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AUDIT OF
THE UNIVERSITY OF ILLINOIS-URBANA/CHAMPAIGN
CONTRACT AFR-0201-C-00-1097
UNDER USAID/ZAMBIA'S
AGRICULTURAL DEVELOPMENT RESEARCH AND
EXTENSION PROJECT
PROJECT NUMBER 611-0201

AUDIT REPORT NO. 3-611-88-13
May 10, 1988

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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May 10, 1988

MEMORANDUM FOR ACTING DIRECTOR, USAID/Zambia, Leslie A. Dean

FROM: RIG/A/Nairobi, Richard C. Thabet

SUBJECT: Audit of The University of Illinois-Urbana/Champaign Contract AFR-0201-C-00-1097 Under USAID/Zambia's Agricultural Development Research and Extension Project (Number 611-0201)

The Office of the Regional Inspector General for Audit/Nairobi completed its audit of the University of Illinois-Urbana/Champaign Contract AFR-0201-C-00-1097 Under USAID/Zambia's Agricultural Development Research and Extension Project (Number 611-0201). Five copies of the audit report are enclosed for your action.

The draft audit report was submitted for comment to you and the University of Illinois. Your comments were fully considered and are included in their entirety as an attachment to this report. The University of Illinois submitted its comments as this report was in the final stages of printing. Consequently, we were not able to fully evaluate their comments or make changes to the cost exhibits. Their summary comments are also attached to the report. We will make available the response and all supporting documentation to the Regional Contracting Officer during the negotiations. The report contains seven recommendations. All recommendations have been resolved, but will be closed upon completion of planned or promised actions. In accordance with your request, we will transmit a copy of this report to the REDSO/ESA Regional Contracting Officer. He will need to help you implement Recommendations No 1 and 2 of the report. Please advise me within 30 days of any actions taken to implement them.

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

EXECUTIVE SUMMARY

The Zambia Agricultural Development Research and Extension Project (Project No. 611-0201) (ZAMARE) started in September 26, 1980. The project, which will total $12.5 million, focuses agricultural research and extension on the Zambian small farmer. Most project funds ($10.3 million) were earmarked for technical assistance under a contract with the University of Illinois - Urbana/Champaign (hereafter referred to as University of Illinois). University of Illinois is the prime contractor. However, it had also used personnel and assistance from three other U.S. universities -- University of Maryland-Eastern Shores, Southern Illinois University, and the University of Hawaii.

Contract AFR-0201-C-00-1097 with University of Illinois was signed on December 7, 1981, and had an estimated ceiling of $10.3 million. As of August 31, 1987, $9.9 million had been obligated and $8.9 had been billed to A.I.D. Although the Project Assistance Completion Date was December 31, 1987, the participant training component was to continue through December 31, 1988; an extension to provide Technical Assistance to June 30, 1988 was also anticipated.

The Office of the Regional Inspector General for Audit, Nairobi (RIG/A/N) made a financial and compliance audit of contract AFR-0201-C-00-1097 between A.I.D. and the University of Illinois - Urbana/Champaign. The audit objectives were to (a) determine whether financial statements submitted and costs claimed by the universities presented fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs; (c) determine whether the University of Illinois and the other three universities complied with U.S. laws, regulations, and contract provisions; and, (d) follow-up on two recommendations made in Audit Report No. 3-611-86-1, which covered program results and was entitled "Audit of Zambia Agricultural Development Research and Extension Project." These two recommendations addressed the need to (a) establish adequate controls over project equipment, and (b) dispose of equipment considered inappropriate for project use.

This audit report covers the financial and compliance aspects of the University of Illinois contract under ZAMARE. We are issuing a separate audit report which covers our review of USAID/Zambia's monitoring of the contract, and procurement and control of commodities and services financed with project funds other than those obligated for the University of Illinois contract. Our fieldwork was done between September 21, 1987 and December 18, 1987.

