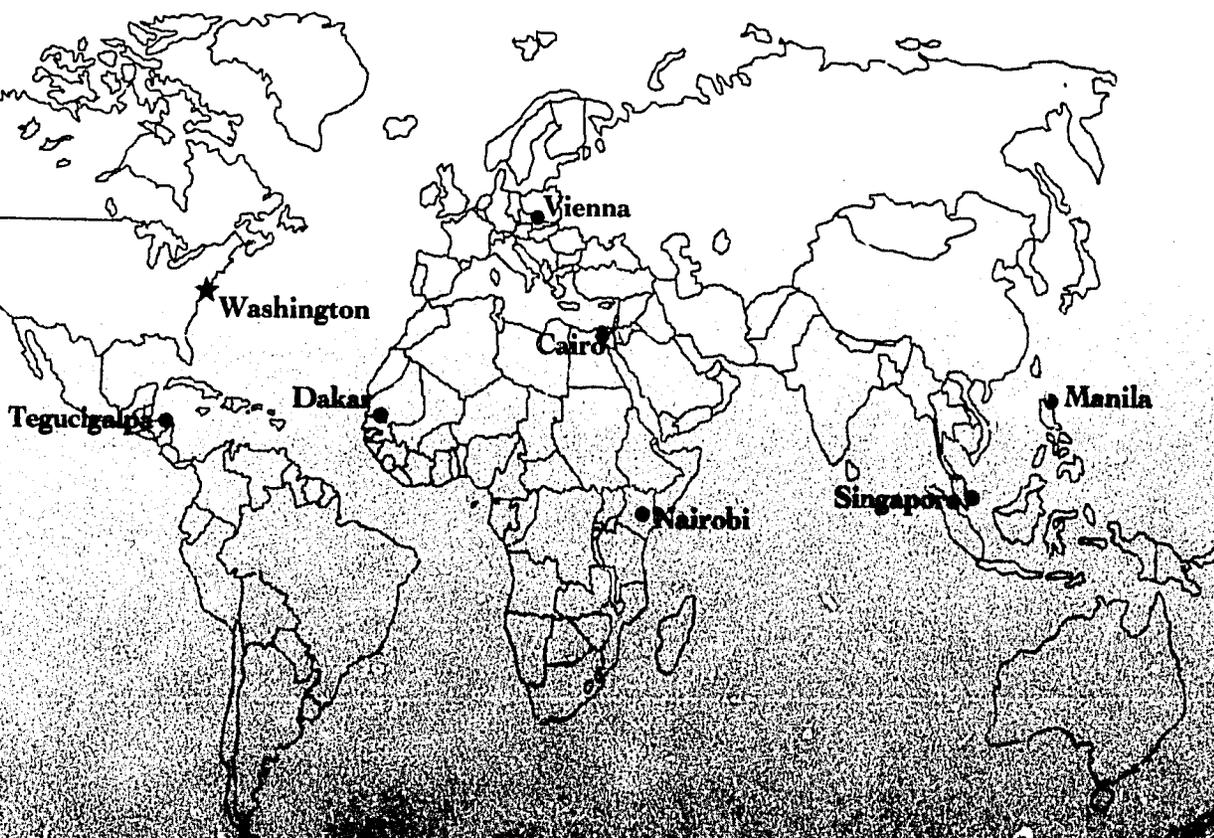


Financial Audits

REVIEW OF
INTERNATIONAL EXECUTIVE SERVICE CORPS
ACCOUNTING SYSTEM
As of February 28, 1993

Report No. 0-000-93-14-N
August 13, 1993





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

AUG 13 1993

MEMORANDUM FOR FA/OP, Frederick A. Will

FROM: IG/A/FA, Reginald Howard *R. Howard*

SUBJECT: Accounting System Review of International Executive Service Corps (IESC)

The accounting firm of Clifton, Gunderson & Co. performed a financial review of the International Executive Service Corps' (IESC) accounting system. Five copies of the report are enclosed for your action.

