

USAID

OFFICE OF INSPECTOR GENERAL

Indirect Costs Charged by the Cooperative for Assistance and Relief Everywhere, Inc. to USAID Internal Transport, Storage and Handling Awards

Report No. 0-000-01-011-F

August 31, 2001



**U.S. Agency for International Development
Washington, D.C.**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

FOR: BHR/FFP, William T. Oliver, Director

FROM: IG/A/FA, Alvin A. Brown, Director

SUBJECT: Indirect Costs Charged by the Cooperative for Assistance and Relief Everywhere, Inc. to USAID Internal Transport, Storage and Handling Awards, Report Number 0-000-01-011-F

The attached report summarizes our review of the allocability of indirect costs associated with USAID awards to the Cooperative for Assistance and Relief Everywhere, Inc., (CARE USA) for the internal transport, storage and handling (ITSH) of agricultural commodities. Our review was performed to respond to the concerns of the Bureau for Humanitarian Response, Office of Food for Peace (FFP) that CARE USA was charging indirect costs to its ITSH awards in violation of regulations governing ITSH awards. Your comments are included in their entirety in Appendix II.

This report contains recommendations that the Director, FFP should:

1. Resolve the \$62,096 of costs questioned in this report.
2. Work with the USAID Office of Procurement to ensure that all future negotiated indirect cost rate agreements specifically state that indirect costs are not allocable to ITSH awards.
3. Inform officials from CARE USA that future audit costs associated with ITSH awards can only be charged in accordance with existing ITSH guidelines.

Based on your comments, the Office of Food for Peace concurs with the recommendations made in this report. Please notify the Office of Management Planning and Innovation (M/MPI) when final actions on these recommendations are completed, and request closure.

We appreciate the courtesies extended to us during our review. Please contact us if you wish to discuss these comments or if you have any other questions concerning this report.

Attachment (as stated)

cc: M/OP/PS/OCC, Mr. Steven Tashjian

**Table of
Contents**

Summary of Results	4
Background	4
Objectives	4
Findings	5
Recommendations	6
Management Comments and Our Evaluation	7
Appendix I - Scope and Methodology	8
Appendix II – Management Comments	9

Summary of Results

The Cooperative for Assistance and Relief Everywhere, Inc. (CARE USA) charged indirect costs to internal transport, storage and handling (ITSH) awards from the U. S. Agency for International Development (USAID) from its fiscal year 1995 through its fiscal year 1998 in violation of ITSH award regulations. The charges were limited to an allocation of OMB Circular A-133 audit costs incurred by CARE USA, and represented only a portion of the overall negotiated indirect cost rate agreement between CARE USA and USAID. By receiving even a partial reimbursement of indirect costs related to ITSH grants, CARE USA was dismissive of ITSH program requirements issued by the Bureau for Humanitarian Response, Office of Food for Peace (FFP).

Background

CARE USA expended approximately \$15 million in ITSH grants awarded by FFP, from its fiscal year 1995 through its fiscal year 1999. The USAID Office of Procurement approves the indirect cost rate for CARE USA.

CARE USA receives an annual audit performed by a non-Federal auditor in accordance with OMB Circular A-133 that, among other things, assesses CARE USA's system for ensuring that its expenditures of Federal awards are allowable and that its indirect costs are allocable. PricewaterhouseCoopers LLP performed an audit of CARE USA in accordance with OMB Circular A-133 for fiscal year 1999.

During July 2000, FFP officials expressed concern to the Office of Inspector General that CARE USA had charged indirect costs to ITSH awards from USAID, in violation of ITSH program requirements issued by FFP. FFP officials became aware of this situation through conversations with CARE USA program officials. As a result, an FFP program official sent an April 26, 1999, letter to CARE USA stating that USAID prohibits the allocation of indirect costs, including those for audit costs, to USAID ITSH awards.

Objectives

Our review addressed the following question:

1. Did the Cooperative for Assistance and Relief Everywhere, Inc., charge indirect costs to its internal transport, storage and handling awards from USAID?

We did not review statutes governing indirect costs over ITSH grants, or the determinations made by FFP concerning the allocability of such costs. We

instead relied on information from FFP indicating that indirect costs are not included in ITSH line item budgets, leaving CARE USA with no basis for charging such costs.

Findings

1. Did the Cooperative for Assistance and Relief Everywhere, Inc., charge indirect costs to its internal transport, storage and handling awards from USAID?