All four universities were generally submitting billings which presented fairly costs resulting from project implementation. In most instances, billed costs were proper and reasonable. We also found that, to the extent of our review, all four universities had complied with U.S. laws, regulations, and in general with terms of the A.I.D./University of Illinois contract.

Of the $8.9 million billed by the University of Illinois, we accepted $8.2 million. We concluded that $500,103 were unallowable and that $241,264 were questionable under the terms of the contract. The audit also disclosed other major findings related to internal controls, procedures, and practices used by the contractor. Two of the recommendations made in a prior audit report had not been implemented. A brief description of these findings follow.

We considered $500,103 to be unallowable costs. Most were unallowable for two principal reasons: (a) 47 percent was due to misapplication of approved indirect cost rates; and (b) 25 percent was for payment of an overseas incentive contrary to the contract provisions.

We questioned $241,264 also for two principal reasons: (a) 46 percent related to a significant increase in Home Office salaries billed in the last two years; and (b) 22 percent related to the associated indirect costs.

There were also other serious problems with procedures, practices and internal controls. For example, University of Illinois was unable to provide an accurate accounting for funds transferred to the ZAMARE Team. These funds were transferred from University of Illinois to Citibank N.Y. and Citibank Lusaka and have not yet been expended for project purposes. Second, project commodities were not being properly controlled by the University of Illinois ZAMARE Team. For instance, physical inventories were not reconciled to procured items, and numerous errors were made in taking a recent inventory. Third, due to poor project planning, many of the items ordered by A.I.D. prior to signing the University of Illinois contract were not appropriate for use on the ZAMARE project. This problem was previously reported in RIG/A/N Audit Report 3-611-86-1. Although the recommendation had been cleared, the problem had not been corrected. Fourth, numerous pieces of equipment were in need of repairs. Fifth, the University of Illinois purchased 2,200 reams of Xerox paper, valued at

$10,567, for use in the project. Neither the University of Illinois ZAMARE Team nor the Program Support Unit could account for receipt or use of 1,700 reams of this paper which were worth about $9,492. The exact reasons why this happened were not known.

The audit report contains seven recommendations. These recommendations address the need to (a) evaluate and disallow, if required, the $506,103 of unallowable costs; (b) resolve or recover, as appropriate, the $241,264 of questionable costs; (c) obtain from the University of Illinois a detailed report accounting for funds transferred to the ZAMARE Team and recover any refunds due to A.I.D.; (d) require the ZAMARE Team to take a complete physical inventory of Research Station equipment and vehicles; (e) reconcile the inventory to equipment and vehicles purchased for the ZAMARE project; (f) identify equipment which was inappropriate for use on the ZAMARE project and arrange for its disposal; (g) arrange for repair or disposition, as appropriate, of inoperable or unserviceable equipment; and (h) determine what happened to 1,700 reams (170 boxes) of copy paper.

Our preliminary observations relating to costs and procedural defects were discussed with University of Illinois or the University of Illinois ZAMARE Team Leader stationed in Zambia. In addition, the draft of this report was sent to both USAID/Zambia and the University of Illinois for review. Except as otherwise stated in the body of the report, USAID/Zambia was in general agreement with our findings and recommendations. Their detailed comments are stated in Appendix 7. The University of Illinois submitted its comments as this report was in the final stages of printing. Consequently, we were not able to fully evaluate their comments. The summary statement of the University of Illinois is shown in Appendix 8. We will make available the detailed response and all supporting documentation to the Regional Contracting Officer and USAID/Zambia for the negotiations.

Office of the Inspector General

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AGRICULTURAL DEVELOPMENT RESEARCH AND EXTENSION PROJECT
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AUDIT OF
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PART I - INTRODUCTION

A. Background

On September 26, 1980, USAID/Zambia signed a $12.5 million grant agreement with the Government of the Republic of Zambia (GRZ) to assist in focusing agricultural research and extension on the Zambian small farmer. The Project Assistance Completion Date (PACD) for most components of the project was December 31, 1987. However, the participant training component was to continue through December 31, 1988, and an extension of the PACD for Technical Assistance to July 31, 1988 was anticipated.

