

PD-ABM-167

Financial Audits

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Audit of Selected Costs Incurred by the  
Vietnam Veterans of America Foundation in  
Connection with Grant No. 442-0002-G-00-2375-00

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Report No. 0-000-96-001C  
October 3, 1995



**"Financial 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."**



**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



October 3, 1995

U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

**Memorandum For USAID Representative/Cambodia, Joseph B. Goodwin**

**FROM:** IG/A/FA, *Thomas F. O'Connor*  
Thomas F. O'Connor

**SUBJECT:** Audit of Selected Costs Incurred in Connection with USAID  
Grant Number 442-0002-G-00-2375-00

This memorandum is our report on the "Audit of Selected Costs Incurred by the Vietnam Veterans of America Foundation in Connection with Grant Number 442-0002-G-00-2375-00," Report No. 0-000-96-001C. We considered your comments on the draft report and those of the grantee and have included them as an appendix to this report (see Appendix II). Based on the results of our audit, the report contains three recommendations. Please respond to the report within 30 days indicating any actions planned or taken to implement the recommendations contained in the report.

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

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## **Background**

The Vietnam Veterans of America Foundation (VVAFA) is a registered non-profit charitable organization that was incorporated in 1980 by combat veterans of America's war in Vietnam. Its main purpose is to (1) work to reconcile with the countries of Indochina; (2) engage in humanitarian assistance to victims of the war; and (3) develop educational programs aimed at the elimination of war. VVAFA has received two grants from the U.S. Agency for International Development (USAID).

In September 1992, VVAFA received its first U.S. Government grant, when it was awarded an 18-month, \$830,000 USAID grant (No. 442-0002-G-00-2375-00) to operate a prosthetics clinic at Kien Khleang, Cambodia and to train Cambodians to make wheelchairs and prosthetic devices for amputees and disabled persons. The grant was extended to June 30, 1996 and funding was increased to \$4.5 million. VVAFA was to contribute \$1.6 million either in cash or in-kind contributions. Through the period of audit, VVAFA spent \$3.7 million of USAID funds and contributed \$.8 million. According to VVAFA officials, project objectives will be met earlier than planned, and VVAFA will cover its remaining contributions of \$.8 million.

In September 1994, VVAF was awarded a 2-year, \$1.3 million USAID grant (No. 410-0002-G-00-4542-00) to establish an orthotics<sup>1</sup> program in the Republic of Vietnam. Under this grant, VVAF was to contribute \$.4 million in cash or in-kind. For the period of audit, VVAF had spent \$300,438 of USAID funds and contributed \$1,429 of its own funds.

According to VVAF officials, the grant funds from USAID represented a significant increase in the level of VVAF's activities and, therefore, a new management challenge. Yet, USAID elected not to conduct a preaward survey to determine the grantee's capacity to perform technically and financially. Moreover, USAID also initially allowed VVAF considerable flexibility in managing USAID funds through the use of a special grant provision which permitted 100 percent budget line item flexibility without the prior approval of USAID's grant officer. VVAF's executive director stated that while the special grant provision was in effect, his understanding was that VVAF was only required to stay within the total budget of the grant.

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## **Audit Objectives**

The audit was performed primarily to answer the following objectives in response to certain allegations about VVAF:

- (1) Were selected costs (e.g. severance pay, credit card charges, construction and travel) incurred by the Vietnam Veterans of America Foundation in connection with Grant Number 442-0002-G-00-2375-00 reasonable, allocable, and allowable in accordance with the terms of its grant with USAID?**
- (2) Was audit work performed by the grantee's non-Federal auditor for the year ended April 30, 1993, in accordance with Office of Management and Budget (OMB) Circular A-133?**

In answering these objectives, we identified certain other issues such as cost sharing, communication expenses, procurement practices and a double salary payment which we also audited. See Appendix I for a complete discussion of the scope and methodology for this audit.

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<sup>1</sup> A branch of mechanical and medical science that deals with the support and bracing of weak or ineffective joints or muscles.

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## **Audit Findings**

**Were selected costs (e.g. severance pay, credit card charges, construction and travel) incurred by the Vietnam Veterans of America Foundation in connection with Grant Number 442-0002-G-00-2375-00 reasonable, allocable, and allowable in accordance with the terms of its grant with USAID?**

Audit results follow:

- We question \$138,598 of costs incurred by the Vietnam Veterans of America Foundation (VVAF) under Grant Number 442-0002-G-00-2375-00 and recommend that USAID's grant officer determine the allowability of these costs and recover, as appropriate, any unallowable amounts billed to USAID.
- We concluded that VVAF needs to strengthen its internal controls related to severance and contract termination pay, credit card usage, travel and procurement and recommend that the grant officer take appropriate action to ensure that controls are strengthened in expending USAID grant funds.
- We found that VVAF had not yet provided \$500,197 of its required cost sharing contribution and recommend that USAID's grant officer take appropriate action to ensure that VVAF meet its cost sharing requirements or recover any shortfall.

In retrospect, we also believe that USAID's decisions to forego a preaward survey and to permit VVAF significant latitude in spending USAID funds created a higher level of risk that USAID funds might be used ineffectively.

