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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Review of Selected Awards to MiraMed Institute

Report Number AUD/CG-05-23, March 2005

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Table of Contents

Section	Page
Summary	1
Background	1
Purpose, Scope, and Methodology	2
Review Results	4
Accountability for Federal Funds	4
Accounting System	4
Cost Allocation	5
Internal Control	6
Compliance	9
Lack of Timesheets	9
Timeliness of Financial Reporting	10
Other Matters	11
Recommendations	13
Abbreviations	14
Schedules	
1. Schedule of Claimed Costs – February 2003 to January 2004	15
2. Schedule of Claimed Costs – February 2004 to October 2004	17

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Summary

At the request of Department of State (Department) officials of the Bureaus of European and Eurasian Affairs and International Narcotics and Law Enforcement Affairs and the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, the Office of Inspector General (OIG) conducted a review of selected awards to the MiraMed Institute (MiraMed) for 2003 and 2004. MiraMed did not receive the awards directly from the Department, but through agreements with the International Organization for Migration, who acted as a passthrough entity.

The primary purpose of the review was to determine whether MiraMed could adequately account for federal funds and complied with applicable federal laws and regulations related to the terms and conditions of the agreements. Beyond gaining a general understanding of the program, OIG did not evaluate the effectiveness of the program.

OIG found a deficient accounting system, lack of a cost allocation policy, and inadequate internal controls over financial transactions. OIG also identified instances of noncompliance with the agreements and applicable government laws, regulations, and provisions for financial assistance awards. Specifically, OIG found that timesheets were not used and financial reporting was not timely. As a result, OIG identified questioned costs, totaling about \$282,825 out of the total \$663,786 claimed (or about 43 percent). Of this amount, OIG classified \$19,339 as unallowable and \$263,486 as unsupported.

As a result of the findings, OIG is recommending that the Department:

- withhold or at least restrict future funding until MiraMed has implemented adequate systems and controls to account for federal funds;
- ensure that MiraMed establishes and implements a double-entry accounting system that is compliant with generally accepted accounting principles;
- ensure that MiraMed establishes and implements written policies and procedures governing allocation of costs;
- ensure that MiraMed prepares timesheets and submits financial reports in a timely manner; and
- make a determination regarding the questioned costs and, if necessary, require reimbursement for any costs disallowed.

Background

MiraMed is a nonprofit organization classified as tax-exempt in accordance with section 501(c) (3) of the Internal Revenue Code. The organization is also registered in Russia as a representative office of a nonprofit charity. MiraMed provides programs of social protection, education, training, and self-sufficiency and advocacy for orphans, disadvantaged children, and young adults in Russia; provides direct humanitarian aid, medicine, food, and supplies to orphanages in need; and educates and advocates for the elimination of sexual trafficking of girls and young women from Russia and neighboring countries and assists in their rescue, return, and rehabilitation. In the United States, MiraMed maintains an office in Seattle; however, there are

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no full-time employees at this location. In Russia, MiraMed maintains an office and full-time staff in Moscow.

In January 2003, the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons (G/TIP) provided funds to the International Organization for Migration (IOM) specifically to fund MiraMed's antitrafficking project (the TIP/IOM program) in Russia. The funding was to assist MiraMed in establishing a center in Moscow, the Trafficking Victims Assistance Center. MiraMed was to provide seed grants to regional safe houses. In addition, MiraMed was to develop an assistance protocol and resource guide for victims.

Funding was given to IOM by way of a "letter of offer" from the Bureau of International Narcotics and Law Enforcement Affairs (INL), which in turn was accepted by IOM in writing.¹ IOM and MiraMed signed agreements detailing the oversight role to be played by IOM, and MiraMed's responsibilities. Subsequently, the project was extended and additional funding was provided to MiraMed, again through IOM, in December 2003 and in May 2004. The purpose of the additional funding was to assist in increasing the capacity to prevent and respond to trafficking in persons, assist victims, and gather information that would be useful to law enforcement. At the time of OIG's review, the Department had awarded about \$1 million.

Representatives from G/TIP, INL, the U.S. Agency for International Development (USAID), IOM, and Embassy Moscow conducted a site visit in September 2004 and noted several concerns, including MiraMed's accounting system, internal controls, and certain programmatic elements. The Department was reviewing continuation of the funding at the time OIG was preparing this report.