A.I.D./IG Audit Report No. 0-000-93-05-N, dated February 19, 1993, reported that IESC did not maintain separate accounting for funds provided and expended under individual Federal grants as required by Office of Management and Budget (OMB) Circular A-110. That audit report covered the period from January 1, 1990 to December 31, 1991. In response to the audit report, IESC asserted that it had improved its accounting system to meet the requirements of OMB Circular A-110 for recording and reporting costs.

The objective of the financial review was to evaluate IESC's assertion that its accounting system meets Federal requirements for recording and reporting costs incurred under U.S. Government grants and agreements. The evaluation covered IESC's accounting system as of February 28, 1993.

Based on the review, the auditors concluded, with the exceptions noted immediately below, that IESC's accounting system provides an acceptable basis for recording and reporting costs incurred under U.S. Government grants and agreements.

The auditors disclosed three weaknesses in IESC's accounting system, none of which they considered material:

- Grant information was not posted to the general ledger in a timely manner because a fully automated accounting system has not yet been fully implemented;
- The system does not provide for specific determination of unallowable costs incurred by certain country directors in IESC's overseas missions; and

- IESC does not have a system in place to allocate interest income based on funds drawn in advance for the purpose of remitting such interest to A.I.D.

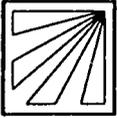
IESC agreed with the findings and stated that it is taking steps, including introducing a new accounting system, to ensure that the system's existing deficiencies are corrected. IESC stated further that it would inform its overseas offices to segregate potentially unallowable expenses on future expense reports. Concerning the allocation of interest earned on advances, IESC stated that it was instituting procedures to identify advance funds drawn down from A.I.D. and to track any interest income due to A.I.D. on such funds.

Recommendation No. 1: We recommend that A.I.D.'s Office of Procurement (FA/OP) verify that IESC has installed an accounting system which meets the requirements of OMB Circular A-110 including (1) recording costs in a timely manner, (2) providing for the identification of unallowable costs, and (3) identifying and remitting to A.I.D. interest earned on A.I.D. funds.

This recommendation 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 recommendation.

**INTERNATIONAL EXECUTIVE SERVICE CORPS.
Stamford, Connecticut**

**REVIEW OF ACCOUNTING SYSTEM
As of February 28, 1993**



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

July 23, 1993

Mr. Reginald Howard
Director of Financial Audits
IG/A/GA SA-16
Room 514
Washington, D.C. 20523

Dear Mr. Howard:

This report presents the results of our review of the accounting system of the International Executive Service Corps. (IESC) as of February 28, 1993.

We previously completed an audit of the statement of expenditures of IESC for the period January 1, 1990 to December 31, 1991. One of the findings in the audit was that IESC did not maintain separate accounting for all funds provided and expended under AID grant agreement number PDC-0012-G-SS-9007-00. In response to the audit, IESC has asserted that their accounting system currently meets the requirements of Office of Management and Budget (OMB) Circular A-110 for recording and reporting costs incurred under U.S. Government agreements.

The objective of our engagement was to review IESC's assertion that the accounting system meets federal requirement for recording and reporting costs incurred under U.S. Government agreements.

As part of our review of the above assertion, we were asked to consider whether the accounting system provides for:

1. Accurate, current, and complete disclosure of the financial results of each federally sponsored project or program.
2. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays and income.
3. Effective control over and accountability for all funds, property and other assets.
4. Comparison of actual outlays with budget amounts for each federal agreement.

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5. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by IESC. This includes evaluating IESC's claimed practice of drawing-down 1/12 of its budget each month as opposed to making draw-downs on an as needed basis.
6. Procedures for determining the reasonableness, allowability and allocability of costs in accordance with the provisions of the applicable federal cost principles and the terms of the grant or other agreement.

