closing costs on purchases of new residences in the Washington D.C. area (included in Appendix V, Sub-schedule A-3). The monthly stipends were questioned as unreasonable because we found nothing in either USAID or FHI policies that would permit such protracted allowances, and the mortgage and closing costs were questioned because they are not allowable under the provisions of OMB Circular A-122. Furthermore, many of the relocation expenditures were not in the form of reimbursement for documented incurred costs, but were merely allowances which some employees received, while others did not. Some employees, while receiving these temporary moving allowances, also claimed (and FHI charged to USAID) travel costs for travel between their new Arlington, Virginia location and their former location.
- FHI paid and charged \$135,595 to USAID for housing costs that were in excess of allowed amounts and "Regular-hire" benefits that were provided to resident-hire employees (see Appendix V, Sub-schedule A-4). For example, two U.S. citizens were locally hired by FHI in Thailand (resident hires). Although "resident hires," FHI nevertheless inappropriately provided them with benefit packages (including housing, education, and travel) similar to those authorized for U.S. direct-hires. The charges to USAID for these benefits totalled \$116,701 (included in Appendix V, Sub-schedule A-4). In this case, FHI had an appropriate policy entitled Overseas

Assignment Personnel Guidelines Allowances and Benefits. In this guidance, FHI specifically states that benefits such as housing, education, and travel "...do not apply to resident Americans hired locally." Although this policy parallels that of USAID, it was not implemented and USAID was unreasonably charged. We also hold these charges to be unreasonable because USAID Handbook 25 defines a "resident hire" as a "U.S. citizen who resides in a country primarily for reasons other than employment with a U.S. Government agency." According to FHI's records, both individuals were previously employed in Thailand by non-U.S. Government organizations.

- FHI, in response to a project officer request, contributed \$50,000 to the "AID's Society for Asia and the Pacific" (see Appendix V, Sub-schedule A-5). This payment was made by FHI without receiving USAID grant officer approval and did not comply with OMB Circular A-122, which says that "Contributions" are not allowable.

The above five examples, plus the items reflected in Appendix V, describe the \$1,287,314 of FHI costs that we have questioned.

Recommendation No. 1 We recommend that the Director, Office of Procurement, Bureau for Management:

- 1.1 Require grant office resolution of the \$1,287,314 in FHI charges questioned in this report -- (ineligible \$859,353 and unsupported \$427,961).**
- 1.2 Amend USAID's current agreements with FHI, or take other appropriate action, to ensure that FHI establishes a system of management controls that would minimize the potential for a recurrence of the findings reported herein, including requiring controls for (1) salary costs, (2) relocation allowances, (3) overseas benefits of locally hired employees, and (4) food and beverage expenditures.**

2. Subrecipient Questioned Costs of \$320,921

During the course of our review we noted that FHI's required OMB Circular A-133 audit reports (see Appendix III) did not reflect any questioned costs. However, audit reports of FHI's subrecipients reflected questioned costs of \$320,921 (see Appendix VI). For example, FHI received reports from their contract auditors as early as November 11, 1992, showing that at least three sub-agreements had combined unsupported (and, therefore, questioned) costs of \$13,577. FHI

provided documentation showing it had sent only one letter (on June 28, 1993) to only one subrecipient requesting resolution action. No further resolution or follow-up action had been taken as of August 3, 1993. We believe that if resolution of costs questioned by subrecipient auditors does not take place in a timely manner, it should be the responsibility of the primary recipient--in this case FHI--to report those costs to USAID, along with information regarding their follow-up efforts to date. Nevertheless, USAID was not informed of these questioned amounts.

We did not perform a desk review or quality control review on the quality or adequacy of the reports of FHI and its subrecipients. A quality control review of the FHI A-133 audit is tentatively scheduled for the first part of fiscal year 1995.

Recommendation No. 2 We recommend that the Director, Office of Procurement, Bureau for Management:

- 2.1 Ensure that FHI resolves the \$320,921 in questioned costs of its subrecipients.**
- 2.2 Inform FHI in writing that the status of these and future subrecipient questioned costs must be disclosed in FHI's A-133 audit reports.**

CONCLUSION

Based on the financial related audit procedures performed by the Inspector General's Office of Programs and Systems Audits, with assistance from the CPA firm of Cotton & Company, we noted and have disclosed in this report total questioned costs of \$1,608,235. Of these total questioned costs, \$1,287,314 relate directly to FHI and \$320,921 apply to FHI's subrecipients.

This report recommends that the Office of Procurement resolve these questioned costs and that management controls be strengthened to minimize the recurrence of such questioned costs in the future.

MANAGEMENT COMMENTS AND OUR EVALUATION

The Office of Procurement generally agreed with the report's findings and recommendations. Based on their comments we consider recommendations 1.2 and 2.2 to be resolved. These recommendations can be closed upon implementation of the recommended procedures. We consider recommendations 1.1 and 2.1 to be unresolved. These recommendations can be resolved upon the Office of Procurement and the Office of the Inspector General agreeing on the dollar amount of questioned costs.