Purpose, Scope, and Methodology

OIG's primary purpose was to determine whether MiraMed adequately accounted for federal funds, and complied with applicable federal laws and regulations related to the terms and conditions of the agreement. Beyond gaining a general understanding of the program, OIG did not evaluate the effectiveness of the program. Additionally, OIG did not evaluate the appropriateness of the award funding mechanisms.

OIG examined MiraMed's policies and practices in place at the time of OIG's fieldwork during November and December 2004. The scope included three TIP/IOM program awards to MiraMed as of November 2004, which totaled about \$860,000, excluding IOM overhead of approximately \$130,000. (See Table 1.) OIG did not review the IOM overhead amount beyond verifying the calculations and intended use of such funds.

¹ Although G/TIP is responsible for the program, INL handled the award and transfer of funds.

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Table 1: Department of State Funding to MiraMed

Date of Award	To MiraMed	To IOM	Total
January 2003	\$300,000	\$ 54,037	\$354,037
December 2003 ^a	166,965	22,767	189,732
May 2004	393,093	53,604	446,697
Total	\$860,058	\$130,408	\$990,466

^a Although this amount was awarded in December 2003, the period of performance did not begin until 2004.
Source: Agreements between the Department and IOM and between IOM and MiraMed.

To obtain information on the accountability and allowability of costs, OIG reviewed MiraMed’s financial records, supporting documentation, audited financial statements and associated management letters for the years ended December 31, 2002 and 2003, as well as the internal control structure. However, OIG’s consideration of MiraMed’s internal control structure and tests designed as a result of that consideration would not necessarily disclose all matters that might be reportable conditions or all questionable financial transactions. OIG obtained such data as copies of the agreements, payment records, and financial and program reports. OIG met with MiraMed representatives in Seattle and Moscow, including officials from the accounting firms in Seattle and Moscow that conducted prior audits of MiraMed. OIG also met with officials from IOM. Additionally, OIG met with officials from the Department, including members of G/TIP, INL, the Bureau of European and Eurasian Affairs, and Embassy Moscow, as well as representatives of USAID.

Owing to differences in how MiraMed accounted for funds in 2003 and 2004, OIG used multiple documents to test expenditures, including spreadsheets developed by MiraMed and IOM, summary financial reports submitted to IOM, and monthly expense reports as available. However, due to errors noted in MiraMed’s documents, OIG placed limited reliance on this information.

To determine compliance with the criteria applicable to nonprofit organizations, agreements, proposals, and budgets, OIG obtained information on systems, control procedures, records, and data. The letter of offer to IOM noted that “U.S. Government assistance is subject to all applicable U.S. laws and regulations governing the provision of that assistance....” Office of Management and Budget (OMB) circular A-110 defines “award,” which includes grants and other agreements, as “...financial assistance that provides support or stimulation to accomplish a public purpose.” Circular A-110 requires that

the provisions of the sections of this Circular shall be applied to recipients. Recipients shall apply the provisions of this Circular to subrecipients performing substantive work under grants and agreements that are passed through or awarded by the primary recipient.²

Therefore, OIG considered the provisions of the applicable OMB circulars in determining compliance.

² OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*

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OIG conducted this review in accordance with government auditing standards and included such procedures as considered necessary in the circumstances. OIG's Office of Audits, Contracts and Grants Division conducted fieldwork in Seattle in November 2004 and in Moscow in December 2004. OIG briefed MiraMed and Department officials. In preparing this report, OIG considered the comments received and incorporated them as appropriate.

Review Results

Accountability for Federal Funds

As structured at the time of OIG's review, MiraMed's financial system was not adequate to account for federal funds. OIG noted critical areas of concern including a deficient accounting system, lack of a cost allocation policy, and weak or inadequate internal controls.

Accounting System

MiraMed was unable to provide a consolidated general ledger that encompassed all activities (both U.S. and international) for the organization. This occurred because MiraMed was using different systems and methodologies to track financial information. In Seattle, MiraMed's accountant used QuickBooks, a commercially available, financial management software package. In Moscow, MiraMed used multiple methods.