The procedures we performed included inquiries of management, analytical review of accounting data and testing of a sample of ten grants. This testing included reviewing a sources and applications of funds statement, related reconciliations to the general ledger, and letter of credit draw-down requests for each grant through February 28, 1993.

RESULTS OF THE REVIEW

The current accounting system for federal grants that was subject to our review was a combination of a revised and expanded general ledger system and manual manipulation of related information. A fully automated Grant Information Tracking System (GITS) is being developed and is expected to be fully implemented later this year. This appeared to be a possible reason that sources and applications of funds statements for eight grants was only posted through February 28, 1993 and for the other two grants through January 31, 1993. This finding is discussed further in the schedule of findings and recommendations.

Financial information provided by IESC to us on the ten grants showed that the IESC accounting system was able to provide sources and applications of funds statements. The records contained the necessary information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays and income. Based on these records, the IESC should have effective control over and accountability for funds, property and other assets.

The IESC accounting system has the ability to compare actual outlays with budget amounts if the AID grants provide budget line items. Some of the AID grants reviewed did not have budgeted line items. This comparison could be done manually by reviewing the profit and loss statement prepared for each of the grants.

Relative to the practice of drawing down 1/12 of its budget each month on the core grant - this practice was discontinued by IESC in January 1993 and recorded expenses were used as the basis for the draw downs. A different situation was found relative to the ten grants included in our test. Our tests showed that certain expenses were being disbursed anywhere between one and thirty days after the advance had been received. At the present time, there is no system for allocating the interest earned on the AID advances (see the schedule of findings and recommendations).

The third finding identified under the accounting system relates to the procedures for determining the reasonableness, allowability and allocability of costs. The accounting system does not provide for specific identification of non-allowable expenses in certain overseas missions.

We believe that the above findings are not material weaknesses in the accounting system. However, implementation of our recommendations should further enhance and improve the accounting system.

Except for the above findings, nothing came to our attention that caused us to believe that IESC's accounting system as of February 28, 1993 does not provide a basis for recording and reporting costs incurred under U.S. Government agreements.

We discussed the findings and recommendations in this report with IESC management throughout the engagement in Stamford, Connecticut. At the conclusion of the review, we held a close-out on May 28, 1993, with members of IESC's management team in Stamford, Connecticut. Additionally, we discussed the report verbally with AID program and contracting personnel and AID's Office of the Inspector General. Their comments on the draft report have been considered in finalizing the report while IESC's comments have been included in this report. We wish to thank the individuals at IESC for the time and cooperation given to us throughout the engagement.

Sincerely,

CLIFTON, GUNDERSON & CO.



William H. Oliver
Partner

WHO/kdm



**Clifton,
Gunderson & Co.**
Certified Public Accountants & Consultants

ACCOUNTANT'S REVIEW REPORT

We have reviewed International Executive Service Corps.' (IESC) accounting system as of February 28, 1993, for the purpose of determining whether the accounting system provides a basis for recording and reporting costs incurred under U.S. Government agreements. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

A review is substantially less in scope than an examination, the objective of which is the expressions of an opinion on whether the accounting system provides a basis for recording and reporting costs incurred under U.S. Government agreements. Accordingly, we do not express such an opinion.

Our findings and recommendations related to the above assertion are included in the accompanying schedule of findings and recommendations.

Based on our review, nothing came to our attention, other than those matters included in the accompanying schedule of findings and recommendations, that caused us to believe that IESC's accounting system as of February 28, 1993 does not provide a basis for recording and reporting costs incurred under U.S. Government agreements.

Clifton, Gunderson & Co.

Baltimore, Maryland
May 28, 1993

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**INTERNATIONAL EXECUTIVE SERVICE CORPS.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

1. Timeliness of financial information

Finding

Our fieldwork started on May 17, 1993. We selected a sample of ten grants for review and requested sources and applications of funds statements prepared through the most recent month end. We were informed that information had only been posted through February 28, 1993. In addition, two of the grants selected had only been recorded in the general ledger through January 31, 1993.

