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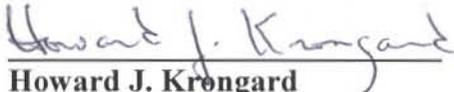
**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Independent Accountants' Report on the
Application of Agreed-Upon Procedures on Costs Claimed by
Atlantic Corridor U.S.A., Inc.,
Under
Department of State Grants**

Report Number AUD/CG-07-29, June 2007

L.F. Harris & Associates, CPA, P.A., Certified Public Accountants, performed the agreed-upon procedures under Department of State, Office of Inspector General, Contract No. S-AQM-PD-04-D-0044, and by acceptance the report becomes a product of the Inspector General.


Howard J. Krøngard
Inspector General

JUN 25 2007

Date

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Summary

At the request of the Department of State (Department), Bureau of Educational and Cultural Affairs (ECA), the Office of the Inspector General (OIG) contracted with L.F. Harris & Associates, CPA, P.A., to perform certain agreed-upon procedures on costs claimed by Atlantic Corridor U.S.A., Inc., under four grants awarded by the Department. The primary purpose of this attestation engagement was to determine whether Atlantic Corridor adequately accounted for federal funds and complied with applicable federal laws and regulations related to the terms and conditions of the grants.

Our review disclosed that Atlantic Corridor did not properly manage the cash drawdowns related to the Department grants under the government's payment management system. As a result, Atlantic Corridor drew down \$226,705 more than its claimed costs under the grants. Our review indicated that Atlantic Corridor used the excess funds to support operational needs of the organization outside the scope of the Department grants. In addition, we questioned \$142,749 of the costs claimed under the grants, including \$97,388 as unsupported costs and \$45,361 as unallowable. Accordingly, we recommend that the Department require Atlantic Corridor to reimburse the Department for the excess drawdowns and unallowable costs and also provide information to justify the unsupported costs.

In addition, our review noted three areas where Atlantic Corridor was not complying with the grants and other regulations related to documenting travel expenses, financial reporting to the Department, and preparing detailed time sheets. In general, we recommend that the Department require Atlantic Corridor to take steps to correct these noncompliance items.

Lastly, based on our overall review of Atlantic Corridor's financial records, we questioned the grantee's ability to continue as a going concern. Atlantic Corridor's latest complete financial data of March 31, 2006, showed a deficiency in net assets. We recommend that the Department evaluate Atlantic Corridor's financial and management capability to continue as a going concern before awarding additional grants.

Background

Atlantic Corridor, a not-for-profit corporation, was established to foster long-term, strategic global business, education, and cultural partnerships and alliances in order to increase investment, employment opportunities, and the collective prosperity in Upstate New York. The organization is located in Buffalo.

Atlantic Corridor and the Department entered into the grants entitled Urban Development for Ireland and Northern Ireland, Citizen Exchange Projects, shown on Table 1. The grants specify that Atlantic Corridor is subject to the requirements of Office of Management and Budget (OMB) Circulars A-110, *Uniform Administrative Requirements for Grants and Grants With Institutions of Higher, Education, Hospitals, and Other Non-Profit Organizations*; A-122, *Cost Principles for Nonprofit Organizations*; and A-133, *Compliance Supplement*.

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Table 1: Department of State Grants Awarded to Atlantic Corridor

Grant Number	Period of Grant	Amount
S-ECAPE-06-GR-147	09/15/06 – 06/30/07	\$250,000
S-ECAPE-05-GR-145	09/19/05 – 06/30/07	249,996
S-ECAPE-04-GR-178	09/01/04 – 10/31/06	250,000
S-ECAPE-03-GR-266	08/18/03 – 09/30/06	275,000
Total		\$1,024,996

Source: Data from ECA.

Purpose, Scope, and Methodology

The primary purpose of this agreed-upon procedures engagement was to determine whether the costs Atlantic Corridor claimed under the grants were adequately accounted for and whether Atlantic Corridor complied with applicable federal laws and regulations related to the terms and conditions of the grants. We conducted the testing and assessment at Atlantic Corridor’s office in Buffalo from February 5 to February 9, 2007.

OMB Circular A-122 establishes principles and standards for determining cost for federal awards carried out through grants, cost reimbursement contracts, and other grants with not-for-profit organizations. The principles and standards are designed to provide that federal awards bear their fair share of costs, and they apply to both direct and indirect costs.

A direct cost is one that can be identified specifically with a particular cost objective. Examples of direct costs include employee compensation and benefits, supplies, and travel. An indirect cost is one that cannot be identified with a single, final cost objective, but is identified with two or more final cost objectives, one or more of which benefits federal programs. Such costs should be combined into groups or pools and should be distributed to benefiting final cost objectives in a manner that will produce an equitable result based on relative benefits derived.