To comply with Russian legal and taxation requirements, MiraMed used 1S, another software package. Unlike QuickBooks, however, 1S is not a Western-based, dual-entry accounting system. According to MiraMed, 1S does not meet generally accepted accounting principles and only records expenses and expense reconciliations and generates tax reports. In addition to 1S, MiraMed was tracking financial information using Excel, a spreadsheet software program. MiraMed told OIG that it intended to begin using QuickBooks in Moscow in January 2005. As a result, MiraMed's director of finance could not produce a general ledger and related journal reports. Instead, in response to a request for a general ledger, MiraMed gave OIG Excel spreadsheets that identified expenses, copies of summary sheets that it had submitted to IOM, and expense reports for some months.

In reviewing the monthly expense reports for February through October 2004, OIG noted numerous errors. For example, the subtotals did not always equal the sum of the items, nor did the totals equal the sum of the subtotals. The amounts shown in rubles did not always equal the amount shown for U.S. dollars. Nor could OIG reconcile all figures on the monthly expense reports to the IOM summary sheets. As a result, OIG placed limited reliance on the accuracy of the data.

MiraMed's independent auditors, in Russia, commented on accounting software in their management letter, dated May 20, 2004, which was prepared in conjunction with the examination of the financial statements of MiraMed's Moscow operations as of December 31, 2003. Specifically, the auditors reported that no accounting software was used during the period under audit. The auditor recommended that MiraMed use an accounting software package, which would make it easier to:

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- demonstrate to any inspecting authority that records are maintained and taxes paid are in accordance to applicable regulations;
- account for each program separately; and
- identify and correct any mistakes.

A double-entry bookkeeping system, whether automated or manual, is essential for effective and efficient financial accounting and reporting. At a minimum, a recipient's system should be able to:

- provide financial and performance reporting data;
- associate expenditures with the specific funding source (i.e., the actual award or grant, not simply the awarding organization, agency, or federal government);
- provide a clear audit trail; and
- manage cash effectively.

After OIG's Moscow site visit, MiraMed advised OIG that it had begun capturing 2004 data in QuickBooks as of June 2004. However, this was not clear from the discussions in Russia, and no financial data from the system were provided. According to the MiraMed officials, the data entry in the QuickBooks for Moscow for 2004 should be completed by mid-March 2005.

Cost Allocation

In 2003 and 2004, MiraMed received funding through awards from multiple sources for various projects. For example, MiraMed received funding from private organizations including the World Childhood Foundation and Bristol-Myers Squibb Health Foundation, and from federal agencies, including the Department and USAID. However, it had no written policies and procedures for allocating costs of expenses or items that benefited more than one program. The director explained that the organization had developed projected allocations for 2004 but that this information was based on budget estimates. MiraMed was a small organization and did not have a director of finance in Moscow until 2004. Before then, program staff was responsible for preparing the budgets and financial reports.

For example, the lease for the space that MiraMed used as its primary office in Moscow indicated the rent was \$1,500 per month. OIG found that MiraMed charged the full amount to the Department's TIP/IOM program. However, the staff located in this office carried out duties and responsibilities for other programs as well. OIG discussed this issue with MiraMed officials and asked them to identify a percentage of space that should have been allocated to the TIP/IOM program, which MiraMed officials estimated at 75 percent.

Conversely, OIG found that MiraMed did not charge costs related to the Seattle office to the TIP/IOM program, even though this office handled payroll transactions for the non-Russian staff, which it did charge to the TIP/IOM program. Further, MiraMed was inconsistent when allocating salaries. Salaries for some staff whose duties included multiple programs were allocated among them while others were not. For example, the program director's salary was split between programs, but the finance director's salary was not split even though the individual

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handled the financial duties for programs carried out in Russia by MiraMed, both federal and nonfederal.

The cost principles applicable for awards to nonprofit organizations state that in order to be allowable, a cost must be allocable.³ In addition, the administrative guidance applicable to awards to nonprofits requires a recipient to have written procedures for determining the reasonableness, allocability, and allowability of costs.⁴ Because the rent amount was not allocated, TIP/IOM paid more than its fair share. OIG questioned the overcharges as unallowable. (See Schedules 1 and 2.) Rent, however, was not the only common cost that benefited more than one program. Other costs, such as equipment and supplies and utilities should also have been allocated among benefiting programs. Lacking a basis to calculate the amount that should have been distributed among the benefiting programs, OIG did not question amounts in these areas on this basis.⁵

Any organization incurs costs that are necessary to operate the entity but are not specifically or practically identifiable with a particular project or cost objective. Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of costs that may be classified as indirect in all situations.⁶ In addition to developing a methodology for allocating direct costs among all funding sources for a program, MiraMed should develop and document a methodology to ensure that indirect costs are properly allocated as well. This could include the development of an indirect cost rate agreement.