Most of project funds ($10.3 million) were earmarked for technical assistance under a contract with the University of Illinois - Urbana/Champaign (University of Illinois). In addition to their own resources, University of Illinois obtained personnel and assistance from three other U.S. universities -- University of Maryland- Eastern Shores, Southern Illinois University, and the University of Hawaii. University of Illinois was to work closely with the GRZ's Ministry of Agriculture and Water Development (MAWD) by providing (a) a field staff of eight technicians skilled in such disciplines as soybean, maize and sunflower breeding, general agronomy, extension and farming systems economy; (b) short term advisors and consultants; (c) long term and short term training for Zambian participants; (d) special studies to supplement research and extension work being done by the MAWD; and (e) home office support in providing additional expertise, as required, and to procure necessary project commodities.

The University of Illinois contract (AFR-0201-C-00-1097) was signed on December 7, 1981. The estimated cost, as stated in the contract, was $10,276,275. The PACD for the contract was consistent with the one stated in the grant agreement. Through Amendment No. 5, dated August 25, 1987, a total of $9,937,189 had been obligated under the contract. At the time of our audit, in October 1987, University of Illinois had billed A.I.D. a total of $8,905,173. This amount covered the period from inception of the contract through August 31, 1987.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Nairobi (RIG/A/N) made a financial and compliance audit of contract (AFR-0201-C-00-1097) between A.I.D. and the University of Illinois - Urbana/Champaign. The audit objectives were to (a) determine whether financial statements submitted and costs claimed by the University of Illinois under the contract presented fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs incurred under the contract; (c) determine whether the University of Illinois complied with U.S. laws, regulations, and contract provisions; and (d) as noted later in this section, to follow-up on recommendations contained in a previously issued RIG/A/N audit report. This audit report covers only the financial and compliance aspects of the University of Illinois contract under the Zambia Agricultural Development Research and Extension Project (ZAMARE). A separate audit report is being issued on those aspects reviewed covering USAID/Zambia's monitoring of the contract, and procurement and control of commodities and services with project funds other than those obligated for the University of Illinois contract.

The fieldwork for this audit was done between September 21, 1987 and December 18, 1987. We reviewed financial records and detailed supporting documentation, and other controls at A.I.D.'s Office of Financial Management in Washington D.C.; the University of Illinois campus in Champaign, Illinois; A.I.D.'s Regional Office of Financial and Management Center in Nairobi, Kenya; the ZAMARE Team Office in Lusaka, Zambia; and USAID/Zambia in Lusaka. Audit work, as deemed necessary, was made to verify the allowability and allocability of costs billed to A.I.D. by the University of Illinois. This amounted to $[illegible],[illegible],173, and covered the period from September 1981 through August 1987. Field visits were also made in Zambia to Mount Makulu, Kabwe and Magoye Research Stations to review inventory controls over project commodities and status of participants.

RIG/A/Nairobi had issued one previous audit report on ZAMARE. This report (No. 3-611-86-1) covered program results and was entitled "Audit of Zambia Agricultural Development Research and Extension Project." During the present audit, we made a follow-up on two parts of a prior audit recommendation (No. 4a and 4c) pertaining to (a) establishing adequate controls over project equipment, and (b) disposing of equipment considered inappropriate for project use.

This audit also included a review of detailed invoices submitted to University of Illinois by the University of Maryland and Southern Illinois University. The invoices submitted to University of Illinois by the University of Hawaii (UH) were in the form of a line item schedule, and did not provide details. In response to a request by RIG/A/N, the UH submitted certain detailed supporting documentation, which was reviewed prior to completion of the audit.

We also evaluated internal controls over funds transferred by the University of Illinois to the ZAMARE Team in Lusaka. Throughout the audit, discussions were regularly held with personnel from the University of Illinois's Contract Office and the Office of International Agriculture, the University of Illinois ZAMARE Team Leader, and USAID/Zambia. This review was made in accordance with generally accepted Government auditing standards.

