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AUDIT OF  
SUBCONTRACT COSTS SUBMITTED BY  
FOODPRO, INTERNATIONAL, INC.  
USAID/HONDURAS (522-0227)

AUDIT REPORT NO. 1-522-86-05  
DECEMBER 23, 1985

U. S. MAILING ADDRESS:  
RIG/T  
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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA — HONDURAS

TELEPHONES:  
32-0044 & 32-0092  
also 32-3120/9, EXT. 293 & 296

December 24, 1985

MEMORANDUM:

TO: Mr. Anthony J. Cauterucci, Director, USAID/Honduras

FROM: *Coinage N. Gothard*  
Coinage N. Gothard, RIG/A/T

SUBJECT: Audit of Subcontract Costs Submitted by Foodpro International, Inc. Audit Report No. 1-522-86-05 dated December 23, 1985

This report presents the results of audit of subcontract costs submitted by Foodpro, International, Inc. Specific audit objectives were to: review accounting and internal control procedures of both the Grantee and the Subcontractor; determine the disposition of dollar advances made by USAID/Honduras to the Grantee; evaluate the Subcontractor's system of developing direct and indirect cost claims that were to be billed to the Grantee and ultimately to USAID/Honduras; and, review Grantee administration and USAID/Honduras oversight of subcontractor activities and costs.

Accounting and internal control systems of both the Grantee (Partners of the Americas: Vermont-Honduras) and the Subcontractor (Foodpro, International, Inc.) were in place but were not implemented effectively. Moreover, the Grantee did not account for \$133,794 in outstanding advances made by USAID/Honduras. Also, the Subcontractor's system of developing cost claims, particularly for labor, was based on standard cost allocations rather than on actual costs incurred. Grantee administration and effective USAID/Honduras oversight of Foodpro activities raised doubt that the goals and objectives of the subcontract would be accomplished.

We found that the Grantee did not account for \$133,794 of advances because it had not billed USAID/Honduras for legitimate costs incurred, nor created a formalized accounting for \$102,152 in subadvances made to Foodpro. The Subcontractor developed its cost claims based on standard costs rather than on actual costs incurred -- as required under the subcontracts. As a result, we have questioned \$153,792 and \$78,854 in local currency equivalents. In addition, Foodpro did not adequately account for subcontract dollar and lempira funds due to weak accounting and internal controls.

We have recommended that USAID/Honduras: obtain from the Grantee a reconciliation of \$133,794 in advances; negotiate along with the Grantee \$153,792 and \$78,854 in local currency equivalents as well as audited overhead rates; and, collect about \$43,556 and \$40,082 in local currency equivalents from the Subcontractor.

Please provide to me written notice within 30 days of any additional information related to actions planned or taken to implement the three recommendations.

## EXECUTIVE SUMMARY

Effective May 6, 1983, USAID/Honduras authorized a grant to Partners of the Americas: Vermont-Honduras in the amount of \$200,000 and arranged for the provision of \$435,000 in local currency equivalents (Honduras Lempiras 2=\$1.00) to provide support for the Small Farmer Agriculture Development Project No. 522-0227. As of September 30, 1985, funding had increased to \$480,000 and \$472,500 in local currency equivalents.

On May 26, 1983, the Grantee signed a 13-month subcontract for \$125,000 and \$150,000 in local currency equivalents with Foodpro International, Inc., a for-profit firm, to implement the Farm Service Center component of the project. Under this project component, Foodpro was to experiment with the cultivation of a variety of winter vegetables to determine the feasibility and acceptability of expanded production. On May 29, 1984, the Grantee and Subcontractor signed a 12-month subcontract for \$140,000 and \$30,000 in local currency equivalents to continue the work. The local currency portion was later increased from \$30,000 to \$37,500 in local currency equivalents. But, effective October 19, 1984, the Grantee terminated the second subcontract with Foodpro. At the time of subcontract termination Foodpro had received a total of \$179,426 and \$187,500 in local currency equivalents from the two subcontracts.

At the urgent request of USAID/Honduras and AID's Bureau for LAC, the Office of the Regional Inspector General for Audit/Tegucigalpa made a financial and compliance audit of subcontract activities carried out by Foodpro International, Inc. The audit covered the period from May 1, 1983 through September 30, 1985. Specific audit objectives were to: review accounting and internal control procedures of both the Grantee and the Subcontractor; determine the disposition of dollar advances made by USAID/Honduras to the Grantee; review the Subcontractor's system of developing direct and indirect cost claims that were to be billed to the Grantee and ultimately to USAID/Honduras; and, review Grantee administration and USAID/Honduras oversight of Subcontractor activities and costs.

Accounting and internal control systems of both the Grantee (Partners of the Americas: Vermont-Honduras) and the Subcontractor (Foodpro International, Incorporated) were in place but were not implemented effectively. Moreover the Grantee did not account for \$133,794 in outstanding advances made by USAID/Honduras. Also, the Subcontractor's system in developing cost claims, particularly for labor, was based on standard cost allocations rather than on actual costs incurred. Grantee administration and effective USAID/Honduras oversight of Foodpro activities raised doubt that the goals and objectives of the subcontract would be accomplished.

At September 30, 1985 the Grantee had not accounted for \$133,794 in advances received from USAID/Honduras. We have recommended that the Grantee reconcile these outstanding advances, and collect, any unsupported amounts.

The Subcontractor's system of developing cost claims, was based on standard rather than on actual costs. We have recommended that USAID/Honduras and the Grantee negotiate \$153,792 and \$78,854 in local currency equivalents as part of a negotiated settlement of Foodpro claims.

Foodpro did not adequately account for at least \$20,990 and \$36,400 in local currency equivalents. Another \$22,566 from sales was not refunded to the Government of Honduras; and, \$3,682 in local currency equivalents from interest earned on deposits was due AID and the Government of Honduras. We have recommended that USAID/Honduras and the Grantee determine and collect these amounts from Foodpro.

*Office of the Inspector General*

**AUDIT  
OF SUBCONTRACT COSTS SUBMITTED  
BY FOODPRO INTERNATIONAL, INC.**

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AUDIT  
OF SUBCONTRACT COSTS SUBMITTED  
BY FOODPRO INTERNATIONAL INC.

PART I - INTRODUCTION

A. Background

Effective May 6, 1983, USAID/Honduras authorized a grant to Partners of the Americas: Vermont-Honduras ("Grantee") in the amount of \$200,000, and arranged for the provision of \$435,000 in local currency equivalents (Honduran Lempiras 2=\$1.00) to provide support for the Small Farmer Agriculture Development Project No. 522-0227. As of September 30, 1985, funding had been increased to \$480,000 and \$472,500 in local currency equivalents.

The project purpose was to help small farmers learn new agricultural techniques to increase productivity, and encourage the cultivation of more diversified crops thereby diminishing the small farmer's reliance on basic grain production. The project purpose was to be achieved through two components: Agricultural Development for Traditional Farmers on Marginal Land was to emphasize practical on-site productivity for the small farmer through ecologically based agricultural techniques such as soil building and terracing; and, the Farm Service Center was to experiment with the cultivation of a variety of winter vegetables to determine the feasibility and acceptability of expanded production. The Farm Service Center component consisted of an original three-year project proposal prepared by Food Production and Distribution Specialists (Foodpro), later modified by Foodpro's July 26, 1982 letter into a one year experimental effort. Foodpro is a for-profit firm with office locations in San Jose, California and Guatemala City, Guatemala. It was organized on March 31, 1982 under the General Corporation Law of California, and offers consulting engineering services in the related areas of feasibility studies, construction, and equipment installation management, including engineering disciplines necessary to prepare plans and specifications for food processing or distribution operations.

On May 26, 1983, the Grantee and Foodpro (the "Subcontractor") signed a subcontract for \$125,000 and \$150,000 in local currency equivalents to implement the Farm Service Center component. The effective date of the subcontract was May 1, 1983 with estimated completion 13 months thereafter. On May 29, 1984, the Grantee and Subcontractor signed another subcontract for \$140,000 and \$30,000 in local currency equivalents. The local currency portion was later increased from \$30,000 to \$37,500 in local currency equivalents. The effective date of the second subcontract was June 1, 1984, and the completion date was May 31, 1985. The subcontractor was to provide \$68,750 under the first subcontract, and \$42,500 under the second subcontract as its contribution to the project.

Effective October 19, 1984, the Grantee (Partners) terminated its second subcontract with Foodpro. USAID/Honduras had earlier concurred with the termination action in a letter dated October 9, 1984. The primary reason for termination was the serious doubt as to whether Foodpro could accomplish the goals and objectives of the subcontract.