Internal Control

OIG noted several areas in which MiraMed could improve its system of internal control. Internal control is defined as a process established and maintained by an entity's management and other personnel, designed to provide reasonable assurance that:

- transactions are properly recorded and accounted for to:
 - permit preparation of reliable financial statements and federal reports;
 - maintain accountability over assets; and
 - demonstrate compliance with laws, regulations, and other requirements;
- transactions are executed in compliance with laws, regulations, and provisions of awards; and

³ To be allocable to an award, the costs should be incurred specifically for the award, benefit the award and be distributed in reasonable proportion to the benefits received. (OMB Circular A-122, *Cost Principles for Non-Profit Organizations*)

⁴ OMB circular A-110.

⁵ Any amounts shown in Schedule 1 or 2 in these areas are questioned for another reason, not on the basis of a lack of allocability. For example, OIG is questioning salary and related benefits because adequate supporting documentation was lacking.

⁶ Typical indirect costs include general and administrative salaries and wages (and associated benefits); facility occupancy costs (rent, utilities, insurance, taxes, security, maintenance and upkeep); general furniture and equipment rent or lease charges, plus maintenance and repair costs; depreciation; office supplies; legal and auditing charges; and other expenses of managing and conducting a business.

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- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Specifically, OIG identified concerns involving separation of duties, petty cash, and written policies and procedures.

Separation of Duties

MiraMed did not have adequate separation of duties within its organizational structure. OIG noted that the responsibility for receiving, recording, and reconciling financial transactions in Moscow was assigned to one individual. For example, this individual prepared and processed wire transfers and subsequently reconciled such transfers. This same individual was responsible for the receipt and disbursement of cash.

Sound internal control practices require that key duties and responsibilities in processing, recording, and reviewing transactions be separated among people. Although it is not always feasible to have complete separation of incompatible duties in an entity with a limited number of employees, duties and responsibilities should be separated to the greatest extent possible to reduce the risk of error, waste, or wrongful acts.

Petty Cash

MiraMed maintained a significant amount of cash in the Moscow office to cover certain expenses. At the time of OIG's review, MiraMed's cash box contained currency (dollars, rubles, and other foreign denominations) valued at more than \$7,500. Although MiraMed had established certain policies and controls, OIG noted weaknesses in the controls over such funds. There was no established monetary threshold on the sum to be maintained. Lacking such a figure, OIG was unable to reconcile the amount contained in the cash box and could not determine if it was the proper amount.

In addition, although access to the cash box was limited, the individual with primary responsibility for receipt, disbursement, and reconciliation, was also responsible for recording the financial transactions. As discussed previously, separation of duties in a small organization can be problematic; however, the duties of reconciling the fund and conducting periodic, unannounced cash counts could be assigned to an individual not involved in the accounting duties of the organization. OIG discussed this issue with MiraMed officials. They agreed that this presented a potential risk and suggested a method by which they could reduce such risk.

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Policies and Procedures

Although MiraMed had a policies and procedures manual,⁷ OIG noted areas that should be strengthened, were not in effect at the time of OIG's review, or did not exist. For example, although the manual does address some financial issues, the guidance provided is minimal. The manual does not provide specific directions for recording and processing financial information. Specific issues that OIG discussed with MiraMed that were not addressed in the manual included annotation of receipts and documenting the receipt of cash.

MiraMed did not have accounting policies or procedures to require paid invoices and receipts to be canceled and marked to show the program and amount charged. Such a control would facilitate an audit trail and assist in ensuring that an invoice or receipt was properly recorded. Nor did MiraMed always adequately document on the invoice or receipt any allocation of the expense. For example, an invoice for insurance for the non-Russian staff should have been marked to show the portion allocable to the TIP/IOM program and the portion allocable to another funding source.

At the time of OIG's review, MiraMed was not using prenumbered forms to track the receipt of cash. OIG discussed with MiraMed officials options that would increase the controls over cash. MiraMed officials agreed with OIG's suggestions and noted their intention to change the procedures in March 2005.