**SCOPE AND
METHODOLOGY**

Scope

The Inspector General's Office of Program and Systems Audits, with assistance from the Certified Public Accounting firm of Cotton & Company, audited selected expenditure transactions of Family Health International in accordance with generally accepted government auditing standards. Our audit covered four cooperative agreements with obligations and expenditures as follows:

	<u>\$ Amounts in Millions</u>	
	<u>Obligations</u>	<u>Expenditures</u>
DPE-0537-A-00-4047-00 (Population)	41.1	40.8
DPE-3041-A-00-0043-00 (Population)	50.1	29.0
DPE-5972-A-00-7057-00 (AIDSTECH)	15.1	14.1
DPE-5972-A-00-1031-00 (AIDSCAP)	<u>75.5</u>	<u>27.3</u>
TOTAL	\$181.8	\$111.2

A limited number of expenditure transactions from the FHI financial statement cost categories of salary, travel, subrecipient, and "other" were reviewed to determine the existence of supporting documentation, as well as to determine compliance with underlying USAID/FHI agreements and regulatory cost principles. The expenditures that we reviewed were incurred during the period October 1, 1991 through December 31, 1993.

Our audit fieldwork was conducted at the Arlington, Virginia, and Raleigh/Durham, North Carolina offices of FHI and at USAID's offices in Rosslyn, Virginia. We conducted our fieldwork from July 15, 1993 to March 4, 1994.

Because of our audit's objective and its limited scope, we did not review or assess FHI's internal controls, nor did we audit the financial statements or individual

financial statement line items of FHI. Accordingly, we do not express an opinion as to whether FHI's financial statements or individual financial statement line items are fairly presented.

Methodology

We reviewed selected expenditures of FHI to determine if the expenditures were adequately supported by documentary evidence. We also reviewed these expenditures to determine if they were allowable, allocable and reasonable in accordance with Office of Management and Budget (OMB) Circulars A-110 and A-122, USAID Handbooks, and the terms and conditions of the agreements.

More specifically, our audit procedures included, but were not limited to, the following five significant steps:

1. Actual pay rates for all AIDSCAP, AIDSTECH and Population positions were compared with those included in the FHI cost proposals, which were submitted to and accepted by USAID.
2. A sample of consultant fees was judgmentally selected, and actual fees were compared with proposed and ceiling rates.
3. Samples of domestic and foreign travel transactions, other direct costs, other purchased services and field office disbursements were judgmentally selected. These selected expenditures were reviewed to determine their allowability, allocability and reasonableness. The travel expenditures were also reviewed to determine if FHI complied with its own and USAID travel policies. Allowances provided to FHI's overseas personnel were also compared to the allowances available to USAID foreign service officers.
4. Advances to subrecipients were reviewed to determine if any of the advances outstanding on September 30, 1993 were in excess of 90 days old.
5. The A-133 audit reports of FHI's subrecipients were perused to determine the dollar amount of questioned costs disclosed in each report. We also perused FHI's A-133 audit report to determine if it included the subrecipient's questioned costs.

During the course of our audit, our procedures also included steps to detect abuse or illegal acts.



U. S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JUL 26 1994

MEMORANDUM

TO: Mr. Toby Jarman, IG/A/PSA
FROM: James *James Murphy* Murphy, M/OP
SUBJECT: Financial Related Audit of Selected Expenditures of
Family Health International

We have reviewed your draft financial audit of FHI dated June 10, 1994, and generally concur in the recommendations. Final resolution of the questioned costs will be subject to contracting officer review and determination.
Thank you for sharing the draft with us.

cc: Dennis Bryant, IG/A/PSA
Mike Sherwin, DAA/M
Steve Dean, M/OP/ENI
Barry Knauf, M/OP/PS

APPLICABLE CRITERIA: OMB CIRCULARS A-122 AND A-133

OMB Circular A-122

OMB Circular A-122, "Cost Principles for Nonprofit Organizations," requires that, to be chargeable, costs be reasonable; allocable to a particular cost objective, i.e., incurred specifically for an award; and allowable.

The Circular states that a cost is "reasonable" if, in its nature or amount, it does not exceed that which would be incurred by a prudent person. In determining the reasonableness of a cost, consideration is given to whether the cost is ordinary and necessary for the operation of the organization or the performance of the award and whether the individuals concerned acted with prudence in the circumstances, considering the public at large and the Government. According to the Circular, a cost is "allocable" to a particular cost objective, e.g., an award such as a cooperative agreement, in accordance with the relative benefits received. Stated another way, if the cost is incurred specifically for the award or if the cost benefits both the award and other work, it can be distributed (allocated) in reasonable proportion to the benefits received by the award and the other work, if applicable.