At the time of subcontract termination Foodpro had received a total of \$179,426 and \$187,500 in local currency (Honduran lempira) equivalents from USAID/Honduras and the Grantee. Foodpro was also in receipt of local currency equivalents as follows: \$4,818 from domestic sales of produce; \$469 from export sales of produce; and \$3,682 in interest income. (The subcontractor received another \$37,866 from export sales of produce subsequent to subcontract termination.)

#### B. Audit Objectives and Scope

At the request of USAID/Honduras and AID's Bureau for LAC, the Office of the Regional Inspector General for Audit/Tegucigalpa made a financial and compliance audit of subcontract activities carried out by Foodpro International, Inc. under the Farm Service Center component of Project No. 522-0227. The audit covered the period from May 1, 1983 through September 30, 1985. We made field reviews from September 24, 1985 to October 17, 1985.

The purpose of this financial and compliance audit was to determine whether or not the subcontractor had complied with laws and regulations applicable to the subcontracts, and whether or not subcontractor costs claimed were reasonable, eligible and allocable. Specific audit objectives were to:

- review accounting and internal control procedures of both the Grantee and the Subcontractor,
- determine the disposition of dollar advances made by USAID/Honduras to the Grantee,
- evaluate the Subcontractor's system of developing direct and indirect cost claims that were to be billed to the Grantee and ultimately to USAID/Honduras, and
- review Grantee administration and USAID/Honduras oversight of subcontractor activities and costs.

We relied on a detailed USAID/Honduras Controller analysis to determine whether or not local currency costs claimed by the Subcontractor were reasonable, allocable and eligible. To accomplish the audit objectives we held interviews with officials of, and reviewed files maintained by: Partners of the Americas: Vermont-Honduras, located in East Calais, Vermont; Foodpro International, Inc., located in San Jose, California; and USAID/Honduras. Exit conferences were held with Partners on September 27, 1985; with Foodpro on October 11, 1985; and with USAID/Honduras on November 6, 1985.

On November 14, 1985, we furnished a draft audit report to USAID/Honduras for review. We received the USAID/Honduras response by Memorandum dated December 20, 1985. Their comments were considered and incorporated into this report where deemed necessary. We made the audit in accordance with generally accepted government audit standards.

AUDIT  
OF SUBCONTRACT COSTS SUBMITTED BY  
FOODPRO INTERNATIONAL, INC.  
PART II - RESULTS OF AUDIT

The purpose of this financial and compliance audit was to determine whether or not the Subcontractor complied with laws and regulations applicable to two subcontracts, and whether or not subcontractor costs claimed were reasonable, eligible and allowable. Specific audit objectives were to: review accounting and internal control procedures of both the Grantee and the Subcontractor; determine the disposition of dollar advances made by USAID/Honduras to the Grantee; review the Subcontractor's system in developing direct and indirect cost claims that were to be billed to the Grantee and ultimately to USAID/Honduras; and, review Grantee administration and USAID/Honduras oversight of Subcontractor activities and costs.

Accounting and internal control systems of both the Grantee (Partners of the Americas: Vermont-Honduras) and the Subcontractor (Foodpro International, Inc. were in place but were not implemented effectively. Moreover, the Grantee did not account for \$133,794 in outstanding advances made by USAID/Honduras. Also, the Subcontractor's system of developing cost claims, particularly for labor, was based on standard cost allocations rather than on actual costs incurred. Grantee administration and effective USAID/Honduras oversight of Foodpro activities raised doubt that the goals and objectives of the subcontract would be accomplished.

A. Findings and Recommendations

1. AID Advances to Partners Needed to be Reconciled

At September 30, 1985, USAID/Honduras had advanced to the Grantee \$267,579 for use on the Farm Service Center component of Project No. 522-0227. The Grantee had liquidated \$133,785 through the submission of seven vouchers for payment to USAID/Honduras. However, the Grantee's accounting system was implemented by one individual and financial records had not been adjusted to reflect USAID/Honduras Controller disallowances. Further, the Grantee had booked but not billed USAID/Honduras for legitimate costs incurred, and more importantly, the Grantee did not obtain and create a formalized accounting for \$102,152 in subadvances made to the Subcontractor. As a result, the Grantee did not account for a total of \$133,794 of advances received from USAID/Honduras. (See Exhibit A.)

Recommendation No. 1

We recommend that USAID/Honduras obtain from Partners of the Americas: Vermont-Honduras a reconciliation of \$133,794 in advances earmarked for the Farm Service Center component of Project No. 522-0227, and collect any unsupported amounts.

## Discussion

The original proposal for the project's Farm Service Center component was submitted to USAID/Honduras in 1982 by Foodpro, a for-profit firm. By agreement, USAID/Honduras included the Farm Service Center component in the project and channelled funding to Partners, a private voluntary organization that, awarded the subcontracts to Foodpro. In this manner, USAID/Honduras attempted to comply with Agency policy to use the private sector in carrying out a component of its agriculture program in Honduras.

Under the first subcontract, USAID/Honduras advanced \$77,302 directly to the Subcontractor. Foodpro, in turn, submitted its vouchers directly to USAID/Honduras for review and liquidation against outstanding advances rather than through the Grantee. Although this payment and liquidation procedure was part of the subcontract, the arrangement hampered the Grantee in its role of administering and safeguarding the disposition of public monies disbursed.

The Grantee changed the second subcontract and regained a measure of control over the Subcontractor's fiscal activity by making subadvances to the subcontractor and by requiring that the Subcontractor route liquidation vouchers (no pay vouchers) to the Grantee rather than directly to USAID/Honduras. Although the Subcontractor received \$102,152 in subadvances from the Grantee, most of the subcontractor's liquidation vouchers continued to be sent directly to USAID/Honduras. In fact, the Grantee was not aware of the Subcontractor's last three claims for payment that were submitted subsequent to subcontract termination because Foodpro sent them directly to USAID/Honduras.

Consequently, the Grantee needed to reconcile its records with both the Subcontractor and with the USAID/Honduras Controller in order to meet the requirements of Recommendation No.1. The Grantee agreed that a reconciliation was needed.

## Management Comments

On December 17, 1985, USAID/Honduras took action to assist the Grantee with the recommended reconciliation by sending to the Grantee copies of the vouchers related to Foodpro advances and liquidations processed directly by USAID/Honduras.

## 2. Subcontractor Billing Procedures

Foodpro's system of developing cost claims, particularly for labor, was based on standard rather than on actual costs. Standard cost systems normally have been used by firms as a planning tool in order to estimate profit and loss, and to forecast the potential fiscal status of a firm during a given accounting period. The Subcontractor, in October, 1982, had provided to USAID/Honduras its system of developing cost claims; however, the two subcontracts negotiated with the Grantee were of a cost-reimbursable nature. As a result, only the actual costs incurred by the Subcontractor were allocable and allowable. The Grantee and USAID/Honduras reviewed Subcontractor cost claims in mid-1984. Exhibits B through H present the results of our review of Foodpro's cost claims and detail why we are questioning \$153,792 and \$78,854 in local currency equivalents.

### Recommendation No. 2

We recommend that the USAID/Honduras and Partners of the Americas: Vermont-Honduras negotiate the following questioned costs with Foodpro International, Incorporated in settlement of its claims:

- a. \$10,077 questioned for the period May 1, 1983 to April 30, 1984;
- b. \$14,832 questioned for the period May 1, 1984 to the date of contract termination on October 19, 1984;
- c. \$93,729 claimed by Foodpro and questioned by audit for the period October 20, 1984 to March 31, 1985;
- d. \$35,154 claimed by Foodpro and questioned by audit based on additional billings for the period May 1, 1983 to October 19, 1984;
- e. \$23,248 of local currency equivalents questioned by the USAID/Honduras Controller for the period May 1, 1983 to October 19, 1984;
- f. \$55,606 of local currency equivalents claimed and questioned for the period October 20, 1984 to March 31, 1985;
- g. audited overhead rates of 149 percent of direct labor and 144 percent of direct labor for Foodpro's fiscal years ending March 31, 1984 and March 31, 1985, respectively; and
- h. profit-sharing, bonuses, commissions and fee.

### Discussion

The Subcontractor used burdened rates consisting of up to four categories to bill clients. The labor claims had a multiplier effect consisting of (a) base salary, (b) profit sharing/bonuses/commissions, (c) employee benefits, and (d) overhead and profit factors. To illustrate, profit sharing/bonuses/commissions were 30 percent of salaries; employee benefits were 30 percent of

salaries and profit sharing/houses/commissions; and, overhead and profit were 120 percent of salaries, profit sharing/bonuses/commissions, and employee benefits. The sum of these multipliers was the amount billed to clients. (See Exhibit I).