### **Severance and Contract Termination Payments**

We identified a total of \$82,558 of severance and contract termination payments, which were not provided for in VVAF's employment agreements and, in our opinion, do not appear reasonable.

The Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations" states that costs of severance pay are allowable only if required by (i) law, (ii) employer-employee agreements, (iii) an agreement on the organization's part, or (iv) circumstances of the particular employment. The Circular also states that an allowable cost must be reasonable for the performance of an award. Further, a cost is considered reasonable if, in its

nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances.

We identified five permanent VVAF employees dismissed during the period of audit whose employment agreements did not specifically cover severance payments. Yet, severance pay to these five permanent employees totaled \$65,061 and included gross salary, living allowance, payroll taxes and health insurance. We questioned \$64,080 of these payments. We did not question the remaining \$981 related to health insurance which was paid in advance because it was an unavoidable cost.

We also identified five contract employees who were paid \$18,478 upon termination of services, although their contracts did not specifically require such payments. We, therefore, question these payments.

At the time of these payments, VVAF's Personnel and Procedures Manual did not address severance and termination payments. According to VVAF officials, such payments were handled on a case-by-case basis. These officials also added that VVAF's longstanding informal practice has been to give at least 30 days of severance pay to dismissed employees, which in this case would have amounted to \$12,669. Although such a practice is not specifically excluded under OMB Circular A-122, payments can be subject to different interpretations.

Accordingly, we recommend that USAID's grant officer determine the allowability of these costs and ensure that VVAF implement an appropriate policy for severance and termination payments under USAID grants. In response to our finding, VVAF provided us with a draft copy of its proposed policy regarding severance and contract termination pay, which when accepted by USAID's grant officer and implemented by VVAF, should preclude future questionable severance and termination payments to dismissed employees.

### **Credit Card Charges**

We did not find any occurrences where employees' personal charges under VVAF's business credit cards were billed to USAID's grant, but we believe that internal controls need to be strengthened.

VVAF's undocumented policy has been to allow employees to use its business credit card for personal charges, which are then tracked separately with the employee responsible for payment. We did not find any occurrences where employees' personal charges were ultimately charged to USAID's grant. However, our concern is that the potential exists for this to occur since VVAF's policy and controls regarding credit card usage for personal purposes are lax. For example,

balances owed by two former employees from credit card charges had been outstanding for over a year at the time of our audit.

Therefore, we recommend that USAID's grant officer take appropriate action to ensure that VVAF implement an acceptable and formal written policy regarding credit card usage when expending USAID funds. In addressing our finding, VVAF provided us with a draft copy of its proposed policy regarding credit card usage, which when accepted by USAID's grant officer and implemented by VVAF, should lessen the potential for credit card misuse. Following our informal suggestion, VVAF further refined its policy to preclude the use of its business credit cards for charging personal expenses.

### **Construction**

We found that \$69,998 (24 percent of construction costs we reviewed) were initially included with repair and other labor costs. As a result, it was not until the time of our audit that total construction costs of \$292,797 were identified under the grant. These costs exceeded, by \$188,000, the \$105,000 VVAF had advised USAID that it planned to spend for construction. Further, we questioned \$8,131 of these expenditures based on inadequate documentation.

Under the mandatory standard provision related to accounting, audit and records of its grant with USAID, VVAF is required to maintain accounting records that are supported by documentation that at a minimum will identify, segregate, accumulate and record all costs under a grant and which fully disclose the amount and disposition of USAID funds. However, the USAID grant to VVAF initially had a special provision that permitted 100 percent budget line item flexibility. According to VVAF's controller, construction expenditures incurred in 1994 were not initially reported as construction costs because separate general ledger accounts were not established to accumulate construction costs.

In its initial proposal to USAID, VVAF planned to *rent* production facilities in Cambodia and rental costs were estimated at \$105,000. After receiving the grant award and following discussions with contractors and previous experience with renovations, VVAF decided to *construct* a facility itself. Based on preliminary bids, VVAF officials said they recognized that VVAF could not build the facility within the \$105,000 initially planned for rent. However, these same officials added this was not a concern because of the provisions of the grant allowing it considerable budget line item flexibility, which would enable them to transfer funds from another line item, if needed, at a later date.

In November 1993, VVAF formally notified USAID of its proposal to transfer \$105,000 from its budget for Operating Expenses (rent) to that of Equipment in order to construct a facility consisting of a "Wheelchair Workshop and the

Dining/Meeting Hall".<sup>2</sup> In January 1994, USAID approved this change as an amendment to the grant. Also, as part of the amendment, USAID's grant officer replaced the special provision allowing VVAF 100 percent budget line item flexibility with a standard provision entitled, "Revision of Grant Budget". This standard provision sets forth certain instances when a grantee must obtain prior approval from the grant officer in adjusting its budget line items (for example, between indirect and direct costs, or from training to another budget line item). However, it does not specifically require the approval of the grant officer to transfer budget amounts between direct cost line items. Further, VVAF representatives advised us that they were told by USAID officials on numerous occasions that they still had line item flexibility.