The Circular also discusses "factors affecting allowability of costs" referring to reasonableness and allocability, uniform treatment with respect to both federally-financed and other activities, and, finally, adequate documentation to support the cost. The Circular provides even more specific criteria and actually makes allowability determinations on selected items of costs. For example, under the item "Entertainment costs" it determines that "costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging are unallowable"

OMB Circular A-133

USAID, in addition to audits by the Office of Inspector General, also relies on the OMB Circular A-133 audit process. OMB Circular A-133 requires primary recipients of significant Federal awards (such as FHI) to contract for audits of themselves and to submit the audit reports to the "Cognizant Agency," which, in this case, is USAID. Additionally, FHI's subrecipients are also required to contract for audits of themselves and to submit these audit reports to FHI.

APPENDIX IV

**SUMMARY OF QUESTIONED COSTS
HEALTH AND POPULATION**

<u>SUB SCHEDULE</u>	<u>DESCRIPTION</u>	<u>POPULATION</u>	<u>HEALTH</u>	<u>TOTAL</u>
A-1	Salaries	\$123,727	\$ 484,550	\$ 608,277
A-2	Advances to Subrecipients	52,978	206,493	259,471
A-3	Relocation Allowances	-0-	139,378	139,378
A-4	Regular-hire Benefits	-0-	135,595	135,595
A-5	Contribution	-0-	50,000	50,000
A-6	Travel	5,204	27,467	32,671
A-7	Entertainment	-0-	8,655	8,655
A-8	Miscellaneous	<u>17,913</u>	<u>35,354</u>	<u>53,267</u>
TOTAL		199,822	1,087,492	1,287,314
SUBRECIPIENT QUESTIONED COSTS		<u>17,126</u>	<u>303,795</u>	<u>320,921</u>
GRAND TOTAL.		<u>\$216,948</u>	<u>\$1,391,287</u>	<u>\$1,608,235</u>

**FHI Questioned Costs
Sub-Schedule A-1
AIDSCAP and AIDSTECH Salary Analysis
Excess of Actual Over Proposed**

<u>Employee No.</u>	<u>Position</u>	<u>Date</u>	<u>Questioned Costs</u>
1	Resident Advisor, Thailand	11/91-09/92 10/92-09/93	\$ 9,167 10,998
2	Associate Director, Programs Regional Director, Asia	10/91-09/92 10/92-07/93	11,375 5,700
3	Program Officer, Latin America Resident Advisor, Jamaica	10/91-09/92 10/92-09/93	7,500 11,720
4	Program Officer, Asia	01/92-09/92 10/92-09/93	3,000 4,045
5	Regional Director, Latin America	08/92-09/92 10/92-09/93	6,167 41,074
6	STD Officer Chief STD Unit	02/92-09/92 10/92-09/93	14,547 23,040
7	Program Officer, Africa	10/91-09/92 10/92-09/93	3,561 9,815
8	Chief, Behavioral Research	12/92-09/93	14,373
9	Training Officer	11/91-09/92	20,583
10	Resident Advisor, Brazil	04/92-09/92 10/92-09/93	7,500 17,698

**FHI Questioned Costs
Sub-Schedule A-1
AIDSCAP and AIDSTECH Salary Analysis
Excess of Actual Over Proposed**

<u>Employee No.</u>	<u>Position</u>	<u>Date</u>	<u>Questioned Costs</u>
11	Program Assistant	12/92-09/93	2,867
12	Chief Evaluation	10/91-09/92	6,693
		10/92-09/93	7,995
13	Social Scientist	11/91-09/92	5,042
14	Research Associate	01/92-09/92	7,211
15	Finance Officer, Africa	07/93-09/93	5,443
16	Vice President, Director	10/91-09/92	11,640
		10/92-09/93	12,779
17	Associate Director, Program Management	11/91-09/92	7,875
		10/92-09/93	16,400
18	STD Officer, Asia	10/91-09/92	7,875
		10/92-09/93	15,248
19	Resident Advisor, Malawi	03/93-09/93	17,800
20	Deputy Director	06/92-09/92	4,285
		10/92-09/93	14,624
21	Regional Director, Africa	04/92-09/92	21,600
		10/92-09/93	47,448

FHI Questioned Costs
Sub-Schedule A-1
AIDSCAP and AIDSTECH Salary Analysis
Excess of Actual Over Proposed

<u>Employee No.</u>	<u>Position</u>	<u>Date</u>	<u>Questioned Costs</u>
22	Evaluation Officer, Africa	06/93-09/93	2,048
23	Deputy Director	12/91-09/92	13,910
24	Assistant to Director Deputy Director, Africa	07/92-09/92 10/92-09/93	3,250 11,197
25	Information Dissemination Coordinator	01/92-09/92 10/92-12/92	3,333 442
26	Finance Officer, Asia	10/91-09/92	6,467
27	Program Assistant	05/92-09/92	1,875
28	Chief of Behavioral Change and Communication	10/91-09/92	<u>7,340</u>
	Total		<u>\$484,550</u>