Recommendation

IESC must continue to move towards getting the system current. IESC is developing automated procedures to assist in accomplishing this. Additionally, IESC should develop controls to force the overseas missions to provide financial information on a timely basis.

IESC's Response

We agree with this recommendation.

Our Accounting Department has established and is committed to bringing the financial information to a current basis on the following schedule of monthly closing dates:

April	July 1, 1993
May	July 27, 1993
June	August 19, 1993
July	September 14, 1993
August	October 7, 1993
September	November 2, 1993
October	November 30, 1993
November	December 28, 1993
December	January 26, 1994

March 1993 was closed as scheduled on June 8, 1993.

The new automated Accounting System and Grants Information and Tracking System will assist in bringing financial information up to date.

In addition, to assure the prompt receipt of CD office reports IESC management will withhold the approval to start new projects if the offices are not current on the filing of office reports.

2. Determination of non-allowable costs in certain overseas missions

Finding

The current system does not provide for the specific determination of non-allowable expenses incurred by certain country directors in IESC's overseas missions. Non-allowable expenses are determined by applying sampling procedures.

Recommendation

IESC needs to establish better controls over the overseas missions. Country directors should be instructed to separately identify non-allowable expenses on monthly reports.

IESC's Response

We agree with this recommendation.

IESC recognizes that it is essential we improve information flow from our field offices relative to AID drawdowns.

To address this problem immediately, we are requesting all IESC field offices that are reimbursed directly (drawing against advances or cost reimbursement) by AID missions to send directly to headquarters a copy of all documentation submitted to AID to justify such reimbursements. This documentation will be reconciled to the general ledger when the IESC Accounting Department closes its books.

In addition, we understand the need to identify non-allowable expenses and we are in the process of informing all its overseas offices to segregate potential unallowable expenses on all future office reports.

While it is understood by AID and IESC that some of the items on the list may be modified as a result of the current negotiations related to an advance understanding on the allowability of certain costs. It is nevertheless essential that the following items be clearly identified on the office reports being processed in Stamford.

- Bad Debt Expense - Client Contributions, Staff/VE Advances
- Charms, Trays, Pins and Service Awards
- Entertainment (including alcohol and tobacco) Country Club and similar memberships
- Fund Raising Expenses
- Interest Expense
- Regional/Worldwide Meetings, Conferences and Workshops

3. Allocation of interest earned on advances.

Finding

IESC does not have a system in place to allocate interest income based on funds drawn in advance for the purpose of remitting such interest to AID. In preparing draw-downs on AID letters of credit, IESC uses a combination of actual disbursed expenses, incurred but not paid expenses, and estimates and allocations of expenses. Generally, funds are drawn down as reimbursement of expenses are paid. However, we noted certain expenses that were paid subsequent to the draw down of funds. We also noted that the allocation of field support costs and recruiting costs could result in advance draw downs of funds. Through February 28, 1993, IESC had drawn \$129,061 in excess of recruiting expenditures year to date.

Recommendation

IESC should develop a system to allocate interest income earned between amounts earned on AID advances and amounts earned from other sources.

IESC's Response

We agree with this recommendation.

As part of the implementation of our new Financial Control System we are instituting procedures to identify any advance funds drawn down from AID and to track any interest income due to AID on such funds.

Field support and recruiting expenses are established on a provisional basis each fiscal year. Our systems will monitor these expenses on a quarterly basis and make adjustments as required.

However, it should be noted that all recruiting and associated expenses are incurred in the weeks and months preceding the start of a particular project.

For example, if a project started in January, all the time and effort and direct expenses related to recruiting the VE for that particular project were actually incurred between the time the project was accepted by IESC and the time that VE was confirmed by the client; this is always well before the start date of the project. Thus the drawdown occurs after the expense has been incurred and should not be considered an advance.

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