In February 1995, VVAF inaugurated its production facility at Kien Khleang, Cambodia for which we determined the cost to be \$292,797. According to VVAF officials, the facility constructed was considerably different from its original design. Prosthetics, orthotics and physical therapy areas were substituted for the planned dining/meeting hall, which was established in a building donated by the Government of Cambodia. During the audit, VVAF provided us with an unaudited appraisal which valued the building at \$244,000.

We found no indication that VVAF notified USAID of the \$188,000 spent in excess of the planned amount of \$105,000. According to VVAF officials, they were not required under the grant to formally notify USAID or obtain approval for the increased cost of the building. In retrospect, we believe that:

- USAID's decision to forego a preaward survey created a higher level of risk that USAID funds would be used ineffectively; and
- The confusion surrounding the initial 100 percent line item flexibility provision and the subsequent standard provision allowing VVAF considerable latitude in adjusting its budget line items limited USAID's ability to effectively monitor the funds for construction.

OMB Circular A-122 states that costs must be adequately documented to be allowable. We identified \$8,131 (of \$45,842 reviewed) in construction expenditures where supporting invoices lacked a clear description of the item or material purchased, or evidence of appropriate administrative review prior to the disbursement of funds for construction. Accordingly, we recommend that the

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<sup>2</sup> We recognize that the Equipment category would not normally include construction, but, in this case, VVAF did notify USAID of its intent to use this category for construction.

grant officer determine the allowability of these costs and recover, as appropriate, any unallowable amounts billed USAID.

### **Travel**

We questioned \$11,268 (of \$34,719 reviewed) in travel-related costs on the basis of incomplete documentation.

OMB Circular A-122 states that costs must be adequately documented to be allowable. In addition, the grant states that VVAF must notify the USAID Project Officer of any proposed international travel. The notification must identify the travelers, dates and times of travel, and must be submitted at least 1-week prior to the start of approved international travel.

VVAF's controller advised us that VVAF is aware that USAID's travel policies require expense reports, receipts or other pertinent documentation to support an employee's travel expenditures. However, we identified \$11,268 in travel-related costs where VVAF's employees did not complete required travel expense reports, submit receipts for airfare costs and hotel accommodations, or adhere to other USAID requirements.

Accordingly, we are recommending that USAID's grant officer determine the allowability of \$11,268 in travel-related costs and assure that VVAF strengthen its internal controls over its travel practices. In addressing our finding, VVAF provided us with a draft copy of its revised policy regarding travel, which when accepted by USAID's grant officer and implemented by VVAF, should assure better documentation of travel expenses.

### **Unliquidated Cash Advances for Expenses by a Former Employee**

We concluded that \$15,856 in unliquidated cash advances for expenses by a former employee were not charged to USAID's grant. VVAF has tightened its controls over cash advances.

According to VVAF's controller, in March 1994, while reviewing activities in Cambodia, he noticed that numerous small cash advances had been taken from VVAF's safe over a period of time by the project director without completing a Cash Request Form required by VVAF's procedures. These advances of \$15,856 had not been liquidated when this project director was terminated by VVAF.

VVAF's controller stated that he strengthened controls over cash withdrawals in March 1994. Where previously three employees including the project director had access to the safe, now only the accountant has access to and responsibility for the safe which is controlled by a combination lock and key. During discussions

with VVAF's new accountant in Cambodia, we verified that this procedure was in effect.

### **OTHER MATTERS**

We also identified other issues which are discussed below:

**Matching/Cost Sharing** - For the period of audit, VVAF had a shortfall of \$500,197 in its required cost sharing contribution. According to VVAF officials, significant amounts (estimated at \$180,000) of additional matching contributions consisting primarily of donated services were not yet recorded pending completion of its valuations.

Under Grant Number 442-0002-G-2375-00, as modified, VVAF was to contribute \$1,609,410 of non-USAID funds to the program either in cash or in-kind contributions. The cost-sharing provision of the Optional Standard Provisions of this grant requires that for each year (or funding period) under this grant, VVAF agrees to expend from non-Federal funds an amount at least equal to the amount or percentage of the total expenditures incurred under the grant. Further, the standard provision on cost-sharing incorporated in the grant provides that the portion of VVAF's cost share not provided over the life of the agreement shall be refunded to USAID.

VVAF expended \$3,678,411 or about 81 percent of the \$4,532,000 of USAID funds obligated for the project. Therefore, under the terms of the Optional Standard Provision, VVAF's estimated contribution should have been \$1,303,622. However, at the time of our audit, it had only contributed \$897,175, a shortfall of \$406,447. In addition, VVAF disclosed that, due to a misunderstanding, it had overvalued donated housing units in Stung Treng Cambodia by \$93,750. This overvaluation effectively increased VVAF's shortfall to \$500,197. This valuation was corrected by VVAF in its April 1995 billing to USAID.

During our review of VVAF's cost sharing contributions, we also observed reported contributions we considered questionable since (1) the purchases did not appear to relate to the grant; (2) receipts did not show the name of the vendor; and (3) receipts lacked an adequate description of the purchase. These observations were discussed with VVAF's non-Federal auditor as leads for subsequent A-133 Audits.

According to its executive director, VVAF will meet the shortfall of \$500,197 plus its remaining cost sharing commitment of \$212,038 by the end of the project. Therefore, we are recommending that the grant officer follow up to ensure that VVAF meet its cost sharing contribution or take appropriate action to recover any shortfall as required under the grant.