Subcontractor Billings - In mid-1984 the USAID/Honduras Controller made a review of Grantee and Subcontractor cost claims. At that time the Subcontractor was told by the USAID/Honduras Controller to claim costs on an actual basis. The Subcontractor submitted a rebilling; however, per diem costs were not claimed on an actual basis. USAID/Honduras later advised the Subcontractor to again restate billings on the original basis. The Subcontractor complied. According to Foodpro, the result of conflicting instructions to the Subcontractor by various USAID/Honduras officials led to a multiplicity of billings, rebillings and amended billings made by the Subcontractor.

Subcontractor Contacts and Negotiations - During the audit, the Subcontractor named several AID officials who had provided instructions on billing procedures, and in resolving cost claims. However, Foodpro officials could not name an authorized contracting officer at USAID/Honduras. In any event, the Subcontractor should have been negotiating through the prime Grantee. We strongly suggest that USAID/Honduras identify for the benefit of the Grantee and Subcontractor the qualified contracting or grant officer available to assist and resolve the subcontract termination. In this case, any USAID/Honduras negotiations would be with the Grantee rather than directly with Foodpro.

Profit-Sharing, Bonuses, Commissions, and Overhead and Profit - Using the proceeds obtained from billings with burdened rates, the Subcontractor created pools with which to support profit-sharing, bonuses and commissions to employees, and overhead and profit for the firm. The Subcontractor told us that these benefits were needed to attract and keep qualified employees since actual salaries were low in comparison to the rest of the industry. In general, federal taxes were not being withheld from bonuses and commissions awarded to employees.

The Subcontractor's overhead and profit of 120 percent was a multiplier of more than direct labor, that is, it was a multiplier of labor, fringe and employee benefits, profit-sharing, bonuses and commissions.

We have redistributed fringe and employee benefits based on reasonable rates, and overhead based on audited overhead rates of 149 percent and 144 percent of direct labor for the Subcontractors fiscal years ended March 31, 1984 and March 31, 1985, respectively. In our opinion, the Foodpro profit-sharing, bonus and commission programs may be excessive in comparison with normally accepted fringe and employee benefits. These cost elements should have been negotiated prior to signing the subcontract agreements. AID needs to determine whether it considers the profit-sharing, bonus and commission programs of the subcontractor eligible for reimbursement.

During the audit, Foodpro officials expressed their desire to negotiate a fee with USAID/Honduras after the fact. In our opinion, USAID/Honduras should consider the cost-reimbursable nature of the subcontracts, and the recommended audit distribution of overhead as an alternative.

Management Comments

USAID/Honduras pointed out that it did not give conflicting instructions to Foodpro but that much of the need for continuing discussion with Foodpro on the billings and claims resulted from (i) Foodpro's failure to provide accurate information when requested and the subsequent need by USAID/Honduras to repeatedly ask for clarifications, and (ii) Foodpro's refusal to recognize termination of its subcontract requiring both the Grantee and USAID/Honduras to attempt to reach agreement with them. USAID/Honduras further pointed out that Foodpro itself often requested information from different parties within AID. On the subject of a fee and other costs USAID/Honduras believed that the decision on how to determine an acceptable settlement should be resolved through the negotiations with the Grantee and Subcontractor.

### 3. Subcontractor Accounting and Internal Control

Foodpro did not adequately account for subcontract dollar and lempira funds because financial records were inaccurate, and were not managed by its Controller's office. The tendency of the custodians of the account was to treat the funds as private rather than public monies. As a result, at least \$20,990 of \$102,152 in subadvances, \$36,400 of local currency equivalents, \$22,566 of income received from sales of produce harvested in Honduras and \$3,682 of interest on lempira deposits had not been refunded. The requirements of Recommendation No. 1 cover accountability for the subadvances.

#### Recommendation No. 3

We recommend that USAID/Honduras and Partners of the Americas:Vermont-Honduras:

- a. determine and collect outstanding dollar and lempira subadvances totalling at least \$20,990 and \$36,400, in local currency equivalents, respectively, from Foodpro International, Inc. ; and,
- b. collect for the project from Foodpro International, Inc. \$22,566 in income earned from sales of produce under Project No. 522-0227, and \$3,682 in local currency equivalents representing interest earned on lempira deposits.

#### Discussion

Foodpro financial records for the subcontract consisted of cash disbursement journals and quarterly working trial balances posted on worksheets. These records were in the process of being changed by the current Foodpro Controller who was hired in February, 1985. However, details on subcontract costs were maintained under different custodianship. Consequently, there was no clear trail linking subcontract costs to Foodpro fiscal records.

The two dollar working trial balances that we tested did not balance due to incomplete or unexplained entries. For example, for the quarter ended December 31, 1984, the subcontract account was posted with an opening balance of \$28,837; there were no other entries; yet, the posted closing balance was \$6,928. The Foodpro Controller could not explain the \$21,909 difference.

The custodian of details on subcontract costs first stated that the posting was for local currency. The obvious question: why were local currency postings commingled with a dollar account? This example illustrates Foodpro's lack of accounting and internal control.

Sales Proceeds - Foodpro was to provide \$68,750 and \$42,500 each year, respectively, as its contribution to the project. These monies were anticipated from the sales of winter vegetables harvested at the Farm Service Center. Foodpro did not meet the first year requirement due to late planting. During the second year, Foodpro sold \$469 worth of snow peas.

Subsequent to contract termination Foodpro sold another \$37,886 worth of snow peas, and returned \$15,769 of this amount to the Farm Service Center. Foodpro officials told us that the remaining \$22,566 was being held in escrow pending a negotiated settlement with USAID/Honduras.

Management Comments

USAID/Honduras responded that Foodpro was responsible for returning the Lempira equivalent of the sales proceeds to the project, and that the requirement that Foodpro repatriate the dollars to Honduras and exchange these dollars for Lempiras was a matter of law and a matter entirely between Foodpro and the Government of Honduras. USAID/Honduras had advised Foodpro of this requirement in writing in the past, and said that it would do so again. USAID/Honduras concluded that both Lempira and dollar proceeds should be considered in the settlement.

## B. Compliance and Internal Control

### Compliance

Conditions not in compliance with applicable laws and regulations are discussed in the report and supported by report exhibits. Other than these, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable laws and regulations.

### Internal Control

As illustrated throughout this report, internal accounting controls of both the Grantee and the Subcontractor were not implemented effectively.

PARTNERS OF THE AMERICAS: VERMONT-HONDURAS  
COMPARISON OF ADVANCES AND PAYMENTS (\$s)  
MAY 1, 1983 TO SEPTEMBER 30, 1985

	<u>LIQUIDATIONS</u>	<u>ADVANCES 1/</u>	<u>ADVANCES OUTSTANDING 2/</u>
7/18/83	\$	\$ 35,655.00	\$ 35,665.00
1/4/84		8,445.00	44,100.00
3/8/84		30,910.00	75,010.00
4/12/84	36,645.23		38,364.77
4/12/85	12,543.18		25,821.59
5/22/84		47,697.92	73,519.51
2/8/85	20,183.78		53,335.73
9/30/84		107,906.00	161,241.73
2/21/85		15,606.00	176,847.73
4/9/85	13,416.28		163,431.45
7/25/85	24,720.94		138,710.51
7/11/85		21,359.00	160,069.51
SUBTOTAL.	<u>\$107,509.41</u>	<u>\$267,578.92</u>	<u>\$160,069.51</u>
UNPROCESSED PARTNERS VOUCHERS AT 9/30/85:			
7/5/85	21,490.67		
9/4/85	<u>4,784.78</u>		<u>155,284.73</u>
TOTAL.	<u>\$133,784.86</u> .....	<u>\$267,578.92</u> .....	<u>\$133,794.06</u> .....
ADVANCES TO BE RECONCILED BY PARTNERS			<u>\$133,794.06</u> .....

Explanatory Notes:

1/ These represent USAID/Honduras advances made to Partners, the prime grantee. The \$77,302 advanced by USAID/Honduras directly to Foodpro, the subcontractor, is not included.

2/ Does not include \$104,121 of Foodpro liquidation vouchers that were sent directly to, and processed by, the USAID/Honduras Controller as of September 30, 1985. These vouchers will assist the prime grantee in the recommended reconciliation.