We designed our approach to determine compliance with OMB Circular A-122, which describes selected cost items, allowable costs, and standard methodologies for calculating not-for-profit organizations’ indirect cost rates. The purposes of the circular are to

- ensure that the federal government bears its fair share of costs,
- identify allowable costs for determining the actual cost of federal programs, and
- establish policies and procedures for indirect cost allocation plans.

Our procedures included the following.

1. Reviewing the Atlantic Corridor’s financial records, supporting documentation, annual audits and internal control structure; obtaining data, including board of directors’ minutes, grants, amendments and grant financial and program reports; and interviewing Atlantic Corridor’s management and department officials as needed.
2. Verifying expenditures, including examination of general ledger accounts, invoices, check payments, receipts, bank statements, and other available data relevant to Department grants.

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3. Determining whether the indirect costs are allowable, allocable, and reasonable in accordance with OMB Circular A-122 and the allocation bases are complete, accurate, and result in equitable allocations of indirect costs to benefiting activities.
4. Determining whether the Atlantic Corridor's accounting system is adequate to properly account for federal funds and identify and segregate direct and indirect costs as well as allowable and unallowable costs.

The scope of detail testing of individual accounts, internal controls, direct costs, indirect costs, regulation compliance, and other applicable records is a matter of judgment. Auditors cannot assume responsibility for fraud detection or prevention. Auditors are expected to maintain an alertness that will permit adequate inspection of the financial records as well as the internal controls, internal accounting, and administrative controls. As such, the auditors were alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest.

Results

Our review disclosed that Atlantic Corridor did not properly manage the cash drawdowns for Department grants under the government's payment management system. Consequently, the grantee withdrew more funds than it needed to cover grant program costs. In addition, we found that some of grantee's claimed costs under the grants were inappropriate. We also found that the grantee was not complying with provisions of the grants and regulations as they relate to documenting travel expenses, preparing financial reports to the Department, and preparing detailed time sheets. Overall, we concluded that the Department is due a reimbursement for the excessive drawdowns and unallowable costs, and the grantee needs to provide additional information to support some of its claimed costs. Finally, we believe that Atlantic Corridor's latest complete financial data raise questions about its ability to continue as a going concern.

Cash Management

Under three grants, as shown in Table 2, we found that Atlantic Corridor had drawn down funds in excess of grant expenditures. Under the Department of Health and Human Services' Payment Management System, which the Department uses to advance funds to grantees, recipients are responsible for maintaining minimum federal cash on hand by requesting funds from the Payment Management System only for immediate disbursement under federal grants. Also, Circular A-110, Subpart D, paragraph .73, states that funds paid to a recipient in excess of what the recipient is entitled to under the provisions of the award constitute a debt to the federal government.

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Table 2: Drawdown of Grant Funds by Atlantic Corridor

Grant Number	Drawdown	Costs Claimed	Excess Drawdown
S-ECAPE-06-GR-147	None	None	None
S-ECAPE-05-GR-145	\$30,000	None	\$30,000
S-ECAPE-04-GR-178	250,000	\$92,510	157,490
S-ECAPE-03-GR-266	275,000	235,785	39,215
Total	\$555,000	\$328,295	\$226,705

Source: Data from ECA.

Our review disclosed that Atlantic Corridor did not properly manage its cash drawdowns for three of the four grants awarded by the Department. For one of the grants (S-ECAPE-05-GR-145), the grantee drew down funds without any recorded expenditures supporting the need for the funds. In total, for three of the grants, the grantee drew down \$555,000, which exceeded the amount that was needed by \$226,705, to fund its claimed costs of \$328,295 under the grants. Our review showed that Atlantic Corridor did this to meet the organization’s overall operational needs rather than the immediate cost needs related to the Department grants.

Recommendation 1: We recommend that the Bureau of Educational and Cultural Affairs require Atlantic Corridor to refund the Department the \$226,705 in excess drawdowns related to Department grants and prohibit any future drawdowns until the funds are repaid and the grantee has established controls limiting any future requests of grant funds to the minimum amount necessary to cover allowable costs.

Costs Claimed Under Department Awards

We reviewed the costs claimed by Atlantic Corridor for programs carried out under the Department grants. We found that the grantee did not claim any costs for two grants. However, for the other two grants, we questioned some costs because of incomplete programs, improper expenses, duplicate payments charged under one grant, and the same expenses charged to two separate grants. Consequently, as detailed in Table 3, we questioned \$142,749 of the grantee’s claimed costs for two of the grants. Notwithstanding the costs in question, we found Atlantic Corridor’s accounting system to be adequate to identify, segregate, accumulate, and report direct and indirect costs under the provisions of OMB Circular A-122.