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PART II - RESULTS OF AUDIT

All four universities were generally submitting billings which presented fairly costs resulting from the ZAMARE project implementation. In most instances costs included in their billings were proper and reasonable. We also found that, to the extent of our review, these four universities had complied with U.S. laws and regulations, and usually with terms of the A.I.D./University of Illinois contract. We concluded, however, that internal controls employed by the University of Illinois were generally not adequate pertaining to control over funds transferred to the ZAMARE Team.

Of the $8,905,173 billed by the University of Illinois, we accepted $8,163,806. We concluded that $500,103 were unallowable and that $241,264 were questionable under the terms of the contract. The audit also disclosed other major findings related to internal controls, procedures, and practices used by the contractor. Two of the recommendations made in a prior audit report had not been implemented. A brief description of these observations follow.

We considered $500,103 to be unallowable costs for two principal reasons: (a) 47 percent was due to misapplication of approved indirect cost rates; and (b) 25 percent was for payment of an overseas incentive contrary to the contract provisions.

We questioned $241,264 also for two principal reasons: (a) 46 percent related to a significant increase in Home Office salaries billed in the last two years; and (b) 22 percent related to the associated indirect costs.

There were also other serious problems with procedures, practices and internal controls. For example, University of Illinois was unable to provide an accurate accounting for funds transferred to the ZAMARE Team. These funds were transferred from University of Illinois to Citibank N.Y. and Citibank Lusaka and have not yet been expended for project purposes. Second, project commodities were not being properly controlled

by the University of Illinois ZAMARE Team. For instance, physical inventories were not reconciled to procured items and numerous errors were made in taking a recent inventory. Third, due to poor project planning, many of the items ordered by A.I.D. prior to signing the University of Illinois contract were not appropriate for use on the ZAMARE project. This problem was previously reported in RIG/A/N Audit Report 3-611-86-1. Although the recommendation had been cleared, the problem had not been corrected. Fourth, numerous pieces of equipment were in need of repairs. Fifth, University of Illinois purchased 2,200 reams of Xerox paper, valued at $10,567, for use in the project. Neither the University of Illinois ZAMARE Team nor the Program Support Unit could account for receipt or use of 1,700 reams of this paper which were worth about $9,492. The exact reason why this happened was not known.

To correct the problems, this audit report contains seven recommendations. These recommendations address the need to (a) evaluate and disallow, if required, the $500,103 of unallowable costs; (b) resolve or recover, as appropriate, the $241,264 of questionable costs; (c) obtain from the University of Illinois a detailed report accounting for funds transferred to the ZAMARE Team and recover any refunds due to A.I.D.; (d) require the ZAMARE Team to take a complete physical inventory of Research Station equipment and vehicles; (e) reconcile it to equipment and vehicles purchased for the ZAMARE project; (f) identify equipment which was inappropriate for use on the ZAMARE project and arrange for its disposal; (g) arrange for repair or disposition, as appropriate, of inoperable or unserviceable equipment; and (h) determine what happened to 1,700 reams (170 boxes) of copy paper.

A. Finding and Recommendations

1. Unallowable Costs Totalled $500,103

U.S. Government laws, regulations and the A.I.D./University of Illinois contract provide the basis for establishing the allowability of costs billed to A.I.D. We found the University of Illinois had billed A.I.D. $500,103 for unallowable costs. Of these costs, $65,655 had been incurred by University of Maryland and $53,701 by Southern Illinois University. The majority of these costs were considered not allowable under the contract for two reasons: (a) 47 percent was due to misapplication of approved indirect cost rates; and (b) 25 percent was for the payment of an overseas recruitment incentive contrary to the contract provisions. As a result, AID had been overbilled by the above amounts. (See summary on Exhibit 1 and detailed explanations in the Appendices).

Recommendation No. 1

We recommend that USAID/Zambia, in conjunction with the Contracting Officer of the Regional Economic Development Services Office for East and Southern Africa, take action to evaluate and disallow, if required, $500,103 billed by the University of Illinois - Urbana/Champaign.