**Communication Expenses** - We questioned \$34,141 of these expenditures on the basis that these costs were not allocable to USAID's grant, and VVAF made appropriate adjustments in its April 1995 billing to USAID.

OMB Circular A-122 states that to be allowable under an award costs must be allocable to a particular grant, e.g. incurred specifically for the award. We found that, in several instances, VVAF had billed entire amounts of its field office's telephone costs to the grant although it allows employees use of the telephone for personal and non-USAID related business. Based on these test results, we questioned telephone costs for the entire period of the audit until such time that VVAF provided the grant officer with a full reconciliation of these costs.

According to VVAF's controller, established VVAF accounting policy requires the analysis and allocation of telephone bills. However, these costs were not allocated properly because of problems associated with the turnover of personnel in Cambodia beginning in July 1994. We agreed with VVAF that a systemic problem did not exist since we observed that telephone logs were used by VVAF personnel in Cambodia.

VVAF provided us with a full reconciliation of these costs based on its analysis of telephone logs and the numbers called. We reviewed and tested VVAF's analysis and concluded that \$52,002 of \$86,143 in total telephone costs were allocable to USAID's grant. VVAF agreed that the remaining \$34,141 were ineligible and made appropriate adjustments in its April 1995 billing to USAID.

**Procurement** - We concluded that controls over VVAF procurements should be strengthened.

USAID Handbook 13 states that a grantee may use its own procurement policies and practices for the procurement of goods and services under a grant, provided they conform to all of USAID's requirements. One of USAID's requirements is a price analysis for every procurement action.

VVAF personnel said they were generally aware of the price analysis requirements; however, the process was not always documented. Similarly, VVAF did not always document the review and approval processes for equipment purchases. Although we could not determine any adverse effect from this lack of documentation, we concluded that this problem represents a systemic weakness in VVAF's internal controls over procurement.

Therefore, we recommend that USAID assure that VVAF implement acceptable procedures related to its procurement activities. In response to our finding, VVAF provided us with a draft copy of its revised policy regarding procurement

activities, which when accepted by USAID's grant officer and implemented by VVAF, should improve controls over procurement actions.

**Double Billing for an Employee's Salary** - We questioned \$2,500 billed USAID for repayment of an employee's salary after his original pay was stolen from VVAF's safe in Cambodia. This matter was brought to our attention by VVAF's controller who stated that, after this incident, controls were tightened in Cambodia.

As a result of this incident, \$2,500 was billed to USAID under Grant Number 442-0002-G-00-2375-00. In our opinion, this cost is not allocable to USAID's grant. Therefore, we recommend that USAID's grant officer determine the allowability of this payment.

**Recommendation No. 1** We recommend that the USAID Representative/Cambodia require the Regional Grant Officer to determine the allowability of the following questioned costs and recover, as appropriate, any unallowable amounts billed by the Vietnam Veterans of America Foundation under Grant Number 442-0002-G-00-2375-00:

- 1.1 Severance and contract termination pay totaling \$82,558;
- 1.2 Construction expenditures of \$8,131;
- 1.3 Travel-related expenses of \$11,268;
- 1.4 Communication expenses of \$34,141; and
- 1.5 Double billing of an employee's salary in the amount of \$2,500.

**Recommendation No. 2** We recommend that the USAID Representative/Cambodia require the Regional Grant Officer to take appropriate action to ensure that the Vietnam Veterans of America Foundation, in expending USAID grant funds, establish policies and procedures to tighten management controls over (1) severance and contract termination pay, (2) credit card usage, (3) travel, and (4) procurement.

**Recommendation No. 3** We recommend that the USAID Representative/Cambodia require the Regional Grant Officer to take appropriate action to ensure that the Vietnam Veterans of America Foundation meet its cost sharing requirements under Grant Number 442-0002-G-00-2375-00 or recover any shortfalls.

## **Management Comments and Our Evaluation**

Prior to the conclusion of our fieldwork, VVAF made a \$34,141 adjustment for ineligible communication costs in its billings to USAID. In addition, VVAF officials provided us with draft copies of its revised policies and procedures for severance pay, credit card usage, travel and procurement. Based on these actions, Recommendation Number 1.4 is closed upon report issuance. The remaining recommendations can be resolved and closed when USAID/Cambodia notifies this office that the required actions have been completed.

USAID/Cambodia and VVAF generally agreed with our findings. However, in responding to our draft audit report, VVAF commented on (1) 100 percent budget line item flexibility and (2) identification of construction expenditures. Our final report was revised to take into account VVAF's comments on line item flexibility. After consideration of VVAF's comments on construction expenditures, we believe our report presentation is accurate.

**Was audit work performed by the grantee's non-Federal auditor for the year ended April 30, 1993, in accordance with Office of Management and Budget (OMB) Circular A-133?**

We concluded that audit work performed by the Vietnam Veterans of America Foundation's non-Federal auditor for the year ended April 30, 1993 generally complied with the requirements of Office of Management and Budget (OMB) Circular A-133.