Table 3: Summary of Questioned Costs

Grant No.	Claimed Costs	Unallowable Costs	Unsupported Costs	Total Questioned
S-ECAPE-06-GR-147	0	0	0	0
S-ECAPE-05-GR-145	0	0	0	0
S-ECAPE-04-GR-178	\$92,510	\$15,746	\$76,764	\$92,510
S-ECAPE-03-GR-266	235,785	29,615	20,624	50,239
Total	\$328,295	\$45,361	\$97,388	\$142,749

Note: See Attachments A-D for schedules of claimed and questioned costs.

Source: Data based on audit work of the Independent Accountant.

For grant S-ECAPE-04-GR-178, we questioned \$92,510 of the costs claimed by Atlantic Corridor. Of this amount, we determined \$15,746 related to fundraising expenses to be unallowable. Fundraising expenses are not allowable per 2 CFR Part 230, OMB Circular A-122, Exhibit B, 17a. In addition, the grant requires Atlantic Corridor to conduct three exchange

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programs. However, we found that the grantee had not completed any of these exchange programs. Thus, we questioned as unsupported \$76,764 of the costs charged to these programs, including \$1,764 for educational materials, \$70,416 for salaries, and \$4,584 for facsimile, copying, printing, and postage costs. (See details in Attachment C.)

For grant S-ECAPE-03-GR-266, we questioned \$50,239 for costs claimed by Atlantic Corridor in connection with the grant. Of this total, we determined \$29,615 to be unallowable because the costs were the result of duplicate charges by the grantee, including \$24,335 related to educational materials, \$3,780 for travel-type expenses, and \$1,500 for honoraria fees. In addition, we identified \$20,624 in unsupported costs because the grantee did not complete one of the four programs required by the grant. The amount represents 25% of the administrative costs claimed by the grantee. (See details in Attachment D.)

Recommendation 2: We recommend that the Bureau of Educational and Cultural Affairs require Atlantic Corridor to reimburse the Department for \$45,361 of unallowable costs related to the grants and to provide information so that the Department can make an appropriate determination on the unsupported costs of \$97,388.

Travel Expense Documentation

Atlantic Corridor was not adequately documenting travel expenses claimed in connection with Department grants. OMB Circular A-122 Attachment A, among other things, states that to be allowable under an award, costs must . . . “Be reasonable for the performance of the award and be allocable thereto under these principles” . . . [and] “Be adequately documented.”

For the transactions we selected and tested for FYs 2007, 2006, 2005, and 2004, the travel expense documentation provided by the Atlantic Corridor in support of these costs did not meet OMB Circular A-122 requirements. We found that travel expense reports were not routinely provided by all employees as support for their travel-related expenses. Therefore, it was difficult for us to determine the business purpose of the trip and the appropriate allocation of costs. Nevertheless, we were provided with receipts for all travel-related expenses and, through inquiry, provided with oral justification of the business purpose of the incurred expenditures.

Recommendation 3: We recommend that the Bureau of Educational and Cultural Affairs require Atlantic Corridor to adopt a travel expense policy that requires employees to fully document grants-related travel costs, including the purpose of the travel.

Timeliness and Accuracy of Reporting

Our review noted that Atlantic Corridor was submitting untimely and inaccurate financial reports to the Department concerning the grants. Three of the four programs required under grant S-ECAPE-03-GR-266 had been completed; however, the grantee could only provide reports for two of the three programs. Our review of these reports showed that they were filed past the due date.

In addition, we noted that these reports were prepared manually and not reconciled to the detailed general ledger. As noted above, for grant S-ECAPE-03-GR-266, we identified duplicate costs; some charged to two different grants and others charged to the same grant. It is important

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that a grantee accurately report expenses charged to a grant so errors do not accumulate and make it more difficult to perform future reconciliations. Atlantic Corridor needs to reconcile amounts in the supporting documentation and the financial reports to its detailed general ledger accounts. This would ensure that errors do not accumulate over the various periods of the grants.

Recommendation 4: We recommend that the Bureau of Educational and Cultural Affairs require Atlantic Corridor to establish a process to ensure that grant financial reports are filed on time and that, before submitting these reports, to reconcile the amounts to the grantee general ledger.