MiraMed should consider developing a separate manual to document accounting procedures. Procedures should be sufficiently detailed to allow an employee unfamiliar with the process to perform the duties if necessary. When followed, written policies and procedures serve to ensure uniformity in practices and consistency in treatment of costs. Accounting procedures should cover the flow of a transaction from inception through consummation.

Conclusions

Given the conditions noted, OIG concluded that there are significant financial control weaknesses within the MiraMed Institute. Such weaknesses place federal funds at risk. As a result, OIG makes the following recommendations.

Recommendation 1: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, ensure that the MiraMed Institute establishes and implements, in Moscow, a double-entry accounting system that is compliant with generally accepted accounting principles.

Recommendation 2: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in

⁷ MiraMed revised the policy manual in October 2004.

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Persons, ensure that the MiraMed Institute establishes and implements written policies and procedures governing allocation of costs, both direct and indirect, to benefiting programs.

Recommendation 3: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, withhold or at least restrict future funding to MiraMed Institute until MiraMed has implemented adequate systems and controls to account for federal funds.

Compliance

OIG identified instances of noncompliance with the agreements and applicable government laws, regulations, and provisions for financial assistance awards. Specifically, OIG found that timesheets were not used and financial reporting was not timely. In addition, through testing of expenditures, OIG identified questioned costs, which are discussed in the notes to Schedules 1 and 2.

Lack of Timesheets

During the period under review, MiraMed did not require its staff to complete timesheets. MiraMed was a small organization, with limited staff. A MiraMed official indicated that MiraMed was developing its written personnel policies. The cost principles applicable to nonprofit organizations require that the distribution of wages be supported by personnel activity reports. These reports must meet the following standards. They must:

- provide an after-the-fact determination of the actual activity of each employee (budget estimates; i.e., estimates determined before the services are performed do not qualify as support for the charges to awards);
- account for the total activity for which employees are compensated;
- be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee; and
- be prepared at least monthly and coincide with one or more pay periods.

Without timesheets, OIG could not determine the accuracy or the allocability of the salaries and related benefits charged to the TIP/IOM program. As a result, OIG questioned, as unsupported costs, the salary and associated benefits. (See the notes to Schedules 1 and 2.)

In its policies and procedures manual, MiraMed noted its intention to require employees to provide their supervisor with a certification of time worked each month. Accordingly, staff would fill in weekly timesheets, beginning in January 2005. In December 2004, MiraMed provided OIG with a copy of the proposed timesheet,⁸ but because it was not in use, OIG could not determine whether MiraMed will use the document effectively to capture data in sufficient

⁸ The sample provided was a monthly, not a weekly, timesheet.

detail to allow the costs associated with an employee to be allocated properly to all programs on which he or she worked.

Timeliness of Financial Reporting

OIG found that MiraMed failed to provide financial data to IOM in a timely manner for expenses. The agreement between IOM and MiraMed required MiraMed to provide IOM with monthly reports on the use of the funds, including supporting documentation for all expenditures made.⁹ According to IOM, in September 2004, MiraMed sent, a “ 6 month pile-up of financial documents.” However, IOM could not use the data as submitted because it found “many irregularities” in its initial review. For example, the totals noted on some sheets did not equal the sum of the receipts submitted.

IOM requested that MiraMed resubmit the data when corrected. MiraMed did not resubmit the information until early December 2004. At the time of OIG’s site visit, IOM had just received the resubmission and was reviewing and processing the data. Although it had not completed its review, IOM did inform OIG that it had detected errors in the subsequent submission. The lack of timely financial data hindered IOM’s ability to provide oversight.

According to MiraMed officials, the delay in submitting the information occurred, in part, because of miscommunication between MiraMed and IOM. The official explained that earlier in the year, IOM had advised MiraMed, orally, to withhold submissions temporarily. The official was unaware that MiraMed had not resumed submissions. The official commented that there have been continuing problems between MiraMed and IOM regarding financial reports and documentation. Subsequent to OIG’s fieldwork in Moscow, the official also told OIG that MiraMed and IOM staff met in January 2005 to resolve outstanding issues related to the 2004 award.

In a March 2005 email, IOM acknowledged hearing the reason for the delay given by the MiraMed official, but discounted it as “unlikely.” Further, the IOM official informed OIG that MiraMed had not submitted financial data for any month beyond October 2004. As a result, there remain unresolved questions and discrepancies and no single month (for 2004) has been closed in IOM records.