From 1995 through 1998, CARE USA claimed and charged indirect costs to its ITSH awards from USAID. The charges were limited to an allocation of OMB Circular A-133 audit costs incurred by CARE USA, and represented a portion of the indirect costs identified in the overall negotiated indirect cost rate agreements between CARE USA and USAID. The total amount of CARE USA's grant awards and indirect costs for its fiscal years 1995 through 1998 are set forth in the table below:

	Total ITSH Awards	A-133 Indirect Rate Charged to ITSH Awards	Total Indirect Costs Charged to ITSH Awards
1995*	\$1,998,857	.700%	\$ 13,992
1996*	\$2,593,761	.700%	\$ 18,156
1997	\$2,993,765	.499%	\$ 14,939
1998	\$3,213,904	.467%	\$ 15,009
1999	\$4,170,433	0%	\$ 0
			\$ 62,096

FFP officials have informed us that indirect costs are not allocable to ITSH awards. The grant budgets prepared for CARE USA by FFP support this position by not including indirect costs as a percentage associated with ITSH awards in the absence of a country-specific indirect cost rate. Because CARE USA did not request or receive an approved country-specific indirect cost rate for ITSH awards, no basis exists for charging indirect costs to ITSH awards. We are therefore questioning the allocability of \$62,096 of indirect costs charged to USAID by CARE USA, as identified in the previous schedule. OMB Circular A-133 audit costs may be authorized on a particular ITSH grant if identified prior to award as a direct cost to that award.

* Because ITSH costs were not identified separately in the CARE USA schedule of calculation of indirect cost recovery rate for its fiscal years 1995 and 1996, we calculated an estimate of ITSH expenditures based on a comparison of total direct expenditures of USAID awards to CARE USA in future years.

Indirect costs were charged to USAID by CARE USA because the most recent negotiated indirect cost rate agreement between USAID and CARE USA did not state that indirect costs could not be charged to ITSH awards. FFP officials did not know that CARE USA had charged indirect costs to ITSH awards until they obtained information, through documented and undocumented conversations, that CARE USA had been charging a portion of the negotiated indirect cost rate to its ITSH awards. These conversations prompted the Chief of the Program Operations Division of FFP to issue the April 26, 1999 letter to CARE USA referred to in the background section of this report.

We are making the following recommendations regarding issues at the Cooperative for Assistance and Relief Everywhere, Inc.

Recommendation No. 1: We recommend that the Director, Food for Peace resolve the \$62,096 of costs questioned in this report.

Recommendation No. 2: We recommend that the Director, Food for Peace work with the USAID Office of Procurement to ensure that all future Negotiated Indirect Cost Rate Agreements specifically state that indirect costs are not allocable to internal transport, storage and handling awards.

Recommendation No. 3: We recommend that the Director, Food for Peace inform officials from the Cooperative for Assistance and Relief Everywhere, Inc., that future audit costs associated with the internal transport, storage and handling awards can only be charged in accordance with existing internal transport, storage and handling guidelines.

Management Response: Food for Peace management concurs with each of our recommendations.

**Management
Comments and
Our Evaluation**

BHR/FFP concurred with our recommendations, and offered several informative observations regarding issues discussed in our report. We have included these comments in their entirety in Appendix II.

Upon completion of final actions taken to implement the recommendations identified in the report, BHR/FFP should advise the Office of Management Planning and Innovation and request closure.

**Scope and
Methodology**

Scope

This review assesses the allocability of indirect costs associated with ITSH grants awarded by USAID to CARE USA for the fiscal years 1995 through 1999 of CARE USA. The review was not performed in accordance with generally accepted auditing standards and we did not perform a review of significant management controls at FFP or CARE USA. The review was performed to address a specific concern of the Office of Food for Peace related to indirect costs charged by CARE USA. The procedures we used were explained to FFP officials prior to performance. These procedures included the performance of a quality control review of the fiscal year 1999 audit of CARE USA, and an estimation of indirect costs charged to USAID by CARE USA during prior years.

Methodology

From October 2000 through February 2001, we made inquiries of CARE USA and USAID officials, performed analyses of indirect cost rate agreements between USAID and CARE USA, and reviewed quarterly financial status reports submitted by CARE USA, to determine whether CARE USA has been receiving reimbursement for indirect costs associated with ITSH awards from USAID. We relied on FFP officials in identifying ITSH awards for the period under review.

**Management
Comments**

MEMORANDUM

April 16, 2001

For: OIG/A/FA, Alvin A, Brown
From: BHR/FFP, William T. Oliver, Director

Subject: Review of Indirect Costs Charged by C.A.R.E. USA to
 USAID ITSH Awards, Report No. 0-000-01-011-F

We concur in all three recommendations contained in the audit report. We appreciate the efforts of the IG/A team in conducting this review and helping to ensure compliance with applicable food aid regulations. We have a few specific comments on various sections of the report.

AUDIT FINDINGS

The second sentence in the second paragraph should read... “by not including indirect costs as a percent associated with ITSH awards in the absence of any country-specific indirect cost rate. Because CARE USA did not request or receive an approved country-specific indirect cost rate for ITSH awards...” At the end of this paragraph, add the sentence: “A-133 audit costs may be authorized on a particular ITSH grant if identified prior to award as a direct cost to that award.”

AUDIT RECOMMENDATIONS NOS. 1 THROUGH 3

We concur in the recommendations