Time Sheets

Although Atlantic Corridor employees were using time sheets, we found it difficult to determine from reviewing these records what grant activities the employees were charging. OMB Circular A-122, Attachment B. 8, *Compensation for personal service*, outlines the requirements for maintaining employee activity reports. In general, such reports are required for all staff whose compensation is charged in whole or in part directly to awards. In addition, the circular requires these reports to be signed by the employee or by a supervisor with direct knowledge of the activities performed by the employee. Such activity reports are necessary for proper allocation of expenditures of federal awards.

During our testing of Atlantic Corridor employee activity reports, we noted that the information included on the time sheets was insufficient to identify the specific projects an employee was working on and whether the charges were direct or indirect costs. As a result, we were unable to determine how the cost of each employee's time should be treated under the provisions of OMB Circular A-122. Atlantic Corridor needs to develop and implement a policy requiring the preparation of employee activity reports in accordance with OMB Circular A-122, including the specific requirements set forth for nonprofit organizations.

Recommendation 5: We recommend that the Bureau of Educational and Cultural Affairs require Atlantic Corridor to establish an employee timekeeping system that meets the requirements of OMB Circular A-122.

Going Concern

Our review of Atlantic Corridor's most recent, complete financial records leads us to question its ability to continue as a going concern. At the conclusion of our field work, the grantee had a deficiency in net assets and limited other funding sources. In reviewing Atlantic Corridor's FY 2007 financial statements and its general ledger, we found that its financial statements had not been updated. Therefore, our assessment of Atlantic Corridor's financial viability was made using its financial data for the fiscal year ended March 31, 2006. We found that as of the end of this period, the grantee records showed negative net assets of \$182,990.

Recommendation 6: We recommend that the Bureau of Educational and Cultural Affairs evaluate Atlantic Corridor's financial and management capability to continue as a going concern before awarding any future grants.



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES**

U.S. Department of State
Office of Inspector General
Office of Audits
1700 North Moore Street
Arlington, VA 22209

We have performed certain agreed-upon procedures (Procedures, as summarized in the Purpose, Scope and Methodology section of this report. The Procedures, which were agreed to by the Office of Inspector General, U.S. State Department, were performed solely to assist the Office of Inspector General, U.S. State Department, in evaluating whether Atlantic Corridor's cost claims were prepared in accordance with Office of Management and Budget Circular A-122 for the specified grant awards.

Atlantic Corridor's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and guidance from the Office of Management and Budget. The sufficiency of these Procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the Procedures as described in the Purpose, Scope and Methodology section of this report, either for the purpose for which this report has been requested or for any other purpose. Our test procedures revealed four findings. The findings and the associated recommendations are presented in the "Results" section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the total costs claimed. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the U.S. Department of State, Office of Inspector General, and should not be used by those who have not agreed to the procedures, and taken responsibility for the sufficiency of the procedures for their purposes.



L.F. Harris & Associates, CPA, P.A.
February 9, 2007

Atlantic Corridor U.S.A., Inc.
Schedule of Claimed and Questioned Costs Under
U.S. Department of State Grant No. S-ECAPE-06-GR-147
Exchange Project Conducted With Ireland and Northern Ireland

Grant Period: September 15, 2006, to June 30, 2007

Budget Category	Approved Budget	Costs Claimed	Questioned Costs	Audited Costs
General Program Expenses				
Honoraria and Per Diem	\$6,866	0	0	0
Staff Travel	1,257	0	0	0
Group Ground Transportation	12,000	0	0	0
Participant Program Expense				
Travel	59,040	0	0	0
Maintenance/Per Diem	82,422	0	0	0
Orientation (material/room/equip. rental)	1,415	0	0	0
Advertisement for Irish Participants	12,000	0	0	0
Administrative				
Partial Salaries	70,000	0	0	0
Telephone and Fax	1,500	0	0	0
Copying and Postage	3,500	0	0	0
Total	\$250,000	0	0	0

Atlantic Corridor U.S.A., Inc.
Schedule of Claimed and Questioned Costs Under
U.S. Department of State Grant No. S-ECAPE-05-GR-145
Exchange Project Conducted With Ireland and Northern Ireland

Grant Period: September 19, 2005, to June 30, 2006; Extended to June 30, 2007

<u>Budget Category</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Questioned Costs</u>	<u>Audited Costs</u>
General Program Expenses				
Travel/Per Diem for AC staff	\$3,545	0	0	0
Educational Materials	2,640	0	0	0
Group Ground Transportation	15,000	0	0	0
Participant Program Expense				
Travel	63,840	0	0	0
Maintenance/Per Diem	81,972	0	0	0
Orientation (material/room/equip rental)	3,000	0	0	0
Advertisement for Irish Participants	5,000	0	0	0
Administrative				0
Partial Salaries	69,999	0	0	0
Telephone/Cell/Fax/Copy/Print/Postage	5,000	0	0	0
Total	\$249,996	0	0	0