**FHI Questioned Costs
Sub-Schedule A-1
Population Salary Analysis**

<u>Employee No.</u>	<u>Position</u>	<u>Date</u>	<u>Questioned Costs</u>
1	Director	10/92-09/93	\$2,565
2	Associate Medical Director	10/92-09/93	5,310
3	Administrative Assistant	10/91-09/92 10/92-09/93	1,293 1,255
4	Biostatistician	10/91-09/92 10/92-09/93	1,354 2,499
5	Director	10/91-09/92 10/92-09/93	6,252 6,680
6	Programmer/Analyst Systems Analyst	10/91-09/92 10/92-09/93	2,985 2,427
7	Program Assistant	10/91-09/92	1,405
8	Director	10/91-09/92 10/92-09/93	7,053 8,599
9	Secretary/Administrative Assistant	10/91-09/92	2,057
10	Associate Director	10/91-09/92	2,995
11	Associate Director	10/91-09/92 10/92-09/93	2,473 2,778
12	Information Services Manager	10/91-09/92 10/92-09/93	2,638 3,888

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**FHI Questioned Costs
Sub-Schedule A-1
Population Salary Analysis**

<u>Employee No.</u>	<u>Position</u>	<u>Date</u>	<u>Questioned Costs</u>
13	Information Services Coordinator	10/91-09/92	941
14	Information Services Assistant	10/91-09/92 10/92-09/93	1,186 1,726
15	Director	10/91-09/92	2,110
16	Associate Director	10/91-09/92 10/92-09/93	5,251 6,491
17	Senior Research Associate Senior Researcher	10/91-09/92 10/92-09/93	2,583 4,886
18	Senior Resident Associate	10/91-09/92	4,721
19	Project Assistant	10/91-09/92 10/92-09/93	2,412 3,833
20	Director, Service Delivery Research Division	10/91-09/92 10/92-09/93	2,816 2,912
21	Research Associate	10/91-09/92	375
22	Senior Systems Analyst	10/92-09/93	3,031
23	Senior Systems Analyst	10/92-09/93	4,657

**FHI Questioned Costs
Sub-Schedule A-1
Population Salary Analysis**

<u>Employee No.</u>	<u>Position</u>	<u>Date</u>	<u>Questioned Costs</u>
24	Program Assistant	10/92-09/93	825
25	Senior Research Analyst	10/92-09/93	<u>6,465</u>
	Total		<u>\$123,727</u>

Summary:

AIDSCAP and AIDSTECH Salary Analysis	\$484,550
Population Salary Analysis	<u>123,727</u>
	<u>\$608,277</u>

FHI Questioned Costs
Sub-Schedule A-2
Long-outstanding Subrecipient Advances as of September 30, 1993

Population Subrecipient No. 9303: Unexpended funds at December 1992, the end of the project, totaled \$535. They have not been returned to FHI.

Population Subrecipient No. 2807: A \$9,000 advance was provided in May 1993; no financial reports have been submitted.

Population Subrecipient No. 2096-8: A \$2,000 advance was provided in April 1992; no financial reports have been submitted. The subagreement was terminated in April 1993.

Population Subrecipient No. 2887: A \$1,700 advance was provided in September 1991. The first financial report was submitted in August 1993 showing cumulative expenditures of \$272.

Population Subrecipient No. 7793-1: FY 1993 disbursements which are greater than 90 days old totaled \$24,715. No financial reports were submitted after October 1992.

Population Subrecipient No. 9712: A \$1,400 advance was provided in June 1992; no financial reports have been submitted.

Population Subrecipient No. 6405: Unexpended funds at March 1992, the date of the last financial report, were \$1,100. The subagreement expired on June 30, 1993.

Population Subrecipient No. 6305: A \$6,000 advance was provided in July 1993; no financial reports have been submitted.

Population Subrecipient No. 2096-2: A \$2,000 advance was made in June 1993; no financial reports have been submitted since December 1992.

Population Subrecipient No. 7518: A \$3,000 disbursement was provided during April 1992. No financial reports have been submitted since March 1992.

Population Subrecipient No. 9713-2: A \$1,800 advance was provided in April 1993; no financial reports have been submitted.

**FHI Questioned Costs
Sub-Schedule A-2**

Long-outstanding Subrecipient Advances as of September 30, 1993

AIDSTECH Subrecipient No. 4021-7: This subagreement terminated in May 1993 and as of June 1993 unexpended funds totaled \$26,081. After June 1993 FHI received \$22,590 from this subrecipient as a final repayment, leaving a balance of \$3,491.

AIDSTECH Subrecipient No. 4213: Unexpended funds totaled \$13,076; the subagreement terminated in June 1990; and no financial reports have been submitted since May 1990.