FOODPRO INTERNATIONAL INC.  
SUMMARY OF DOLLAR COSTS CLAIMED AND AUDIT ADJUSTMENTS  
MAY 1, 1983 THROUGH APRIL 30, 1984

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<u>CATEGORY</u>	<u>BILLED</u>	<u>PREVIOUSLY QUESTIONED BY</u>		<u>ACCEPTED BY PARTNERS &amp;/OR CONTROLLER</u>	<u>AUDIT</u>		
		<u>PARTNERS</u>	<u>USATD/H CONTROLLER</u>		<u>QUESTIONED</u>	<u>ELIGIBLE</u>	
SALARIES	\$ 83,069	\$ -0-	\$ 720	\$ 82,349	\$ 50,509	\$ 25,780	NOTE 1
FRINGE BENEFITS					(2,282)	2,282	NOTE 2
EMPLOYEE BENEFITS					(4,003)	4,003	NOTE 2
PER DIEM	16,082	-0-	16,082	-0-	(2,413)	2,413	NOTE 3
OTHER DIRECT COSTS	11,943	-0-	4,495	7,488	620	6,828	NOTE 4
<b>TOTAL DIRECT COSTS</b>	<b>\$111,094</b>	<b>\$ -0-</b>	<b>\$ 21,297</b>	<b>\$ 89,797</b>	<b>\$ 48,491</b>	<b>\$ 41,306</b>	
OVERHEAD					(38,414)	38,414	NOTE 5
<b>TOTAL</b>	<b>\$111,094</b>	<b>\$ -0-</b>	<b>\$ 21,297</b>	<b>\$ 89,797</b>	<b>\$ 10,077</b>	<b>\$ 79,720</b>	

FOODPRO INTERNATIONAL, INC.  
SUMMARY OF DOLLAR COSTS CLAIMED AND AUDIT ADJUSTMENTS  
MAY 1, 1983 THROUGH APRIL 30, 1984

- NOTE 1 Represents the difference between salaries billed and salaries actually paid to employees.
- NOTE 2 Represents audit redistribution of fringe and employee benefits at rates of 8.85 percent and 15.77 percent of direct labor, respectively.
- NOTE 3 Represents per diem costs actually paid by the Subcontractor to employees and eligible for payment.
- NOTE 4 See Schedule B-1.
- NOTE 5 Represents redistribution of overhead at an audited rate of 149 percent of direct labor.

NOTE 4 of Exhibit B represents audit adjustments as follows:

a. Cost not identifiable in Vice President's expense report during May, 1983.	\$ 4.75
b. Gasoline purchase made in California by the President during July, 1983. No relation to project given.	13.70
c. Actual payment to "ITT World Com." was \$3.64 rather than \$9.51 claimed due to two discounts. The difference was questioned.	5.87
d. No support was provided for the purchase of a dictionary in November, 1983 by the Financial Analyst.	3.50
e. According to the expense voucher, taxi fare for the Vice-President during December, 1983 was \$4.00 instead of \$5.00 claimed.	1.00
f. During December, 1983 work of D.M., was divided. We questioned the portion of a \$73 mileage claim not applicable to the subcontract.	34.70
g. No support was provided for travel of President to Washington (State) on Pacific Southwest Airline during January, 1984.	49.00
h. Telephone calls were made by a non-employee (spouse) of the contractor during January, 1984.	7.48
i. During March, 1984 the subcontractor purchased a used scale from Jenssen Scales, Inc. There was no written approval from AID to purchase used equipment.	<u>500.00</u>
Total Questioned Other Direct Costs (Rounded)	\$620.00 *****

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FOODPRO INTERNATIONAL INC.  
SUMMARY OF DOLLAR COSTS CLAIMED AND AUDIT ADJUSTMENTS  
MAY 1, 1984 TO OCTOBER 19, 1984

CATEGORY	CLAIMED	PREVIOUSLY QUESTIONED BY		ACCEPTED BY PARTNERS AND CONTROLLER	AUDIT		
		PARTNERS OF AMERICA	USATD/H CONTROLLER		QUESTIONED	ELIGIBLE	
SALARIES	\$ 57,270	\$ -0-	\$ -0-	\$ 57,270	\$ 39,135	\$ 18,135	NOTE 1
FRINGE BENEFITS					(1,605)	1,605	NOTE 2
EMPLOYEE BENEFITS					(2,664)	2,664	NOTE 2
PER DIEM	3,230	2,958	272	-0-	(750)	750	NOTE 3
OTHER DIRECT COSTS	11,354	670	-0-	10,684	6,832	3,852	NOTE 4
<b>TOTAL DIRECT COSTS</b>	<b>\$ 71,854</b>	<b>\$ 3,628</b>	<b>\$ 272</b>	<b>\$ 67,954</b>	<b>\$ 40,948</b>	<b>\$ 27,006</b>	
OVERHEAD					(26,116)	26,116	NOTE 5
<b>TOTAL</b>	<b>\$ 71,854</b>	<b>\$ 3,628</b>	<b>\$ 272</b>	<b>\$ 67,954</b>	<b>\$ 14,832</b>	<b>\$ 53,122</b>	

FOODPRO INTERNATIONAL, INC.  
SUMMARY OF DOLLAR COSTS CLAIMED AND AUDIT ADJUSTMENTS  
MAY 1, 1984 TO OCTOBER 19, 1984

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- NOTE 1 Represents the difference between salaries billed and salaries actually paid to employees.
- NOTE 2 Represents audit redistribution of fringe and employee benefits at rates of 8.85 percent and 14.69 percent of direct labor, respectively.
- NOTE 3 Represents per diem costs actually paid by the Subcontractor to employees and eligible for payment.
- NOTE 4 See Schedule C-1.
- NOTE 5 Represents redistribution of overhead at an audited overhead rate of 144 percent of direct labor.

NOTE 4 of Exhibit C represents audit adjustments as follows:

a. Purchase of a non-U.S. source and origin tractor was made during May, 1984 from Auritrop, S.A. Guatemala. There was no waiver.	\$ 6,020.00
b. Schedule No. 6305-5-0112 was claimed twice: once in May, 1984 and again in July, 1984. We have questioned the July, 1984 claim.	118.68
c. The cost of services provided by Brewton Safety, Inc. was properly supported with an invoice dated June 8, 1984. The Partners had previously questioned the cost due to lack of supporting documentation.	(74.80)
d. Audit adjustment on overcharge to the project for four airfares during June, 1984.	7.87
e. There were no documents to support D.M.'s airfare during June, 1984.	490.00
f. There was no support for a GTE claim during July, 1984	160.16
g. There was no support for Miscellaneous Conference Registration and Marketing Workshop claims made during September, 1984.	83.34 26.44
Total Questioned Other Direct Costs (Rounded)	<u>\$6,832.00</u> .....

FOODPRO INTERNATIONAL, INC.  
DOLLAR CLAIMS FOR ADDITIONAL SERVICES PROVIDED BY FOODPRO  
OVER THE LIFE OF THE TWO SUBCONTRACTS  
MAY 1, 1983 TO OCTOBER 19, 1984

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CATEGORY	CLAIMED BY FOODPRO		TOTAL	ELIGIBLE DAILY LABOR RATES	QUESTIONED		
	NO. OF DAYS	DAILY RATE			INELIGIBLE OVERBILLING	PENDING AID DECISION	
SALARIES:							
- EMPLOYEE N	16.5	\$ 163	\$ 2,690	\$ 58	\$ 1,733	\$ 957	
- M	26.0	\$ 114	2,974	\$ 32	2,142	832	
- H	5.5	\$ 165	906	\$ 64	554	352	
- E	27.5	\$ 220	6,056	\$ 66	4,241	1,815	
- E	6.0	\$ 249	1,493	\$ 66	1,097	396	
- C	40.5	\$ 249	10,077	\$ 81	6,797	3,280	
- C	1.0	\$ 286	286	\$ 81	205	81	
SECRETARIAL	31.0	\$ 128	4,027	\$ 20	3,407	620	
TOTAL SALARIES			\$28,509		\$20,176	\$ 8,333	NOTE 1
FRINGE BENEFITS					(737)	737	NOTE 2
EMPLOYEE BENEFITS					(1,269)	1,269	NOTE 2
PER DIEM AND TRAVEL EXPENSE							
OTHER DIRECT COSTS			6,645		5,372	1,273	NOTE 3
TOTAL DIRECT COSTS			\$35,154		\$23,542	\$11,612	
OVERHEAD (146% OF DIRECT LABOR)					(12,166)	12,166	NOTE 4
TOTAL COSTS CLAIMED AND AUDIT ADJUSTMENTS			\$35,154		\$11,376	\$23,778	
			-----		-----	-----	

FOODPRO INTERNATIONAL, INC.  
DOLLAR CLAIMS FOR ADDITIONAL SERVICES PROVIDED BY FOODPRO  
OVER THE LIFE OF THE TWO SUBCONTRACTS  
MAY 1, 1983 TO OCTOBER 19, 1984

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- NOTE 1 The Subcontractor submitted to USAID/H an additional billing for services provided by five employees and for secretarial services that had not previously been claimed. An amount of \$20,176 was ineligible since employees did not receive the money. The remainder, \$8,333, is eligible for payment.
- NOTE 2 Represents audit redistribution of fringe and employee benefits at rates of 8.85 percent and 15.23 percent of direct labor, respectively. The employee benefit rate is an average for the Subcontractor's two accounting years.
- NOTE 3 See Schedule D-1.
- NOTE 4 Represents redistribution of overhead at an overhead rate of 146 percent of direct labor. This is an average for the Subcontractor's two accounting years.