OMB Circular A-133 states that the material compliance provisions for all major programs should be tested. In addition, Section 13(c)(3) of the Circular requires that adequate numbers of transactions be tested in order to support an opinion about whether the recipient complied with its agreements and applicable laws and regulations. Further, in making the tests of transactions, the auditors should determine whether the reported expenditures were for allowable services and that those who received the services were eligible to receive them.

In our opinion, the audit firm of Tanklow, Hollender & Company performed sufficient work to conclude that VVAF had complied with the material compliance provisions of its major Federally funded program. The management control weaknesses described in this report were not identified during Tanklow, Hollender & Company's A-133 audit because all occurred after the period of the A-133 audit which ended April 30, 1993. However, we have alerted VVAF's audit firm to verify that the necessary corrective actions have been implemented in their next A-133 audit.

**Management Comments and Our Evaluation**

USAID/Cambodia and VVAF generally agreed with our comments and findings in this area.

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**SCOPE AND  
METHODOLOGY**

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**Scope**

The Inspector General's Office of Financial Audits audited selected costs of \$4,575,586 in accordance with generally accepted government auditing standards. These costs were incurred by the Vietnam Veterans of America Foundation (VVAF) from May 1, 1993 through January 31, 1995, in connection with its USAID grant (No. 442-0002-G-00-2375-00 ).

Our audit fieldwork was conducted at the Washington, Cambodia and Vietnam offices of VVAF and at USAID's project and procurement offices in Thailand, Cambodia and Virginia. We performed our fieldwork from March 16, 1995 through August 22, 1995. In preparation for the audit, we reviewed the audit report prepared by Tanklow, Hollender & Company for the single audit of VVAF for the year ended April 30, 1993. We also conducted a Quality Control Review of its A-133 auditor's work papers in New York to determine whether the audit and the report thereon met the compliance requirements of the requirements of Office of Management and Budget (OMB) Circular A-133.

Our audit work focused primarily on the following allegations made against the grantee by former employees:

- (1) Excess of severance and contract termination payments made to dismissed VVAF employees;
- (2) Employees' personal charges made with VVAF's credit cards were charged to USAID's grants;
- (3) Questionable costs for construction and travel charged to USAID's grant; and
- (4) Unaccounted cash advances for expenses by a former VVAF project director charged to the grant.

Costs related to these allegations were predominantly incurred in connection with operations related to the "Cambodia Grant" (No. 442-0002-G-00-2375-00) and included severance pay, credit card charges, construction, travel, and unliquidated cash advances for expenses by a former VVAF employee. In conjunction with our review of costs and a field visit to Cambodia, we also performed a limited survey of field operations in Vietnam under the second of two VVAF's grants with USAID (No. 410-0002-G-00-4542-00). However, because operations under this grant began in November 1994, there was only one month (January 1995) of USAID billings to review. Therefore, the scope of our work for this grant consisted mainly of reviewing operations to assess whether the same problems that we observed under the "Cambodia Grant" existed in Vietnam. Where we identified questionable items such as in matching requirements, telephone expenses and procurement, we have either included them in this report or reported them to VVAF's non-Federal auditor as leads for subsequent A-133 audits.

Because of the seriousness of the allegations and certain characteristics in the grantee's internal control environment (e.g. informal policies, liberal use of corporate credit cards for personal expenditures, smallness of staff making separation of duties difficult, cash basis of field operations and newness of the organization to USAID's regulations and procedures), we initially selected 7 months out of the 21-month period of the audit as the basis for our sampling. From this seven month period which totaled \$1,714,232, or 37 percent of the total selected costs audited, we selected a judgmental sample of transactions for testing. Where we found questionable transactions or controls, we expanded our sample to include data from the 21-month period under audit. The size of our sample in respect to the total universe of costs within each category tested is described below:

#### **Severance and Contract Termination Payments**

We audited 100 percent of severance and contract termination payments made by VVAF under Grant No. 442-0002-G-00-2375-00. These payments totaled \$83,784 for the period May 1994 through January 1995.

#### **Credit Card Charges**

We selected 47 transactions valued at \$34,466 for testing. These 47 transactions represented about 9 percent of the \$394,494 that employees charged on VVAF's credit cards for the billing periods of June 1993 through January 1995. We also analyzed a \$22,204 monthly credit card charge made by a former employee in January 1994.

### **Construction**

We reviewed \$292,797 of construction costs incurred by VVAF under the grant from April 8, 1994 through January 31, 1995. Of the \$292,797, we selected 17 transactions totaling \$45,842 for testing.

### **Travel**

We selected 19 transactions valued at \$34,719 for testing. These 19 transactions represented about 36 percent of the \$97,400 in travel expenses for the 21-month period of audit.

### **Unliquidated Cash Advances for Expenses by a Former Employee**

We reviewed all cash advances for expenses made to a former employee between June 1993 and July 1994.

### **Matching/Cost Sharing**

We reviewed \$897,175 in cost sharing contributions made by VVAF in order to assess its matching contributions through January 1995.

### **Communication Expenses**

We reviewed 100 percent of telephone expenses incurred in Cambodia under Grant No. 442-0002-G-00-2375-00. These costs totaled \$86,143 for the period May 1993 through January 1995.