AIDSCAP Subrecipient No. 20481: A \$3,600 advance was issued March 5, 1993, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 21031: A \$123,215 advance was issued April 8, 1993, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 22446: A \$21,138 advance was issued on November 11, 1992, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 23034: A \$4,200 advance was issued on September 2, 1992, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 23077: A \$58,000 advance was issued on November 5, 1992. Activity was to have been completed by mid-May 1993, but no expenditure reports have been submitted.

AIDSCAP Subrecipient No. 23448: An initial advance of \$42,416 was issued on December 2, 1992 and another of \$35,000 on April 2, 1993. An expenditure report accounting for \$23,551 has been submitted on the first advance, leaving \$18,865 plus the entire \$35,000 from the subsequent advance.

AIDSCAP Subrecipient No. 23460: A \$24,612 advance was issued on March 16, 1993, and no expenditure report has been submitted.

FHI Questioned Costs
Sub-Schedule A-2
Long-outstanding Subrecipient Advances as of September 30, 1993

AIDSCAP Subrecipient No. 23466: An initial advance of \$3,000 was issued on September 23, 1992 and a subsequent advance of \$15,215 on April 26, 1993. Expenditure reports accounting for \$8,321 have been submitted, leaving \$9,894 outstanding.

AIDSCAP Subrecipient No. 23467: An initial advance of \$23,945 was made on October 16, 1992. An error duplicating that advance was made on November 4, 1992. A subsequent advance of \$25,000 was made on June 2, 1993. Four expenditure reports have been submitted, accounting for \$66,184. The remaining advance is \$6,706.

AIDSCAP Subrecipient No. 23471: A \$14,700 advance was issued on January 26, 1993, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 23473: A \$21,000 advance was issued on April 8, 1993, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 23487: A \$150,000 advance was issued on April 29, 1993, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 24025: A \$38,000 advance was issued on March 31, 1993, and no expenditure report has been submitted.

AIDSCAP Subrecipient No. 24019: A \$68,597 advance was issued on January 27, 1993, and no expenditure report has been submitted.

FHI Questioned Costs
Sub-Schedule A-2
Summary of Long-outstanding Advances

Outstanding Advances Questioned as of September 30, 1993:	\$667,072
Less AIDSCAP Amounts Liquidated Through March 4, 1994	<u>407,601(1)</u>
Net Outstanding Advances Questioned	<u>\$259,471</u>

Note:

1. As of March 4, 1994, FHI's AIDSCAP subrecipients had submitted expense reports liquidating \$407,601. We do not have any information for the amounts cleared as of the same date for the AIDSTECH and Population subrecipients.

**FHI Questioned Costs
Sub-Schedule A-3
Relocation Allowances**

<u>Employee</u>	<u>Allowances Reviewed</u>	<u>Ineligible</u>	<u>Unsupported</u>
Employee-1 Senior Manager	\$ 16,445	\$ 9,964 (1)	\$ 413 (2)
Employee-A	17,535	9,000 (3)	1,500 (4) 4,620 (5)
Employee-2 Senior Manager	2,436		
Employee-B	6,000	6,000 (3)	
Employee-3	2,720	1,485 (1) 477 (6)	330 (2)
Employee-4	16,978	6,868 (1)	10,110 (2)
Employee-5	8,320		
Employee-6	13,162	12,990 (1)	
Employee-7 Senior Manager	3,444		
Employee-C Senior Manager	22,670	22,670 (3)	
Employee-D	22,670	22,670 (3)	
Employee-8	23,542	8,762 (1) 9,679 (7)	
Contract Employee	4,440		4,440 (8)
Employee-9	<u>7,400</u>	<u>7,037 (9)</u>	<u>363 (8)</u>
	\$167,762	\$117,602	\$ 21,776
Total Relocation Allowances Questioned			<u>\$139,378</u>

FHI Questioned Costs
Sub-Schedule A-3
Relocation Allowances

Notes:

1. Continuing mortgage payments on former residences and/or closing costs on new residences (not allowable per OMB Circular A-122).
2. Unsupported home maintenance costs (insurance, electricity, taxes).
3. FHI represented that two senior managers received these amounts monthly as incentive for moving to Virginia. The others received the payments to defer temporary living expenses relative to relocating to Virginia. OMB Circular A-122, Attachment B, Section 41, Relocation Costs, allows temporary lodging during the relocation transition period, but only up to 30 days. Each person above received amounts for greater than 30 days, e.g., up to 22 months. This Section also states that relocation costs are allowable only if reimbursement to the employee is in accordance with an established written policy consistently followed by the employer. FHI did not provide such a written policy. Furthermore, if any policy existed, it was not consistently followed as certain employees got differing amounts up to \$1,000 per month while others did not receive similar benefits. In addition, FHI did not provide receipts to support these monthly payments. OMB Circular A-122, Attachment A, Section A.2, states that costs must be adequately documented. Accordingly, we questioned this total of \$60,340.
4. In July 1992 this senior management employee requested and received \$1,500 to cover "settling in" costs. There was no supporting documentation for these claimed expenditures.
5. In July 1992 this senior management employee also requested and received \$4,620 for 30 days of temporary lodging. There was no supporting documentation for the claimed lodging costs.