NOTE 3 of Exhibit D represents audit adjustments as follows:

a. There were five claims that had already been billed on prior vouchers for payment, two of which were duplications:

-MCI, 8/17/84	\$ 45.22	
-MCI, 8/17/84	45.22	
-GTE, 9/07/84	60.02	
-MCI, 9/17/84	15.10	
-ITT, 10/01/84	4.92	\$ 170.48

Examples like these illustrate the lack of accounting and internal controls.

b. There was no support for:

-Bank Produce, 9/21/84	97.13
-Petty Cash	30.40

And errors in addition:

38.10  
54.00

c. There were no source/origin certificates for:

-Glacier Walk-in Cooler	2,982.00
-Oregon Equipment Service Compressor 1 1/2 Hp.	<u>2,000.00</u>

Total Questioned Other Direct Costs (Rounded)

\$5,372.00  
\*\*\*\*\*

FOODPRO INTERNATIONAL, INC.  
SUMMARY OF ADDITIONAL DOLLAR CLAIMS FOR THE PERIOD  
OCTOBER 20, 1984 TO MARCH 31, 1985

CATEGORY	CLAIMED BY FOODPRO			ELIGIBLE DAILY LABOR RATES	QUESTIONED		
	NO. OF DAYS	DAILY RATE	TOTAL		INELIGIBLE OVERBILLING	PENDING AID DECISION	
<b>SALARIES:</b>							
- EMPLOYEE A	8.5	\$ 464	\$ 3,944	\$ 125	\$ 2,881	\$ 1,003	
- B	37.25	\$ 384	14,304	\$ 92	10,877	3,427	
- C	10.5	\$ 286	3,074	\$ 81	2,223	851	
- E	130.5	\$ 249	32,471	\$ 66	23,858	8,613	
- D	80.5	\$ 249	20,030	\$ 65	14,798	5,232	
- G	12.25	\$ 249	3,048	\$ 62	2,288	700	
- O	4.25	\$ 286	1,216	\$ 19	1,135	81	
- N	4.0	\$ 163	652	\$ 58	420	232	
- Q	1.25	\$ 249	311	\$ 51	247	64	
SECRETARIAL	33.25	\$ 160	5,320	\$ 20	4,655	665	
- P	1.5	\$ 249	373	\$ 92	235	138	
- R	3.75	\$ 160	600	\$ 20	525	75	
TOTAL SALARIES CLAIMED			<u>\$85,343</u>		<u>\$64,142</u>	<u>\$21,201</u>	
LESS ERROR IN ADDING FEB., 1985					520	(520)	
ADJUSTED SALARIES CLAIMED AND QUESTIONED			<u>\$85,343</u>		<u>\$64,662</u>	<u>\$20,681</u>	NOTE 1
FRINGE BENEFITS (8.85% OF DIRECT LABOR)					(1,871)	1,871	NOTE 2
EMPLOYEE BENEFITS (14.69% OF DIRECT LABOR)					(3,105)	3,105	NOTE 2
PER DIEM AND TRAVEL EXPENSE			4,170			4,170	
OTHER DIRECT COSTS			<u>3,736</u>		<u>702</u>	<u>3,034</u>	NOTE 3
TOTAL DIRECT COSTS			<u>\$93,249</u>		<u>\$60,388</u>	<u>\$32,861</u>	
OVERHEAD (144% OF DIRECT LABOR)					(30,435)	30,435	NOTE 4
TOTAL COSTS CLAIMED AND AUDIT ADJUSTMENTS			<u>\$93,249</u>		<u>\$29,953</u>	<u>\$63,296</u>	
			*****		*****	*****	

FOODPRO INTERNATIONAL, INC.  
SUMMARY OF ADDITIONAL DOLLAR CLAIMS FOR THE PERIOD  
OCTOBER 20, 1984 TO MARCH 31, 1985

General The Subcontractor remained at the project site subsequent to subcontract termination. The Subcontractor claimed that it had a moral obligation not to abandon the project, and that the Grantee and USAID/Honduras did not give the Subcontractor sufficient notice to shutdown. We do not believe that a period of over five months to shutdown operations was reasonable. On balance, we believe that a November, 1984, termination date would have been adequate. Exhibit E contains the results of our review of Subcontractor costs claimed after contract termination.

NOTE 1 \$64,662 is ineligible for payment because it is in excess of salaries actually paid to employees. \$20,681 is eligible pending negotiation.

NOTE 2 Represents audit redistribution of fringe and employee benefits at rates of 8.85 percent and 14.69 percent of direct labor, respectively.

NOTE 3 a. There were no supporting documents for:

<u>ITEM</u>	<u>MONTH</u>	<u>CLAIM</u>	
Pacific Bill	February, 1985	\$ 179.27	
MCI	February, 1985	19.71	
MCI	November, 1984	73.62	\$ 272.60
b. Legal fees to initiate action against the U.S. Government were not allowable;			305.30 62.50
c. Claim for a telephone call made by a non-employee (spouse)			61.40
TOTAL (ROUNDED)			<u>\$ 702.00</u> *****

NOTE 4 Represents redistribution of overhead at the audited overhead rate of 144 percent of direct labor calculated for Subcontractor's fiscal year ended March 31, 1985.

FOODPRO INTERNATIONAL, INC.  
CALCULATION OF OVERHEAD RATES  
FISCAL YEARS ENDING MARCH 31, 1984 AND MARCH 31, 1985 1/

FYE MARCH 31, 1984 2/

Audited Overhead Pool		\$203,244 (A)
		*****
Audited Overhead Base		\$136,709 (B)
		*****
Audited Overhead Rate (A/B)		149%

FYE MARCH 31, 1985 3/

Audited Overhead Pool		\$263,288 (A)
		*****
Audited Overhead Base:		
- Proposed Labor	\$143,295	
- Direct Labor Included in Overhead Pool for Farm Service Center	39,559	\$182,854 (B)
	*****	*****
Audited Overhead Rate (A/B)		144%

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Explanatory Notes:

1/ Foodpro's fiscal year is April 1 to March 31 of the following year.

2/ See Schedule F-1

3/ See Schedule F-2

FOODPRO INTERNATIONAL, INC.  
OVERHEAD PROPOSED AND QUESTIONED  
APRIL 1, 1983 THROUGH MARCH 31, 1984

<u>CATEGORY OF INDIRECT EXPENSES</u>	<u>CLAIMED</u>	<u>QUESTIONED</u>	
<u>Selling Expense:</u>			
Promotional	\$ 6,729	\$ 1,631	NOTE 1
Entertainment	824	824	NOTE 2
Travel	2,775		
Per Diem	1,242		
Communications	3,372		
Labor	17,779		
Fringe Benefits (8.85%)	1,573		
Employee Benefits (15.77%)	2,804		
<u>G&amp;A Expense:</u>			
Auto Maintenance	(16)		
Bank Service Charges	359		
Communications	9,087		
Dues & Subscriptions	1,945		
Depreciation	10,628	4,025	NOTE 3
Education	1,827		
Gas & Oil	4,908		
Insurance	3,862		
Legal & Accounting	3,709	526	NOTE 4
Office Beverage	463		
Office Supplies	8,973		
Per Diem	880		
Personal Advertising	437		
Postage	2,040		
Rent	16,232		
Repairs & Maintenance	5,532		
Taxes & Licenses	1,163		
Travel	2,990		
Utilities	3,092		
Board Meeting	496		
Donations	150	150	NOTE 5
Interest	2,074	2,074	NOTE 6
Labor	60,546		
Fringe Benefits (8.85%)	5,358		
Employee Benefits (5.77%)	9,548		
<u>Labor (On Brokerage Activities)</u>	11,131		
Fringe (8.85%)	985		
Employee Benefits (15.77%)	1,755		
<u>Labor (On Non-Taxable Equipm. Sales)</u>	4,190		
Fringe (8.85%)	371		
Employee Benefits (15.77%)	661		
SUBTOTAL	\$212,474	\$9,230	
Bonuses (40%)	10,315	10,315	NOTE 7
Commissions (40%)	1,608	1,608	NOTE 7
TOTAL	\$224,397	\$21,153	
	.....	.....	
AUDITED OVERHEAD POOL	\$203,244		
	.....		