### **Procurement**

We selected five transactions for equipment purchased under Grant Number 442-0002-G-00-2375-00. These 5 transactions totaled \$26,218, or about 30 percent of the \$85,894 in total equipment purchased through June 30, 1994. In addition, VVAF officials provided us with copies of competitive quotes obtained used in the purchases of steel tubing and wheel parts used in the fabrication of wheelchairs during our site visit to VVAF's production facility at Kien Khleang in Cambodia.

We did not assess the overall reliability of VVAF's computerized accounting system. However, where appropriate, we did test the reliability of selected computer-generated data against source documents.

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## **Methodology**

The methodology for each audit objective follows:

### **Audit Objective One**

The first audit objective consisted of gathering and verifying selected expenditures to determine whether these costs were adequately supported by documentary evidence and if they were allowable, allocable and reasonable in accordance with the terms and conditions of the grants and the Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations".

To answer this objective, we obtained VVAF's financial reports for 7 months of the 21-month period of audit and reconciled these reports to USAID's billing invoices. From these financial reports, we reviewed selected expenditures incurred by VVAF to determine if the costs were adequately supported by documentary evidence and if they were allowable, allocable and reasonable in accordance with the terms and conditions of the grants and OMB Circular A-122. In accomplishing this task, we reviewed expenditures such as credit card charges, salaries and time charges and travel reports. We also made site visits to VVAF's production facilities at Kien Khleang in Cambodia and at the Swedish Children's Hospital in Hanoi, Vietnam. During the course of the audit, we interviewed VVAF officials in Washington, Cambodia and Vietnam, and the auditor from VVAF's audit firm to gain an understanding of the internal control processes at VVAF to approve, record and bill costs to USAID. We also coordinated our work with the following: the USAID's Regional Grant Officer and project personnel at the Regional Support Mission for East Asia (RSM/EA); USAID project personnel at USAID/Cambodia; personnel from the Office of Procurement in Washington; the Regional Inspector General/Singapore; and the IG Investigation's staff in Washington and Singapore.

### **Audit Objective Two**

The second audit objective consisted of performing a Quality Control Review (QCR) of the A-133 audit conducted by Tanklow, Hollender & Company for the single audit of the Vietnam Veterans of America Foundation for the year ended April 30, 1993. The purpose of this QCR was to determine whether the audit and the report thereon met the compliance requirements of the requirements of Office of Management and Budget (OMB) Circular A-133.

In performing this QCR, we focused our review on obtaining assurance that the auditors performed sufficient work to conclude that VVAF had complied with the requirements of each of the major Federally funded programs. This was determined from our examination of the auditor's working papers, discussions with the responsible auditor and a review of the recipient's records.

**MANAGEMENT COMMENTS**

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To: Peter Greene@IG.A.FA@AIDW  
Cc: Joseph B. Goodwin@DIR@PHNOM PENH  
James Stanford@FIN@BANGKOK, Thomas  
Stephens@RP@BANGKOK  
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Bcc:  
From: Antoinette Ferrara@PROJECTS@PHNOM PENH  
Subject: re: VVAF Audit Report  
Date: Friday, September 29, 1995 6:05:45 EDT  
Attach:  
Certify: N  
Forwarded by:

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Pete,

USAID/Cambodia has reviewed the VVAF draft audit report and agrees with the findings and recommendations.

Hope this helps. The evaluation team arrives on Sunday, so we'll look at some of the other issues then...

Regards,  
Toni



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**APPENDIX II**  
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**To:** Mr. Thomas F. O'Connor, IG/A/FA  
United States Agency for International Development (USAID)

**From:** Robert O. Muller, Executive Director  
Vietnam Veterans of America Foundation (VVAF)

**Subject:** Audit of Selected Costs Incurred in Connection  
with USAID Grant Number 442-0002-G-00-2375-00

**Date:** September 22, 1995

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Vietnam Veterans of America Foundation hereby submits its response and comments regarding the audit report referenced above.

VVAF has welcomed this audit as a way to clear the air about concerns that have been raised about the financial management of our Cambodian program. This process was also invaluable in affording us an opportunity to review VVAF's managerial procedures and operations and ultimately strengthen the management of not only the Cambodian program but all of our projects.

We would like to express our appreciation to the Inspector General's Office of USAID for the manner in which this audit was conducted. The auditors treated us with courtesy and consideration at all times, and we wish to express our thanks to them.

VVAF's Cambodian prosthetics and wheelchair program was the first major humanitarian program started by our organization. When we first went to Cambodia, we found the needs of the disabled population to be overwhelming and immediate. In an effort to meet the enormous demand for rehabilitative services, our project began to expand at a rapid pace. This growth intensified after VVAF received its grant (and subsequent additional grant monies) from USAID.

VVAF's program started during a time when the situation in Cambodia was very unstable. Cambodia is a seriously debilitated, war-torn country that continues to experience civil fighting in many provinces. The United Nations began the process of trying to organize and then supervise general elections during approximately the same time that we started our prosthetics project. Because of this unique situation, exceptional latitudes were afforded to VVAF (and other groups operating in Cambodia) by USAID in allowing us the flexibility to modify our project in order to adjust to what was a constantly changing political, economic, and social situation.

We would also like to note that a concern was raised early in this process that VVAF's cost sharing requirement would not be met. As is set forth more fully below, VVAF will meet its full commitment to the cost sharing requirement.