Atlantic Corridor U.S.A., Inc.
Schedule of Claimed and Questioned Costs Under
U.S. Department of State Grant No. S-ECAPE-04-GR-178
Exchange Project Conducted With Ireland and Northern Ireland

Grant Period: September 1, 2004, to October 31, 2005; Extended to October 31, 2006

<u>Budget Category</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Questioned Costs</u>	<u>Audited Costs</u>	<u>Notes</u>
General Program Expenses					
Honoraria (max \$250/day)	\$7,500	0	0	0	
Travel/Per Diem for AC staff	15,145	0	0	0	
Educational Materials	7,500	\$1,764	\$1,764	0	A
Room Rental (max \$250/day)	14,155	0	0	0	
Participant Program Expense					
Travel	45,900	0	0	0	
Maintenance/Per Diem	78,800	0	0	0	
\$50 Book/\$150 Cultural Allow.	6,000	0	0	0	
Administrative					
Partial Salaries	70,416	70,416	70,416	0	A
Facsimile, Copy, Print ,Postage	4,584	4,584	4,584	0	A
Fundraising Expense	0	15,746	15,746	0	B
Total	\$250,000	\$92,510	\$92,510	0	

Notes:

A: The grant required Atlantic Corridor to conduct three exchange programs. We found that the grantee did not complete any of the exchange programs; thus, we questioned, as unsupported, the costs claimed for educational materials (\$1,764); partial salaries (\$70,416); and facsimile, copy, print, and postage (\$4,584), totaling \$76,764.

B: Fundraising expenses are not allowable under OMB Circular A-122, Attachment B, paragraph 17.a. Therefore, we questioned, as unallowable, \$15,746 expended for this purpose.

Atlantic Corridor U.S.A., Inc.
Schedule of Claimed and Questioned Costs Under
U.S. Department of State Grant No. S-ECAPE-03-GR-266
Exchange Project Conducted With Ireland and Northern Ireland

Grant Period: August 18, 2003, to May 31, 2004; Extended to September 30, 2006

<u>Budget Category</u>	<u>Approved Budget</u>	<u>Costs Claimed</u>	<u>Questioned Costs</u>	<u>Audited Costs</u>	<u>Notes</u>
General Program Expenses					
Honoraria (max \$250/day)	\$10,000	\$7,500	\$1,500	\$6,000	A
Travel/Per Diem for AC staff	17,140	0	0	0	
Educational Materials	5,800	35,168	24,335	10,833	A
Room Rental (max \$250/day)	13,860	0	0	0	
Participant Program Expense					
Travel	58,000	0	0	0	
Maintenance/Per Diem	79,700	0	0	0	
\$50 Book/\$150 Cultural Allow.	8,000	396	-	396	
Per Diem/Travel Per Grantee*					
Accommodations	-	55,885	2,100	53,785	A
Per Diem	-	9,573	-	9,573	
Travel	-	44,763	1,680	43,083	A
Administrative					
Partial Salaries	65,937	65,937	16,484	49,453	B
Facsimile, Copy, Print, Postage	16,563	16,563	4,140	12,423	B
Total	\$275,000	\$235,785	\$ 50,239	\$185,546	

* Atlantic Corridor did not account for travel/per diem/room rental expenses separately for staff and participants.

Notes:

A: Atlantic Corridor made duplicate claims totaling \$29,615: \$1,500 for honoraria, \$2,100 for accommodations, \$1,680 for travel, and \$24,335 for educational materials. We questioned the total as unallowable as detailed below.

Payee	Amount	Date	Purpose
Atlantic Corridor Ireland	\$1,500	12/02/2004	Honoraria
Mulberry Inn	2,100	05/12/2005	Accommodations
Advantage Limousine	1,680	01/30/2005	Travel
Subtotal	5,280		
Irish Times	4,901	11/02/2004	Educational Materials
Irish Times	4,901	11/02/2004	Educational Materials
Irish Times	4,901	11/02/2004	Educational Materials
Belfast Telegraph	4,545	07/30/2004	Educational Materials
Irish Times	5,000	11/02/2004	Educational Materials
Monarch	87	10/02/2004	Educational Materials
Subtotal	<u>24,335</u>		
Total	\$29,615		

B: Under the grant, Atlantic Corridor agreed to complete four exchange programs. Because it only completed three programs, we questioned as unsupported costs 25 percent of the claimed administrative cost totaling \$20,624: \$16,484 for partial salaries and \$4,140 for facsimile, copy, print, and postage.