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NOTE 1 Represents audit adjustments as follows:

a. Questionable claim for dependents rather than an employee.	
Check No. 2488, 9/15/83, M.A.W. and,	\$ 71.73
Check No. 2490, 9/15/83, M.W.	11.45
b. Portion of costs for spouse and entertainment not allowable:	
-- American Frozen Food Inst., Check No. 2672, 10/31/83	165.00
c. Liquor and entertainment not allowable per FPR 1-15.205-11:	
-- American Frozen Food Inst., Check No. 2728, 11/17/83	100.00
d. Cost of displays which were in color:	
-- California League of Food Processors, Check No. 2679, 11/4/83	125.00
e. Portion of \$91 claim that was for personal reasons:	
-- California League of Food Processors, Check No. 2764, 12/1/83	16.00
f. Vehicle repair was buried in the Promotional Expense category. No documentation to determine whether the vehicle was company, or privately owned:	
-- Don Mautor Chevrolet, Check No. 3103, 3/5/84	<u>359.07</u>
Questioned Promotional Expense (Rounded)	\$ 848.00
g. In addition, Foodpro claimed \$783 more than that posted on financial records.	<u>783.00</u>
Total Questioned Promotional Expense	<u>\$1,631.00</u> *****

NOTE 2 Entertainment expense was not allowable per FPR 1-15.205-11.

NOTE 3 Officials of Foodpro maintained a less than "arms-length" posture with PADEC, a firm providing similar services. A key official of Foodpro (President) occupied the same position in PADEC. On March 14, 1983 Foodpro notified PADEC that it was in default under a security agreement made between the parties on April 14, 1982. Foodpro proposed to retain PADEC assets valued a \$22 thousand to satisfy the obligation. Sequestered assets included:

<u>Vehicle</u>	<u>PADEC Depreciation</u>	<u>Book Value at Time of Foodpro Acquisition</u>
1977 Chevrolet Caprice	7 years	\$ 648
1978 Chevrolet Nova	6 years	920
1978 Plymouth Horizon	10 years	1,971
1979 Chevrolet El Camino	6 years	914
1981 Chevrolet El Camino	6 years	2,772

Foodpro continued depreciating the vehicles according to the PADEC depreciation schedule when, in reality, useful life of these used cars was practically over. Total cost should have been expensed at the time of purchase. In fairness to the subcontractor, we applied a five year useful life to vehicles and adjusted total depreciation expense as follows:

Depreciation Expense claimed on all vehicles	\$ 6,781
Allowable Depreciation Expense on:	
1977 Chevrolet Caprice	\$ -0-
1978 Chevrolet Nova	-0-
1978 Plymouth Horizon	-0-
1979 Chevrolet El Camino	183
1981 Chevrolet El Camino	554
New Automobile Purchases	2,019      2,756
Total Questioned Depreciation Expense	<u>\$ 4,025</u> .....

NOTE 4 Accounting services were first supported by a Xerox copy of a document purported to be furnished by the CPA. On October 11, 1985 the Subcontractor showed us an original supporting document that was not signed by the CPA. (Check No. 3084, 2/29/84 for \$526).

NOTE 5 Claimed Donations expense was not allowable per FPR 1-15.205-8.

NOTE 6 Claimed Interest expense was not allowable per FPR 1-15.205-17.

NOTE 7 Foodpro proposed to allocate 40 percent of bonuses and commissions to overhead. Like the profit-sharing pool, AID needs to decide whether or not it will participate in these programs.

FOODPRO INTERNATIONAL, INC.  
OVERHEAD PROPOSED AND QUESTIONED  
APRIL 1, 1984 THROUGH MARCH 31, 1985

<u>CATEGORY OF INDIRECT EXPENSES</u>	<u>CLAIMED</u>	<u>QUESTIONED</u>	
<u>Selling Expense:</u>			
Promotional	\$ 7,630	\$ 705	NOTE 1
Travel	122		
Per Diem	215		
Entertainment	599	599	NOTE 2
Communications	3,594		
Labor	15,321		
Fringe Benefits (8.85%)	1,356		
Employee Benefits (14.69%)	2,251		
<u>G&amp;A Expense:</u>			
Lease Payments	31,049		
Utilities	3,513		
Communications	12,041		
Depreciation	18,157	5,777	NOTE 3
Office Supplies	15,301		
Legal & Accounting	11,002	2,529	NOTE 4
Auto Maintenance	9,441		
Per Diem	281		
Postage	2,664		
Repairs & Maintenance	13,343		
Dues & Subscriptions	2,282		
Insurance	16,825		
Interest	5,167	5,167	NOTE 5
Travel	510		
Taxes & License	6,278		
Profit Sharing Trust Expense	2,000	2,000	NOTE 6
Profit Sharing Plan Contribution	35,760	35,760	NOTE 6
Education	101		
Bank Service Charges	31		
Board Meetings	150		
Other Expense	1,951		
Labor	70,705		
Fringe Benefits (8.85%)	6,257		
Employee Benefits (14.69%)	10,387		
<u>Labor (On Brokerage Activity):</u>	5,026		
Fringe Benefits (8.85%)	445		
Employee Benefits (14.69%)	738		
<u>Labor (on Farm Svc. Center):</u>	39,559	39,559	NOTE 7
Fringe Benefits (8.85%)	3,501	3,501	NOTE 7
Employee Benefits (14.69%)	5,811	5,811	NOTE 7
<u>Labor (non-taxable equip. sales)</u>	2,697		
Fringe Benefits (8.85%)	239		
Employee Benefits (14.69%)	396		
SUBTOTAL	\$364,696	\$101,408	
	.....	.....	
Bonuses (48%)	11,306	11,306	NOTE 8
Commissions (48%)	5,355	5,355	NOTE 8
	\$381,357	\$118,069	
	.....	.....	
Audited Overhead Pool	\$263,288		
	.....		

FOODPRO INTERNATIONAL, INC.  
OVERHEAD PROPOSED AND QUESTIONED  
APRIL 1, 1984 THROUGH MARCH 31, 1985

NOTE 1 Represents audit adjustments as follows:

a. No support provided for:		
- Fotorama, 6/21/84, Check No. 3484	\$ 5.92	
- GTO, Inc., 2/8/85, Check No. 4382	<u>225.00</u>	\$ 230.92
b. No detail to support distribution of costs for-American Express, 7/31/84, Check No. 3602.		1,236.00
c. Excessive cost to deliver an unidentified letter-DHL Airways, 8/31/84, Check No. 3753.		49.00
d. Portion of \$190 check paid for a non-employee: N.W. Food Processors Convention, 12/12/84 Check No. 4144.		<u>85.00</u>
SUBTOTAL (Rounded)		\$1,601.00
e. Audit adjustment on difference posted on books and amount claimed.		<u>(896.00)</u>
TOTAL QUESTIONED PROMOTIONAL EXPENSE:		\$ 705.00 *****

NOTE 2 Entertainment costs were not allowable per FPR 1-15.205-11.

NOTE 3 Officials of Foodpro maintained a less than "arms-length" posture with PADEC, a firm providing similar services. A key official of Foodpro (President) occupied the same position in PADEC. On March 14, 1983 Foodpro notified PADEC that it was in default under a security agreement made between the parties on April 14, 1982. Foodpro proposed to retain PADEC assets valued a \$22 thousand to satisfy the obligation. Sequestered assets included:

<u>Vehicle</u>	<u>PADEC Depreciation</u>	<u>Book Value at Time of Foodpro Acquisition</u>
1977 Chevrolet Caprice	7 years	\$ 648
1978 Chevrolet Nova	6 years	920
1978 Plymouth Horizon	10 years	1,971
1979 Chevrolet El Camino	6 years	914
1981 Chevrolet El Camino	6 years	2,772

Foodpro continued depreciating the vehicles according to the PADEC depreciation schedule when, in reality, useful life of these used cars was practically over. Total cost should have been expensed at the time of purchase. In fairness to the subcontractor, we applied a five year useful life to vehicles and adjusted total depreciation expense as follows:

Depreciation Expense Claimed on All Vehicles		\$ 10,625
Allowable Depreciation Expense on:		
1977 Chevrolet Caprice	\$ -0-	
1978 Chevrolet Nova	-0-	
1978 Plymouth Horizon	-0-	
1979 Chevrolet El Camino	-0-	
1981 Chevrolet El Camino	811	
New Automobile Purchases	<u>4,037</u>	<u>4,848</u>
 Total Questioned Depreciation Expense		 \$ 5, 777 .....

NOTE 4 Represents audit adjustments as follows:

- |   |               |                     |
|---|---------------|---------------------|
| a. Accounting services were first supported by a Xerox copy of a document purported to be furnished by the CPA. On October 11, 1985 the Subcontractor showed us an original supporting document that was not signed by the CPA. |               |                     |
| Check No. 3866 9/30/84  | \$ 960.00     |                     |
| Check No. 4192 12/18/84   | <u>496.50</u> | \$1,456.50          |
| <br>b. Legal services in preparation for litigation against the U.S. Government were claimed in contravention of FPR 1-15.205-31 (d). The same costs were claimed and questioned by us as direct costs.                         |               |                     |
| Check No. 4090, 11/30/84  |               |                     |
| Adams, Ball, Wengel and Kilian  | \$ 305.30     |                     |
| Check No. 4223, 12/31/84  |               |                     |
| Adams, Ball, Wengel and Kilian  | <u>62.50</u>  | 367.80              |
| Questioned legal and Accounting Expense (Rounded)   |               | <u>\$1,824.00</u>   |
| <br>c. In addition Foodpro claimed \$705 more of costs that were not recorded on their books.   |               | 705.00              |
| Total Questioned Legal and Accounting Expense   |               | \$2,529.00<br>..... |

NOTE 5 Interest expense was not allowable per FPR 1-15.205-17.