Discussion - As stated in the opening paragraph, U.S. Government laws, regulations and, primarily in this situation, the A.I.D./University of Illinois contract provide the basis for establishing the allowability of costs billed to A.I.D. Our review disclosed that three universities (University of Illinois, University of Maryland and Southern Illinois University) had billed various costs that were unallowable per the terms of the A.I.D./University of Illinois contract, or by A.I.D, regulations. Following are the types and amounts, in summary form, of unallowable costs billed:

	Appendix No.	UIUC	UMES	SIU
Overseas Recruitment Incentive	1	$52,338	$40,572	$33,436
Fringe Benefits on Unallowable Salary Costs	3	6,094	7,960	4,048
Misapplication of Approved Indirect Cost Rates	4	234,692		2,091
Salary Billed In Excess of Eligible Amount	5-1/		3,089	

Employee Provided Funds Representing Difference Between Economy Fare and Business Fare	5-3/	518		
Procurement of Commodities from Ineligible Source	5-4/	65,092		
Entertainment of Zambian Ambassador	5-5/	155	619	
Indirect Costs on Unallowable Costs	6	21,858	13,415	14,126
Total Unallowable Costs		$380,747	$65,655	$53,701

The following comments relate to the more significant unallowable costs such as overseas recruitment incentives, misapplication of approved indirect cost rates, and procurement of commodities from ineligible sources. Additional details on the remaining disallowances are provided in the Appendices.

Overseas Recruitment Incentive - The universities were providing a 10 percent incentive salary increase to permanent staff assigned to Zambia. Such overseas recruitment incentives were in agreement with established universities' policies. However, they did not comply with restrictions prescribed by the Additional General Provisions of the contract.

The University of Illinois, Southern Illinois University and University of Maryland-Eastern Shores were increasing salaries of those persons selected for the ZAMARE permanent field staff by 10 percent. With a few exceptions, this was a one-time increment which did not affect subsequent merit or cost of living increases.

According to the three universities, they paid the one-time incentive increment to partially compensate staff members for the adjustments in relocating their personal and professional activities from campus to an overseas location. They felt this met the authorization prescribed by Section 4 of the General Provisions (A.I.D. 1420-24C) of the A.I.D./University of Illinois contract which states that compensation of personnel will be reimbursable in accordance with the contractors established policies, procedures, and practices except as otherwise provided in the contract. Based on booklets provided by University of Illinois and the University of Maryland, the auditors verified their policies and procedures do contain such statements. The statements contain policies on an "incentive increment" and also payment of the usual A.I.D. allowances such as post differential, living quarter, temporary lodging, education, separate maintenance, etc.

Payment of overseas recruitment incentives is authorized by the contract, but subject to some restrictions. For instance, the Additional General Provisions (AID 1420-23D) of A.I.D.'s contract with University of Illinois (Section 4: Personnel Compensation) provide for an overseas recruitment incentive of up to 10 percent on the initial base annual salary <u>if</u> the employee is not qualify and receive an exemption for overseas income provided under the U.S. Internal Revenue Code. This same restriction is specifically stated in the policies of one university. For instance, the personnel policy states "...The Office of International Programs should be consulted on specific policies governing each donor funded project. For example, the incentive increment may not conflict with the 1981 tax law amendment (see section 14.2) governing eligibility for overseas tax exemptions."

All employees listed on Appendix 1 qualified and received an exemption for overseas income provided under the U.S. Internal Revenue Code. For this reason, the incentives awarded to them did not meet the restriction specified by the Additional General Provisions (A.I.D. 1420-23 D) or even the restrictions stipulated by the policies of at least one university. These costs ($126,346) were considered unallowable and are recommended for disallowance.