Conclusions

Compliance with agreements and pertinent regulations provide the Department with some assurance that the program was carried out as proposed and that federal funds were used for their intended purpose. Considering the items questioned during this review, OIG makes the following recommendations.

⁹ IOM included language in the agreement that financial data should be submitted in as timely a manner as possible to take into account the difficulties of gathering information from the subgrantees.

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Recommendation 4: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, require MiraMed to:

- Prepare personnel activity reports (timesheets) for all staff members whose compensation is charged, in whole or in part, to federal awards. The staff must indicate the time worked on each program, and supervisors should approve such reports. The reports should be sufficiently detailed to allow payroll allocations to be made to federal programs based on actual hours worked and not estimates.
- Establish a system to ensure that all financial reports are submitted in a timely manner.

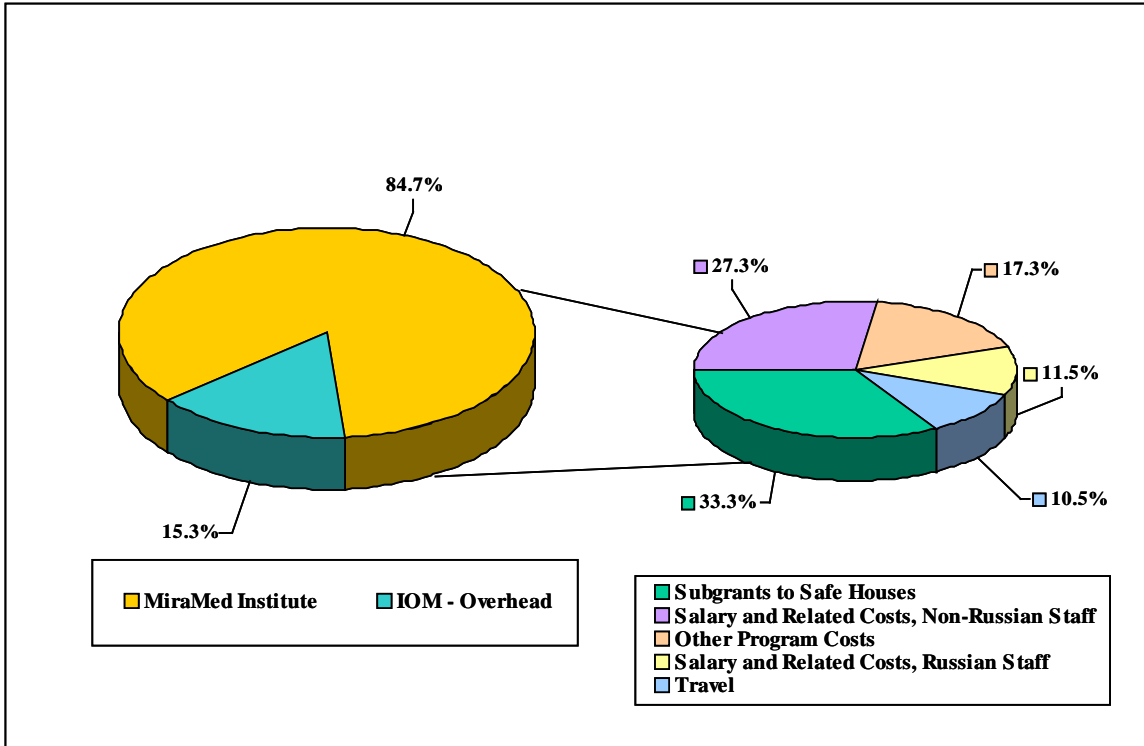
Recommendation 5: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs issue a final determination on the allowance or disallowance of the questioned costs. If disallowed, the responsible official should ensure that MiraMed provides reimbursement to the Department.

Other Matters

The flow of federal funds through multiple organizational layers increases administrative costs, thereby decreasing the amount available for the program activities. As discussed, the funding for this program flowed through IOM to MiraMed. IOM retained a portion of the funding to cover overhead costs. From the initial funding in January 2003, IOM received about 15 percent, or \$54,037. In the subsequent awards, IOM received 12 percent of the funding, which totaled \$76,371. MiraMed also incurred administrative costs in turn.