NOTE 6 Foodpro's profit sharing pool is described in Section A,2 of this report. AID needs to decide whether or not it will participate in the program despite generous fringe and employee benefits.

NOTE 7 Direct costs were claimed by Foodpro as indirect costs in contravention of FPR 1-15.202. We reallocated these costs to the direct labor base, and recalculated fringe and employee benefits accordingly.

NOTE 8 Foodpro proposed to allocate 48 percent of bonuses and commissions to overhead. Like the profit-sharing pool (NOTE 6, above) AID needs to decide whether or not it will participate in these programs.

FOODPRO INTERNATIONAL, INC.  
SUMMARY OF LOCAL CURRENCY (LEMPIRA) COSTS CLAIMED AND CONTROLLER ADJUSTMENTS  
MAY 1, 1983 TO OCTOBER 19, 1984

CATEGORY	CLAIMED	PER USAID/H CONTROLLER		
		ELIGIBLE	INELIGIBLE	
Secretaries Salaries	L 8,150	L 8,150		
Labor Expense	24,137	24,137		
Contracted Service	90,947	46,905	L 44,042	NOTE 1
Other Personnel	3,174	3,174		
Social Security Expense	126	126		
Treceavo Mes (Christmas Bonus)	3,377	3,377		
Severance Obligation Expense	8,493	8,493		
In-country Travel	4,128	3,535	593	NOTE 2
International Travel	19,971	19,664	307	NOTE 3
Fuel/Oil Vehicles	10,927	10,737	190	NOTE 4
Vehicle Maintenance and Repair	4,974	4,974		
Other Transportation Costs	1,214	1,214		
Air Transport/Export	1,433	1,433		
Indirect Marketing Export	845	845		
Export Broker Costs	948	948		
Export Material Costs	3,051	3,051		
Other Export Costs	36	36		
Domestic Marketing Costs	118	118		
Space Rental Farm Office	2,997	2,997		
Space Rental/Tegucigalpa Office	5,200	5,200		
Construction Improvement	7,416	7,416		
Other Costs	280	280		
Space Rental/Farm Property	5,565	5,565		
Communications	13,040	12,345	695	NOTE 5
Office Supplies	1,712	1,712		
Photocopying/Prints	1,654	1,654		
Postage	179	179		
Furniture and Office Equipment	4,712	4,712		
Other Administrative Costs	466	472	(6)	NOTE 6
Lawyer Fees	635	635		
Farm Inputs	56,475	56,154	321	NOTE 7
Equipment and Vehicle Expense	44,514	44,514		
Farm Equipment Expense	8,296	8,296		
Other Farm Cost	2,178	2,178		
Moving Expense-Fixed Asset	2,141	1,791	350	NOTE 8
Insurance	5,181	5,176	5	NOTE 9
Document Cost/Export	6	6		
<b>TOTAL.</b>	<b>L348,696</b>	<b>L302,199</b>	<b>L 46,497</b>	<b>NOTE 10</b>
<b>DOLLAR EQUIVALENTS (ROUNDED)</b>	<b>\$174,348</b>	<b>\$151,000</b>	<b>\$ 23,248</b>	

NOTE 1 Represents the difference between salaries claimed and salaries actually paid to local employees.

NOTE 2 Costs of L.592.76 were claimed during October, 1984 on the basis of an unsupported journal entry.

NOTE 3 Costs were claimed during October, 1984 on the basis of an unsupported journal entry, and, there was no support for an accumulation of small charges claimed during the period and allocated to International Travel.

L 262.00  
45.25

Total Questioned International Travel Expense (Rounded)

L 307.00  
\*\*\*\*\*

NOTE 4 Represents questioned costs as follows:

a. Invoice 146207 dated 3/15/85 for gasoline purchase prior to effective date of the subcontract.

L 50.00

b. Check No. 40321 to Gasoline Texaco Firms was unsupported.

81.25

c. Check No. 40324 to same vendor was also unsupported.

59.25

Total Questioned Fuel/Oil Vehicles Expense (Rounded)

L 190.00  
\*\*\*\*\*

NOTE 5 Represents telephone calls made from Guatemala without:

a. Supporting Documentation; and an

L 675.10

b. Unexplained and unsupported October, 1984 journal entry

19.75

Total Questioned Communications Expense (Adjusted and Rounded)

L 695.00  
\*\*\*\*\*

NOTE 6 Represents bank charges that Foodpro should have claimed.

NOTE 7 Represents adjustments as follows:

a. Check No. 40279 -- no support.	L 222.50
b. Unexplained and unsupported October, 1984 journal entry.	64.20
c. Accumulation of small, unsupported charges buried in Farm Inputs line item.	<u>34.32</u>
Total Questioned Farm Inputs Expense (Rounded)	L 321.00 *****

NOTE 8 Check No. 33914 for L 350 was paid to C.G., reportedly for freighting a cold storage box from Puerto Cortes to Tegucigalpa. There were no supporting details.

NOTE 9 Unsupported L 5 payment for insurance.

NOTE 10 There are minor differences in totals on USAID/Honduras Controller worksheets and those shown here. Those differences are due to rounding to the nearest lempira.

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FOODPRO INTERNATIONAL, INC.  
SUMMARY OF LOCAL CURRENCY (LEMPIRA) COSTS CLAIMED AND CONTROLLER ADJUSTMENTS  
OCTOBER 20, 1984 TO MARCH 31, 1985

CATEGORY	CLAIMED	PER USAID/H CONTROLLER		
		ELIGIBLE	INELIGIBLE	
Contracted Service	L 26,680	L	L 26,680	NOTE 1
Other Personnel Services	2,035	2,005	30	NOTE 2
Severance Obligation Expense	3,751	2,853	898	NOTE 3
In-Country Travel	2,115	2,100	15	NOTE 4
International Travel	2,777	413	2,364	NOTE 5
Fuel/Oil Vehicles	2,862	2,862		
Vehicle Maintenance and Repair	1,509	1,509		
Other Transportation Costs	189	189		
Indirect Marketing Exports	126	126		
Export Broker Costs	562	348	214	NOTE 6
Export Material Costs	2,242	2,204	38	NOTE 7
Air Transportation Export	8,804	8,485	319	NOTE 8
Document Costs/Export	170	170		
Other Marketing Costs	2,915	2,880	35	NOTE 9
Export Taxes	636	636		
Space Rental/Farm Office	500	500		
Space Rental/Tegucigalpa Office	4,874	1,024	3,850	NOTE 10
Construction Improvmts.& Repairs	951	951		
Small Farmer Payment	4,532	4,532		
Communications	5,091	1,893	3,198	NOTE 11
Office Supplies	156	156		
Photocopying/Prints	893	850	43	NOTE 12
Postage	19	19		
Other Administrative Costs	617	163	454	NOTE 13
Legal Fees	3,747	2,421	1,326	NOTE 14
Farm Inputs	31,915	30,176	1,739	NOTE 15
Other Farm Costs	193	193		
Moving Expense/Fixed Assets	350	350		
<b>TOTAL</b>	<b>L111,211</b>	<b>L 70,008</b>	<b>L 41,203</b>	<b>NOTE 16</b>
<b>DOLLAR EQUIVALENTS</b>	<b>\$ 55,606</b>	<b>\$ 35,004</b>	<b>\$ 20,602</b>	

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NOTE 1 The USAID/Honduras Controller considered all contracted services ineligible for payment since the subcontract had expired.

NOTE 2 Check No. 34100 and the supporting documents did not show days or hours worked for M.T.

NOTE 3 Check No. 46835 ( 898) was issued to G.M. in order to pay to A.H. his severance pay (L.810) and salary (L.88). Supporting documents did not show receipt by, and days and hours worked by A.H. An additional \$2,853 of severance pay claims were furnished the auditors by Foodpro on October 11, 1985. The USAID/Honduras Controller had already taken action on these and other costs included in the claim.

NOTE 4 The USAID/Honduras Controller considered E.O.'s taxi reimbursement (Check No. 520462) a personal expense.