Finally, we would like to emphasize that VVAF's rehabilitation center will be sustained beyond

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the life of this grant. USAID's grant money has enabled VVAF to provide over 4,000 artificial limbs, 2,000 wheelchairs, and 600 orthoses to disabled Cambodians, in addition to therapeutic and other services to our patients. More significantly, we have trained over 50 Cambodians in the art of manufacturing such devices. Finally, and most importantly, we ensured the sustainability of this project by establishing a fully outfitted, functional and comprehensive rehabilitation clinic at Kien Khleang which will enable Cambodians to continue to manufacture and fit therapeutic devices. VVAF is fully committed to the continued development and preservation of this program and confident in its ability to serve Cambodia in the future.

## **GENERAL COMMENTS**

### **Regarding Questioned Costs of \$ 138,598**

We acknowledge that the audit report identifies \$ 138,598 of the \$4.5 million grant (3% of the total grant) as costs that must be determined to be allowable (or not) by the grant officer. It should be noted that \$ 34,000 of the questioned costs have already been reversed (as was mentioned in the report).

Of the other questioned costs, the majority concern severance and contract termination payments. As is elaborated upon later in this response, VVAF's severance and contract termination payments were reasonable and followed long-standing VVAF procedures. We believe that these payments will be allowed during our discussions with the grant officer. Of the other amounts questioned, we set forth responses to each below.

VVAF is confident that all questioned costs will be determined to be allowable by the grant officer after we have had an opportunity to review the circumstances of these costs with him.

### **Regarding Internal Controls and Procedures**

We agree with the audit conclusion that internal controls in certain areas needed to be strengthened. Accordingly, we conducted a thorough review of our existing policies and procedures, resulting in the generation of a more comprehensive set of policies. The revised policies, which have been adopted by VVAF, include clear guidelines regarding severance payments, corporate credit card use, and other areas referred to by the auditors. These revised policies have been forwarded to the USAID grant officer for review.

### **Regarding Cost Sharing Requirement**

**Audit comments:** The report states that VVAF was behind schedule in its cost sharing contributions as of January 31, 1995.

**VVAF response:** VVAF will meet or exceed all of its matching cost sharing requirement within 60 days of the date of this report. As of September 30, 1995, we estimate that VVAF's matching contribution will have reached approximately \$ 1,439,000 under grant No. 442-0002-G-00-2375-00, approximately 89 % of our obligation. The remaining amount will be fulfilled within the subsequent 60 days. With reference to our other USAID grant, No. 410-0002-G-00-4542-00 (the

Vietnam orthotics clinic program), we estimate that as of September 30, 1995 our matching contribution will have reached approximately \$ 217,000, approximately 50 % of our obligation. We estimate that federal expenses will approximate the same percentage of the total at this point. Therefore, our match in this grant will be on schedule.

**Regarding 100% Line Item Flexibility**

The audit report states that the 100% budget line item flexibility, which was provided for in USAID's original grant to VVAF, was repealed in a subsequent amendment to the grant. This statement implies VVAF no longer had 100% budget line item flexibility after the amendment.

VVAF strongly disagrees with this finding on two grounds. First, the grant amendment did not state that the 100% budget line item flexibility was repealed. Rather, it replaced the line item flexibility with the Standard Provision of the Grant entitled "Revision of Grant Budget", which sets forth in more detail the circumstances under which a grantee must request and receive prior approval for shifting cost line items. The "Revision of Grant Budget" does not preclude the grantee from using 100% line item flexibility as regards direct costs. In fact, it sets forth only certain specific instances in which a grantee must receive prior approval for shifting costs (for example, between indirect costs and direct costs, or from training to another cost item). However, it does not require approval for cost shifting among other budget items. Therefore there is nothing in this revision that precluded VVAF from using line item flexibility.

Second, VVAF officials were told on numerous occasions after January 1994 by USAID officials that Cambodia was considered to be a country in transition, and therefore NGOs were being given great latitude in shifting costs between line items, and that these organizations did have 100% line item flexibility. These representations were made by USAID officials to VVAF officials in response to specific questions about line item flexibility.

In conclusion, VVAF maintains that it had both the legal authority as well as specific verbal permission to continue to use 100% budget line item flexibility (with the exceptions set forth in the Standard Provision) through the entire life of this grant.

**SPECIFIC COMMENTS**

**Severance and Contract Termination Payments**

**Audit comments:** Amounts are questioned in this area because of the lack of specific written policies and because they do not appear to be reasonable.

**VVAF response:** It is a common and generally accepted business practice, and has been the customary practice of VVAF, to negotiate severance payments with terminated employees on a case by case basis. Each of the payments referred to were made pursuant to individual negotiations, as has been the routine procedure for dealing with separated employees. In addition, it has always been the policy of VVAF to give at least one month's severance pay to all terminated employees.

We maintain that the policy and payments made were reasonable under the circumstances, as defined by OMB Circular A-122, and as referenced in the audit report. We will be presenting the justification for individual payments to the grant officer for his determination.

Our revised policies and procedures set forth in writing VVAF's policies surrounding employee termination and severance.