The project budget was not structured so as to clearly identify program versus administrative costs, therefore OIG could not quantify the total amount spent for administrative, or overhead costs. However, OIG could identify the portion that MiraMed provided to organizations operating safe houses and shelters. As shown in Figure 1, only 33 percent (or \$100,000) of the net amount MiraMed received in 2003 was subgranted to the safe houses or shelters. This represents only 28 percent of the total amount of \$354,037 the Department actually provided in 2003.

Figure 1: - 2003 Funding for TIP/IOM Program



Source: Agreements between MiraMed and IOM and financial data from the MiraMed Institute.

At the time of OIG’s review, the period of performance for the 2004 funding was not complete. However, OIG noted that, as of October 2004, MiraMed had disbursed funding through subgrants to safe houses and shelters totaling about \$118,000, or 21 percent of the funding awarded to MiraMed. To maximize the amount of funds available for program activities, the Department should consider alternative methods to more effectively provide such funding, including direct grants or awards.

Recommendations

Recommendation 1: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, ensure that the MiraMed Institute establishes and implements, in Moscow, a double-entry accounting system that is compliant with generally accepted accounting principles.

Recommendation 2: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, ensure that the MiraMed Institute establishes and implements written policies and procedures governing allocation of costs, both direct and indirect, to benefiting programs.

Recommendation 3: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, withhold or at least restrict future funding to MiraMed Institute until MiraMed has implemented adequate systems and controls to account for federal funds.

Recommendation 4: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs, in coordination with the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, require MiraMed to:

- Prepare personnel activity reports (timesheets) for all staff members whose compensation is charged, in whole or in part, to federal awards. The staff must indicate the time worked on each program, and supervisors should approve such reports. The reports should be sufficiently detailed to allow payroll allocations to be made to federal programs based on actual hours worked and not estimates.
- Establish a system to ensure that all financial reports are submitted in a timely manner.

Recommendation 5: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs issue a final determination on the allowance or disallowance of the questioned costs. If disallowed, the responsible official should ensure that MiraMed provides reimbursement to the Department.

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Abbreviations

EUR	Bureau of European and Eurasian Affairs
G/TIP	Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons
INL	Bureau of International Narcotics and Law Enforcement Affairs
IOM	International Organization for Migration
OMB	Office of Management and Budget
TIP	Trafficking in persons
USAID	U.S. Agency for International Development

**MiraMed Institute
Schedule of Claimed Costs
Period of Performance February 1, 2003 - January 31, 2004**

	Claimed Costs	Questioned Costs			Notes
		Unauthorized/ Unallowable	Unsupported	Total	
U.S. Salaries and Related Costs	\$ 81,800	\$ -	\$ 81,800	\$ 81,800	1
Russian Salaries and Related Costs	34,600	-	34,600	34,600	1
Other Direct Costs					
Consultants and Subcontract	11,000	-	-	-	
Moscow Training and Protocol Drafting	8,200	3,251	-	3,251	2
Travel Costs	31,638	5,955	-	5,955	3
Other Costs	32,762	4,832	-	4,832	4
(Rent, Communications, Services, Office Supplies, Office Equipment and Furniture)					
Subgrants for Safe Houses	100,000	555	-	555	5
Total	\$ 300,000	\$ 14,593	\$ 116,400	\$ 130,993	

Source: The MiraMed Institute

Notes:

1. Salaries and Related Costs

OIG classified \$116,400 (\$81,800 for American Expats and \$34,600 for Russians) for salaries and related costs as unsupported because MiraMed did not prepare and maintain timesheets. The cost principles applicable for awards to nonprofit organizations require that reports reflecting the distribution of activity of each employee be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

2. Moscow Training and Protocol Drafting

OIG questioned \$3,251 as unallowable the difference between costs of \$5,000 charged to TIP/IOM for printed program materials and costs of \$1,749 reported by MiraMed Institute as incurred.