NOTE 5 Represents adjustments as follows:

a. Check No. 46839 to SAISA for airfare of the Vice President. There was no supporting documentation about the trip, and no copy of the ticket	L 423.60
b. Check No. 34105 to SAISA for airfare of D.S. was not supported and presented in the same manner as NOTE 5, a., above.	1,220.00
c. I.L.'s airfare was supported by a journal entry and presented in the same manner as NOTES 5,a. and b., above.	280.80
d. A journal entry lacking any support was presented for this claim.	<u>439.92</u>
Ineligible International Travel Costs (Rounded)	L 2,364.00 *****

NOTE 6 The nature of customs services reportedly provided by A.A. (Check No. 34111) was not provided.

NOTE 7 The journal entry was not supported by invoices or other explanation.

NOTE 8 Check No. 46893 to Hotel La Ronda was for lodging and communication expense of D.S. Note that this subsistence - type claim was buried in the Air Transportation Export line item. The expense was not part of the subcontract because it was terminated.

NOTE 9 Check No. 52401 paid to N.M. was not supported.

NOTE 10 Foodpro representatives stayed in-country subsequent to subcontract termination. In general, they allocated 75 percent of the cost of rentals to the subcontract. The USAID/Honduras Controller has questioned the following:

- a. Check No. 46883 to Hotel La Ronda, 11/6/84 to 11/29/84 for D.S. L 750.00
- b. Check No. 52387 to Hotel La Ronda for "office rental." 1,500.00
- c. Check No. 52466 to Ritza de Callejas for D.S.'s apartment, 1/8/85 to 2/18/85. 600.00
- d. Check No. 55361 to Ritza de Callejas for D.S.'s apartment, 2/18/85 to 3/18/85. 600.00
- e. Check No. 34115 and supporting journal entry was for D.S.'s lodging and communications 11/1/84 to 11/3/84. 22.00
- f. And Check No. 34114 and supporting journal entry was for the Vice President's lodging from 10/29/84 to 10/31/84. L 377.51

Ineligible Space Rental/Tegucigalpa Office Costs (Rounded) L 3,850.00  
\*\*\*\*\*

NOTE 11 The Foodpro Communications line item contained lodging as well as communications expense. The USAID/Honduras Controller questioned the following:

- a. Check No. 34103 representing lodging for V.P. from 10/22/84 to 10/27/84. L 452.51
- b. Check No. 34104 by spouse of V.P. with no support. 40.00
- c. Check No. 34115 representing lodging of Financial Analyst from 11/1/84 to 11/3/84. 148.12
- d. Telephone calls needing explanation. 97.00
- e. Check No. 52413 to Hotel La Ronda representing lodging of Financial Analyst. 645.68

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f. Telephone calls needing invoice from GUATEL (Guatemala).	653.50
g. Telexes with no supporting invoice.	59.00
h. Check No. 55365 paid to landlord for unidentified telephone calls.	18.77
i. A journal entry with no supporting documents.	1,011.26
j. Check No. 55386 paid to landlord for unidentified telephone calls.	72.54

Total Questioned Communications Expense (Rounded)	L 3,198.00 *****
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NOTE 12 Represents L. 43.47 of unsupported photocopying/prints costs.

NOTE 13 There was no supporting documentation for:

a. Check No. 46839 to Hotel La Ronda	L 30.60
b. A journal entry for expenditures generated in July, 1984 from Guatemala.	377.86
c. A journal entry on banking charges.	45.35

Ineligible Other Administrative Costs (Rounded)	L 454.00 *****
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NOTE 14 Represents adjustments as follows:

a. Check No. 46836 to G.M. for unexplained professional fees.	L 450.00
b. Check No. 46842 to R.R. for an expenditure regarding E.O.'s residence.	50.00
c. Check No. 46844 to G.M. for tax and exemption cards for three employees was not supported.	205.50
d. Check No. 46856 to R.R. regarding a foreign register transaction on E.O.'s behalf was not supported.	25.00

e. Check No. 34101 regarding acquisition of E.O.'s country residence was not supported and needed explanation.	450.00
f. Check No. 55381 to G.M. for professional fees for E.O. was not supported and needed explanation.	<u>145.00</u>
Ineligible Legal Fees (Rounded)	L 1,326.00 *****

NOTE 15 Represents adjustments as follows:

a. Check No. 46931 was for L.168.12 Actual cost was L.160.12.	L 8.00
b. Check No. 46942 to L.M. was for labor that was unsupported and unexplained.	953.25
c. Check No. 35175 to E.O. was for labor that was unsupported and unexplained.	<u>777.43</u>
Ineligible Farm Inputs Costs (Rounded)	L 1,739.00 *****

NOTE 16 Small lempira differences between this Exhibit and USAID/Honduras Controller records are due to rounding to nearest lempira.

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FOODPRO INTERNATIONAL, INC.  
ILLUSTRATION OF LABOR RATES USED TO BILL CLIENTS  
DERIVED FROM KEY SUBCONTRACT EMPLOYEES

<u>EMPLOYEE</u>	<u>YEAR</u>	<u>BASE SALARY</u>	<u>STOCK OPTIONS</u>	<u>PROFIT SHARING BONUSES AND COMMISSIONS</u>	<u>FRINGE BENEFITS</u>	<u>OVERHEAD AND PROFIT FACTOR</u>	<u>TOTAL</u>	<u>DAILY RATES BILLED TO CLIENTS</u>
A	1983	\$ 107.58		32.27	41.95	218.16	\$ 399.96	\$ 400.00
	1984	\$ 124.80		37.44	48.73	253.40	\$ 464.37	\$ 464.00
B	1983/84	\$ 92.30	10.90	30.96	40.38	209.45	\$ 383.99	\$ 384.00
C	1983	\$ 77.54		20.77	27.00	140.40	\$ 265.71	\$ 249.00
	1984	\$ 80.77		24.23	31.50	163.80	\$ 300.30	\$ 286.00
D	1983/84	\$ 65.38		19.61	25.50	132.59	\$ 243.08	\$ 249.00
E	1983	\$ 60.00		18.00	23.40	121.68	\$ 223.08	\$ 220.00
	1984	\$ 66.39		19.92	25.89	134.64	\$ 246.84	\$ 249.00
M	1983/84	\$ 32.31		9.69	12.60	65.52	\$ 120.22	\$ 114.00

FOODPRO INTERNATIONAL, INC.  
DOLLAR AND LOCAL CURRENCY (LEMPIRA) COSTS  
RECONCILIATION

DOLLARS

Subcontract Ceiling		\$125,000
		.....
Received May 1, 1983 to April 30, 1984		\$125,000
Billed	\$111,094	
Less Ineligible Billings based on Reviews by:		
-- Partners of the Americas: Vermont-Honduras	\$ -0-	
-- USAID/Honduras Controller	21,297	
-- AID Inspector General	10,077	
		79,720
Refund Due		<u>\$ 45,280</u>
		.....

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Second Subcontract Ceiling		\$140,000
		.....
Received May 1, 1984 to October 19, 1984		\$ 54,426
Billed	\$ 71,854	
Less Ineligible Billings based on Reviews by:		
-- Partners of the Americas: Vermont-Honduras	3,628	
-- USAID/Honduras Controller	272	
-- AID Inspector General	14,832	
		53,122
Refund Due		<u>\$ 1,304</u>
		.....

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Expressed in  
U.S. Dollars

LEMPIRAS (Lps.2=\$1.00)

Subcontract Ceiling		\$187,500
		.....
Received May 1, 1983 to October 19, 1984		\$187,500
Billed	\$174,348	
Less Ineligible Billings based on Reviews by:		
--Partners of the Americas: Vermont-Honduras	-0-	
--USAID/Honduras Controller	23,248	
--AID Inspector General	<u>-0-</u>	<u>151,100</u>
Refund Due		<u>\$ 36,400</u>
		.....

FOODPRO INTERNATIONAL, INC.  
DOLLAR AND LOCAL CURRENCY (LEMPIRA) COSTS  
RECONCILIATION

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SUMMARY

Prior to negotiation of questioned and ineligible costs, Foodpro liabilities to the Grantee the Government of Honduras, and USAID/Honduras are:

- Due from first subcontract	\$ 45,280
- Due from second subcontract	1,304
- Dollar equivalents due from both subcontracts	36,400
- Due the Government of Honduras from sales proceeds	22,355
- Due the Government of Honduras from interest earned on lempira deposits	3,682
TOTAL	<u>\$109,021</u> *****

LIST OF REPORT RECIPIENTS

Director, USAID/Honduras	5
Assistant Administrator, Bureau for LAC	1
Panama/Honduras Desk (LAC/CAP)	1
EXRL	1
LEG	1
OPA	2
GC	1
AA/M	2
Office of Financial Management (M/FM/ASD)	2
SAA/S&T/FA	1
PPC/CDIE	3
M/SER/MO	1
M/SER/BOMS	1
IG	1
AIG/A	1
IG/PPO	1
IG/BMS/C&R	12
IG/II	1
IIC/II/Tegucigalpa	1
RIG/AS (Each)	1