### **Credit Card Usage**

**Audit comments:** Specific allegations were raised that VVAF was charging personal charges from the corporate credit card to the USAID grant. VVAF denied these allegations, and the audit has confirmed that no personal charges were ever allocated to the grant. It was recommended that VVAF discontinue its policy of allowing employees to use the corporate credit card for personal expenses.

**VVAF comments:** We have revised our policies, as recommended, to prohibit the use of corporate credit card for personal reasons.

### **Building Construction**

#### **1) Identification of construction expenditures:**

**Audit comments:** The report states that it was not until the time of the audit that the exact total of the costs of constructing the building were identified. The comments go on to cite the mandatory provision regarding recipient's accounting system.

**VVAF Response:** It is our position that VVAF's accounting system satisfies OMB requirements regarding the identification, segregation, accumulation, and reporting of all costs, including the costs of construction. We were able to successfully determine the exact cost after a simple analysis of several general ledger accounts. We also would like to point out that the approximate costs of the construction, upon which management decisions were made, were known at all times. Therefore, in our opinion, this requirement was satisfied.

However, we agree with the auditors that separate general ledger accounts should be established at the outset of construction activities to facilitate the calculation of total costs. Accordingly, this will be done with any future construction costs, as it was done approximately 25 % into the project referred to in the report.

#### **2) Notification to USAID of revised building cost:**

**Audit comments:** The report states USAID was not notified of the revised cost of the building.

**VVAF response:** We have reviewed applicable grant requirements, including all amendments, and have concluded that we were not required to formally notify USAID or obtain approval for the increased cost of the building. We have verified that revisions of the grant budget in our grant were governed by the AID Handbook 13 Standard Provision entitled "Revision of Grant

Budget" which does not require notification to transfer the funds necessary among the direct cost budget categories involved. In addition, it is our position that USAID personnel were made aware of the fact that the building would cost more than originally planned by VVAF on-site management.

Regarding the size of the increase in costs, we wish to further emphasize a point brought out in the report. The \$ 105,000 amount that was specified for costs of construction had originally been provided for as rent. The amount was shifted during the final negotiations in the grant award process, after the total grant amount had been fixed, and prior to receiving actual bids on the project. Therefore, at the time this budget shift took place, the actual projected cost of the building had not been determined.

Bids were later solicited and received, at which time it was determined that the construction costs of the building would be over \$ 200,000. It was decided that amounts would be shifted from other direct cost lines, as allowed, to provide for the additional costs. As stated in the report, prior USAID approval was required for the construction, and was obtained.

### **3) Specific items of questioned costs (\$ 8,131)**

We will present documentation to the grant officer which we expect will resolve these items. We expect to clarify the points raised by the auditors.

### **4) Effective use of USAID funds as regards the building construction:**

We believe government funds were used effectively as regards the construction of the facility. Our understanding is that there is a renewed emphasis in the agency on results and the sustainability of USAID projects, a view that we share. We believe that the management decision to revise our original grant proposal to build a facility in lieu of renting resulted in a dramatic improvement in the posture of the project from the point of view of sustainability. This facility, which has been appraised at an amount approaching its cost, and which has been universally praised as being well-suited to its purposes, will be used by the Cambodian people for decades to come in continuing the work that is the subject of our grant, at no additional cost other than routine maintenance.

### **Travel**

**Audit comments:** \$ 11,268 in travel expenses were questioned on the basis of incomplete documentation.

**VVAF Response:** Although documentation was not fully complete in these instances, partial documentation exists for most of them. In addition, all questioned travel costs were for trips that were necessary, appropriate and relevant to grant activities. We will submit our reasoning and the supporting documentation to the grant officer for his determination.

**Unliquidated advances**

With regard to this area, we offer the following additional information:

- 1) Despite the failure of the employee to comply with all VVAF documentation requirements, as noted by the auditors, the withdrawals were concurrently recorded and signed for by the employee, and monitored by other VVAF officials. Such withdrawals were never charged to the grant.
- 2) The total debt of the employee referred to, which includes the unliquidated advances, has been satisfied in full.

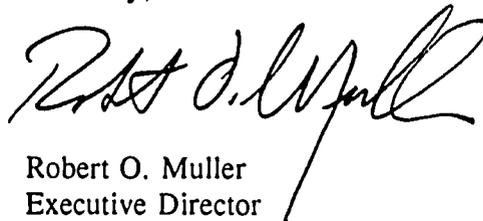
**Procurement**

Since the inception of the grant, all VVAF employees engaged in procurement activities have been instructed regarding VVAF and USAID procurement policies, including price analysis, and were aware of these policies, as evidenced by informal interviews conducted by the auditors. We agree, however, that the compliance with these requirements was sometimes not documented for the files. We have issued new directives regarding documentation, and will be verifying that they are being complied with.

In conclusion, we believe that the questioned costs identified in the audit report (with the exception of the \$34,000 which has already been reversed as noted) are reasonable and are properly allocable to the grant. We intend to submit our reasoning and supporting documentation to support our position when we meet with the grant officer. We acknowledge that certain procedures have been strengthened through the revision of our written policies and procedures, and we are satisfied that these will prevent these types of problems from occurring in the future.

We appreciate the comments and assistance provided by you and your staff in addressing these areas.

Sincerely,



Robert O. Muller  
Executive Director