3. Travel Costs

OIG questioned \$5,955 claimed as travel costs as follows:

- \$710 as unallowable for travel costs for trips taken to Murmansk and Kazan in November 2002, before the funding period of the award. The cost principles applicable for awards to nonprofit organizations state that where a funding period is stated, a recipient may charge allowable costs incurred during the funding period.
- \$1,583 as unallowable travel costs to the United States that supporting documentation indicates should have been charged to a matching program. The cost principles applicable for awards to non-profit organizations state that in order to be allowable, a cost must be allocable.
- \$56 as unallowable costs claimed as travel costs for promotion items (“souvenirs”) to conference attendees. The cost principles related to nonprofit organizations state that promotional items such as souvenirs are unallowable expenses.
- \$3,606 as unallowable the difference between costs of \$4,799 charged to TIP/IOM for site visits to Kazan, Petrozavodsk, and Nizhny Novgorod and costs of \$1,193 reported by MiraMed Institute as incurred.

4. Other Costs

OIG questioned \$4,832 claimed as direct costs as follows:

- \$4,500 as unallowable for rent for the representational office in Moscow. Because functions and activities other than the TIP/IOM program occurred in this space as well, the cost should have been allocated to all benefiting programs. Based on estimates provided by MiraMed officials, OIG allowed 75 percent of the monthly rental fee.
- \$332 as unallowable for a prepayment of communications costs for services for the month after the funding period of the award had expired. As discussed, the cost principles applicable for awards to nonprofit organizations state that where a funding period is stated, a recipient may only charge allowable costs incurred during the funding period.

5. Subgrants for Safe Houses

OIG questioned \$555 claimed for subgrants for safe houses as follows:

- \$71 as unallowable for the difference between costs of \$20,000 charged to TIP/IOM for a subgrant to the Karelia Center for Gender Studies and the \$19,929 transferred to the safe house, as reported by MiraMed Institute.
- \$484 as unallowable for the difference between costs of \$20,000 charged to TIP/IOM for subgrants to the Road of Light and the \$19,516 transferred to the safe house, as reported by MiraMed Institute.

**MiraMed Institute
Schedule of Claimed Costs
Period of Performance: February 1, 2004 - January 31, 2005
(Costs Claimed as of October 2004)**

	<u>Claimed Costs</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
		<u>Unauthorized/ Unallowable</u>	<u>Unsupported</u>		
U.S. Salaries and Related Costs	\$ 102,591	\$ -	\$ 102,591	\$ 102,591	1
Russian Salaries and Related Costs	43,193	-	43,193	43,193	1
Other Direct Costs					
Rent and Utilities	32,336	3,375	-	3,375	2
Communications	14,728	-	292	292	3
Services	17,215	190	1,009	1,200	4
Furniture and Equipment	8,768	-	-	-	
Supplies	3,728	71	-	71	5
Site Visits (Travel, Per Diem, etc.)	18,383	1,110	-	1,110	6
Printing	432	-	-	-	
Victim Direct Assistance	457	-	-	-	
Call Center	3,802	-	-	-	
Subgrants for Safe Houses	118,154	-	-	-	
Total	\$ 363,786	\$ 4,746	\$ 147,086	\$ 151,832	

Source: Claimed costs calculated from Consolidated Summary Sheets for MiraMed and Angel Coalition Moscow.

Notes:

1. Salaries and Related Costs

OIG classified \$145,784 (\$102,591 for American Expats and \$43,193 for Russians) for salaries as unsupported because MiraMed did not prepare and maintain timesheets. Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

2. Rent and Utilities

OIG questioned as unallowable \$3,375 for rent of the representational office in Moscow. Because functions and activities other than the TIP/IOM program occurred in this space as well, the cost should have been allocated to all benefiting programs. Based on estimates provided by MiraMed officials, OIG allowed 75 percent of the monthly rental fee.

3. Communications

OIG classified \$292 as unsupported owing to a lack of adequate documentation. To be allowable, a cost must be adequately documented.

4. Services

OIG classified \$1,009 as unsupported owing to a lack of adequate documentation. To be allowable, a cost must be adequately documented.

OIG questioned as unallowable \$190 for costs related to providing medical services to the staff. The invoice in question covered charges relating to providing immunizations to the staff. Because staff unrelated to the TIP/IOM program also received the immunizations, the amount of the invoice should have been allocated accordingly.

5. Supplies

OIG questioned as unallowable \$71, the difference between the amount noted on the expense report and the supporting documentation.

6. Travel

OIG questioned as unallowable \$1,110 for costs related to travel. According to MiraMed officials, two trips (to Helsinki and Stockholm) should not have been included as a TIP/IOM expense, but instead charged to a matching program.

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