FHI Questioned Costs
Sub-Schedule A-3
Relocation Allowances

6. OMB Circular A-122 allows charges for employee costs of ownership of a vacant former home. However, these charges--\$283 for property tax, \$147 for a rental management fee, and \$47 for insurance--were incurred while the property was rented.
7. Lodging charges for new employee which exceed OMB Circular A-122 allowed 30-day relocation transition period limit.
8. Unsupported temporary lodging charges.
9. Lodging charges for new employee which exceed the OMB Circular A-122-allowed 30-day relocation transition period limit and which are also unsupported.

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**FHI Questioned Costs
Sub-Schedule A-4
Regular-Hire Benefits Provided to Resident-Hires and
Overseas Housing Costs in Excess of Allowable Amounts**

<u>Resident Hire</u>	<u>Description</u>	<u>Amount</u>	<u>Notes</u>
Resident Hire Employee - A	Housing Costs	\$ 47,780	1, 2
	Post Differential	7,040	1
	Education for Son	21,224	1
	R&R Travel	<u>3,890</u>	1
Sub-Total		79,934	
Resident Hire Employee - B	Housing Costs	24,546	1
	Post Differential	9,830	1
	R&R Travel	<u>2,391</u>	1
Sub-Total		36,767	
Total Regular-Hire Benefits Provided to Resident-Hires		116,701	
Housing Costs in Excess of Allowable Amounts for Four Employees		<u>18,894</u>	
Total Questioned Costs: Regular-Hire Benefits Provided to Resident-Hires and Excess Housing Costs		<u>\$135,595</u>	

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FHI Questioned Costs
Sub-Schedule A-4
Regular-Hire Benefits Provided to Resident-Hires and
Overseas Housing Costs in Excess of Allowable Amounts

Notes:

1. USAID Handbook (HB) 25, Chapter 34, defines a resident-hire employee as "A U.S. citizen who resides in a country primarily for reasons other than employment with a U.S. Government Agency." Both individuals worked either as a private consultant or for a non-U.S. agency in Thailand prior to employment and both had Thai families. For resident-hires in Thailand the HB only provides for a "post allowance" and "danger pay" Consequently, the above benefits are questioned as ineligible charges to USAID.
2. Includes rent, utilities, and "settling-in" costs for items such as a toaster oven, hot water thermos, bath and door mats, washing machine, etc.

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**FHI Questioned Costs
Sub-Schedule A-5
Contribution**

<u>Description</u>	<u>Amount</u>	<u>Note</u>
AID's Society for Asia and the Pacific	\$50,000	1

Note:

1. A USAID project officer requested AIDSCAP to contribute \$50,000 to this organization. AIDSCAP made the contribution but should have checked with or requested authority to do so from the USAID grant officer. The terms of the AIDSCAP cooperative agreement do not call for the making of contributions. Furthermore, OMB circular A-122, Cost Principles for Non-Profit Organizations, specifically says that "contributions" are unallowable.

**FHI Questioned Costs
Sub-Schedule A-6
Travel-Related Expenses**

<u>Description</u>	<u>Amount</u>	<u>Note</u>
Travel Expenditures Lacking Support	\$31,527	1
Business Class Air Travel on Non-American Carrier	370	2
Arlington Hotel Charge for Arlington- based Employee	111	3
Charges for One Employee in Two Rooms at Two Different Locations at the Same Time	409	4
Paid Lodging Exceeding Per Diem Rate	181	5
First-Class Trainfare Upgrade	46	6
Mileage Paid in Excess of \$.25/mile	<u>27</u>	7
Total Travel-Related Expenses	<u>\$32,671</u>	

Notes:

1. The following AIDSCAP transactions were not supported by source documentation.
 - A \$4,780 wire transfer to USAID/Nigeria for airfare and per diem for two participants attending the International AIDS Conference in Amsterdam.
 - A \$990 transaction for domestic travel.

FHI Questioned Costs
Sub-Schedule A-6
Travel-Related Expenses

- A \$3,919 transaction supported only by a copy of the check sent to an employee in Senegal.
- A \$7,457 and a \$6,531 transaction for foreign travel.
- Two American Airline payments totaling \$2,837.