<u>Misapplication of Approved Indirect Cost Rates</u> - The indirect cost rate negotiated by University of Illinois with the cognizant U.S. Government Agency (Department of the Navy) provided for use of a Modified Total Direct Cost base. This means that total direct costs must be reduced by certain factors before applying the indirect rate for the applicable fiscal year. The most important factors by which direct costs should have been reduced for the University of Illinois were:

- All sub-contract costs exceeding $25,000 per sub-contract.
- Purchased equipment with an estimated life of more than one year and having an acquisition cost of more than $500.
- Federal financing for long-term participants including tuitions, fees, allowances and transportation.
- Travel costs exceeding $25,000 per University fiscal year per contract. (fiscal year 1984 and prior years.)

Initially, University of Illinois was applying the negotiated rates to total Direct Costs without any reduction toward the modified base. Subsequently, some adjustments were made for

Off Campus Indirect Costs. No significant adjustments/ corrections were noted for On-Campus Indirect Costs.

From inception of the contract through June 30, 1987, the University of Illinois billed A.I.D. $234,692 more than was allowable for Indirect Costs as detailed on Appendix 4.

Procurement of Commodities from Ineligible Source - Both the ZAMARE Grant Agreement and the A.I.D./University of Illinois contract stipulated that procurement of project commodities must be from the United States. Waivers were executed to except certain items from the U.S. source requirements.

The following commodities (other than vehicles and motorcycles) were purchased by University of Illinois outside the United States without a waiver and are not eligible A.I.D. financing.

Item	Procured In	Value
Xerox Copier and Consumables	England	$11,257
Newport Analyzer	England	20,102
Memory Typewriter and Supplies	England	1,239
Journals and Subscriptions	England	32,494
Total		$65,092

We could not locate a waiver in USAID/Zambia files for the above commodities. The University knew of such requirements but the exact reason why the University did not obtain the required waivers could not be determined. For instance, a waiver was obtained to buy a microcomputer and accessories at a cost of $44,863 (see Appendix 5, page 4).

Management Comments

USAID/Zambia concurred with the recommendation. It requested that REDSO/ESA/RCO advise the contractor of the audit findings, and recover the amounts recommended for disallowance.

Office of Inspector General Comments

The recommendation is considered resolved. However, we will close it once negotiations take place and the funds recommended for disallowance have been either refunded or resolved.

2. Questionable Costs Amounted To $241,264

U.S. Government laws, regulations and, primarily in this situation, the A.I.D./University of Illinois contract provide the basis for establishing the allowability of costs billed to A.I.D. Due primarily to unresolved issues at the conclusion of our audit field work and to a lesser extent to ambiguity in the A.I.D/University of Illinois contract, we questioned $241,264 of costs billed to A.I.D. (see Exhibit 1 and Appendices). Of these costs, $31,[illegible] had been incurred by the University of Maryland, Eastern Shore and $2,969 by Southern Illinois University. These costs were questioned for two principal reasons: (a) 46 percent related to a significant and unapproved increase in Home Office salaries billed in the last two years; and (b) 12 percent were the related indirect costs. As a result, these costs need to be reviewed more closely by USAID/Zambia and the Contracting Officer.

Recommendation No. 2

We recommend that USAID/Zambia, in conjunction with the Contracting Officer of the Regional Economic Development Services Office for East and Southern Africa, take appropriate action to resolve or recover, as appropriate, $241,264 of questioned costs billed to A.I.D. by the University of Illinois - Urbana/Champaign.

Discussion - Our review disclosed that three universities (University of Illinois the University of Maryland and Southern Illinois University had billed various costs that were questionable. Costs of $241,264 were questioned in this report because they remained unresolved or because of ambiguity of contract provisions. Following are the types and amounts, in summary form, of questioned costs:

	Appendix No.	Illinois	Maryland	Southern Illinois
Additional/Salary For Team Leader	1	$	$10,417	$ 2,000
Significant Increase in Home Office Salaries	2	111,036		
Fringe Benefits on Questioned Salaries	3	12,669	4,276	224
Salaries for Field Staff Continued Beyond Departure from Zambia	5-2/	20,467	9,864	
Possible Difference Between Economy and Business Fare Air Tickets	5-3/	2,707		
Significant Increase of Consultants Fee	5-6/	8,645		
Loan to GRZ	5-7/	5,116		

Disbursement on Two Expenditure Reports	5-9/	151		
Indirect Costs on Questioned Costs	6	45,967	6,960	765
Total Questioned Costs		$206,758	$31,517	$2,989

The following comments relate to the more significant questioned costs such as significant increases in home office salaries and salaries which continued beyond the employee's departure date. Additional details on the remaining questioned costs are provided in the Appendices.