The following new population agreement transactions were not supported by source documentation:

- A \$2,180 payment to the Thailand field office for local travel expenses. The original source documents are maintained in the field.
 - A \$2,833 American Airline payment.
2. USAID policies require its employees to fly coach/economy class when traveling on "assignment to post" orders and to use American carriers when available. FHI charged USAID for the costs of one of its employees who was traveling to Thailand on "assignment to post" orders. This employee flew business class instead of coach and also flew part of the trip on a non-American carrier when an American carrier routing was available.
 3. USAID was charged for the costs of an Arlington-based FHI employee who stayed in an Arlington hotel. In our opinion, it is not reasonable to charge USAID for a hotel room in Arlington when the individual, on whose behalf the expenses were incurred, was assigned to and based in Arlington.
 4. On March 25 and 26, 1992, an FHI employee retained his hotel room in Arlington, Virginia while actually staying in North Carolina where expenses were also incurred and charged to USAID at \$55.50 per night for the room there. The charges for Arlington, i.e. 2 x \$96.58 or \$193.16 are questioned as unreasonable. On May 31 and June 1, 1992, an FHI employee retained his hotel room in Lagos, Nigeria at \$136.54 per night while actually staying in Kano, Nigeria where the charge was \$28.73 per night (not charged to USAID). The difference of \$215.62 is questioned as unreasonable.

FHI Questioned Costs
Sub-schedule A-6
Travel-Related Expenses

5. Lodging costs which were \$29 more than the maximum amounts allowed under the "Federal Travel Regulations" were charged for two nights stay in Denver, Colorado. In addition, \$152 of excess lodging costs were charged to USAID for lodging in Sri Lanka. FHI did not obtain USAID approval for these excess charges in accordance with the Federal Travel Regulation, Part 301-8.2, "Conditions Warranting Authorization or Approval of Actual Expenses." Thus we questioned excess lodging costs of \$181.
6. FHI charged USAID \$46 for a first class upgrade on an employee's March 25, 1992 train trip from Washington to New York. U.S. Travel regulations do not permit first class train accommodations for trips under five hours. According to the employee's travel voucher, the trip took less than three hours. Consequently, the \$46 charge is questioned.
7. FHI reimbursed its employees mileage expenses at \$.28 per mile instead of the \$.25 per mile authorized by the Federal Travel Regulations. For the AIDSCAP agreement the resulting overcharge to USAID totalled \$17 and for the latest "population" agreement the overcharge totalled \$10. These amounts are, therefore, questioned.

FHI Questioned Costs
Sub-Schedule A-7
Entertainment

<u>Description</u>	<u>Amount</u>	<u>Dates</u>	<u>Note</u>
Wine, Open Bar, Shrimp and Hors d'oeuvres	\$1,736	07/09 & 10/92	1
Catering with Bartenders	1,186	12/13/92	1
Wine and Bartender Costs	71	02/02 & 03/93	1
Coffee Service	2,094	11/91 & 09/92	2,3
Reception Food	899	03/12 & 16/92	2
Picnic	1,265	06/15/92	2,3,4
Kitchen Supplies	<u>1,404</u>		5
Total Food and Beverages	<u>\$8,655</u>		

Notes:

1. These wine, bar, and hors d'oeuvres costs were incurred at various FHI meetings, in addition to the costs of meals. We did not question the meal costs which totalled \$12,403 because we considered them to be allowable under OMB Circular A-133. However we did question these "cocktail party" costs because OMB Circular A-122 categorizes costs associated with amusement, diversion, and social activities as "Entertainment costs" and as such says they are unallowable.
2. According to OMB Circular A-133 costs of diversion, social activities and entertainment are unallowable.
3. Costs for these line items are for FY 92 only. We believe there are similar costs for FY 93 which should be determined and resolved.

FHI Questioned Costs
Sub-Schedule A-7
Entertainment

4. FHI files did not contain documentation to support \$959 of this amount.
5. These costs are detailed on AIDSCAP/Thailand "Expenditure Request" report Nos. 1-22 and include a refrigerator and a deposit for a kitchen table and shelves.

FHI Questioned Costs
Sub-Schedule A-8
Miscellaneous Questioned Costs

<u>Description</u>	<u>Amount</u>	<u>Note</u>
Parking Subsidy	\$ 6,794	1
Attorney Fee for Visa (\$500 is without support)	1,000	2
Internal Revenue Service Penalty	2,318	3
Consulting Agreements Not Approved by USAID	26,290	4
Office Plants -- Rental in Thailand	3,878	5
Unsupported Costs	<u>12,987</u>	6
 Total Miscellaneous	 <u>\$53,267</u>	

Note:

1. Parking is being provided to some FHI/AIDSCAP employees. The cost involved is not covered as part of AIDSCAP's lease for office space but is, nevertheless, being accounted for as a rent/lease payment and is being charged to USAID. We question such a charge as unreasonable because the U.S., as a matter of practice, does not pay for employee parking.
2. A prospective FHI employee/student from another country paid an attorney to assist her in obtaining an H-1 (work) visa. She then, after being hired, sought and received reimbursement for \$1,000 in prior payments to the attorney. FHI files contained support for only a \$500 payment. Nonetheless, we consider

FHI Questioned Costs
Sub-Schedule A-8
Miscellaneous Questioned Costs

the entire \$1,000 charge to USAID as unreasonable because payment was made prior to her direct association with FHI.

3. FHI did not pay taxes for certain consultants that the Internal Revenue Service (IRS) subsequently ruled should have been paid. The IRS computed the taxes owed and assessed a penalty. The penalties are questioned, \$1,911 under the AIDSTECH agreement and \$407 under the new population agreement, in accordance with OMB Circular A-122 which states that the costs of fines and penalties resulting from failure of the organization to comply with Federal, State, and local laws and regulations are unallowable.
4. FHI paid \$18,177 to a consultant to prepare a report to Congress under the AIDSCAP agreement. The consulting agreement was not approved by USAID. AIDSCAP agreement, Attachment 1, Section F.5 requires substantial involvement by USAID during agreement performance. Further, it states that the USAID cognizant technical officer will provide overall guidance, such as review of all major activities including ad hoc consultancies for technical assistance.

Also, FHI paid \$11,867 (under two consulting agreements) to a consultant under the new population agreement. The USAID agreement officer did not approve the consultant's rate. Correspondence regarding this consultant indicated that USAID mandated the work to be done as soon as possible, but that FHI chose which consultant to use. The consultant was paid \$100 per hour; the maximum daily FS-1 rate was \$40.15 per hour. We questioned the \$6,105 excess of the actual costs claimed over the maximum allowable amount based on the FS-1 limit $[(\$100 - \$40.15) \times 102 \text{ hours}]$. We questioned these costs in accordance with the new population agreement, Attachment 1, Section H.8, which states:

...Compensation shall not exceed, without the prior written approval of the Agreement Officer 1) the current compensation or the highest rate of annual compensation received by the consultant during any full year of the immediately preceding three years or a reasonable increase over the individual's current rate ..., or 2) the maximum daily rate of a Foreign Service 1 (FS-1), whichever is less.

FHI Questioned Costs
Sub-Schedule A-8
Miscellaneous Questioned Costs

We also questioned the remaining \$2,008 (50 hours x \$40.15) billed under one of these agreements, because the USAID technical officer did not approve the consulting agreement in accordance with the new population agreement, Attachment 1, Sections H.2 and H.8. The other consulting agreement was approved by the USAID technical officer.

5. Such costs charged to USAID under the AIDSCAP agreement are questioned as unreasonable and cannot be considered as allocable to the purpose of the agreement. These charges are detailed in the AIDSCAP/Thailand "Expenditure Request" reports Nos. 4 to 22.
 6. Unsupported transaction of \$9,393 for a symposium on contraceptive technology and practice; and a \$3,594, unsupported transaction for Thailand office expenses.
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Subrecipient Costs Questioned By FHI-Contracted Auditors

<u>Subrecipient</u>	<u>Country</u>	<u>Period Audited</u>	<u>Questioned Costs</u>
African Medical and Research Foundation	Kenya	09/88-7/92	\$17,001
Aga Khan Health Service	Kenya	08/91-9/92	23,612
Association Via Libre	Peru	07/91-9/92	1,239
Bangladesh Institute of Research for Promotion of Essential and Reproductive Health and Technology	Bangladesh	01/91-9/92	3,433
City of Bulawayo Health Service Department Culture Concepts	Zimbabwe	09/89-9/92	18,065
	Brazil	10/91-9/92	1,253
Burundi Free Methodist Church	Burundi	09/91-9/92	14,530
Centre Muraz	B Faso	01/91-9/92	5,828
Direction du Service National de l'Hygiene et de la Medicine mobile (DHMM)	Niger	01/91-9/92	659
Mexican Institute for Research on Family and Population	Mexico	01/91-9/92	3,618
Maendeleleo Ya Wanawake	Kenya	10/91-9/92	2,393
Mexicanos Contra El Sida	Mexico	01/91-9/92	61,919
Ministry of Health and Social Welfare	B Faso	01/91-9/92	799

Subrecipient Costs Questioned By FHI-Contracted Auditors

<u>Subrecipient</u>	<u>Country</u>	<u>Period Audited</u>	<u>Questioned Costs</u>
Ministry of Public Health & Social Affairs	Mali	01/91-09/92	4,607
Municipality of Masvingo	Zimbabwe	02/91-09/92	11,911
National AIDS Control Program	Burundi	05/90-10/92	10,311
National AIDS Control Program	Cameroon	01/91-09/92	116,974
National Research Institute for Fertility Control (NRIFC)	Pakistan	01/91-09/92	116
Olongapo City Health Department	Philippines	01/91-09/92	9,076
University of Nairobi	Kenya	10/90-06/92	<u>13,577</u>
Total of Costs Questioned By FHI-Contracted Auditors			<u>\$320,921</u>

APPENDIX VII**REPORT DISTRIBUTION**

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