Significant Increase in Home Office Salaries - For the first four years of the A.I.D./University of Illinois contract, Home Office salaries for University of Illinois represented a Full Time Equivalency (FTE) of 1.5 persons and totaled $127,084. Due to a change in policy by the University of Illinois, effective in fiscal year 1986, Home Office (on campus) salaries billed to A.I.D. significantly increased. The FTE went from 1.5 persons to 3.1[illegible] persons; and the total Home Office salaries for fiscal year's 1986 and 1987 totaled $1[illegible],10[illegible]. USAID/Zambia personnel stated they had not requested additional Home Office support, and were unaware why University of Illinois Home Office salaries increased so significantly.

We concluded that negotiations should be held with University of Illinois toward recouping the amount of Home Office salaries which appear to be excessive. Using fiscal year 1983, 1984, and 1985 as reasonable years (FTE of 1.5 persons), we calculated that Home Office salaries averaged $34,536 annually. Amounts above that average were questioned. The excess totals $111,036.

Salaries for Field Staff Continued Beyond Departure From Zambia - In three instances, salaries billed for team members continued beyond the date USAID/Zambia records show as their departure dates.

	Departure Date	Salary Billed Thru	Extra Salary Billed
UIUC			
Employee H	1/11/85	3/85	$ 9,842
Employee I	11/22/85	2/86	10,625
Total			$20,467

UMES

Employee A	2/18/87	5/87	13,712
Less Authorized			(3,860)
Total			$9,846

[illegible] stated they were unaware of any reason why employees H and I should be billed to A.I.D. subsequent to their departure from Zambia. In the case of employee A, however, USAID/Zambia had advised him that he could spend about one month on his home campus to assist in finalizing the annual ZAMARE report. Thus, the extra salary billed for Employee A amounts to $9,846.

We concluded that negotiations should be held with University of Illinois and UMES toward recouping salaries billed for Field Personnel beyond their departure date, unless additional work was approved by USAID/Zambia.

Management Comments

USAID/Zambia concurred with the recommendation. It requested that PEDSO/FSA/RCO advise the contractor of the audit findings and resolve or recover, as appropriate, the amounts in question.

Office of Inspector General Comments

The recommendation is considered resolved. However, we will close it once negotiations take place and the funds questioned have been either resolved or refunded.

3. University of Illinois Cannot Readily Account For Funds Transferred to the ZAMARE Project

Since inception of the project, University of Illinois had transferred over $210,000 to the ZAMARE Team for use on the project. However, our review disclosed numerous problems: (a) comingling of personal and project funds, (b) failure to establish exact financial balances of unexpended funds, (c) missing bank statements, (d) lack of reconciliations of expenditure report balances to bank account statements, (e) lack of recording all fund transfers in Lusaka, and (f) errors in reports submitted by Lusaka. These problems were caused mostly by the inefficient and poor managerial practices of the University of Illinois, the University of Illinois ZAMARE Team, and the Project Support Unit of USAID/Zambia. As a result, the exact amount of the University of Illinois's accountability for A.I.D. funds -- transferred from University of Illinois to Citibank N.Y. and Citibank Lusaka, but not yet expended for project purposes -- cannot be readily determined.

Recommendation No. 3.

We recommend that USAID/Zambia require University of Illinois to account for funds transferred to Zambia and not used for project purposes by (a) submitting a detailed recapitulation of all funds transferred to the ZAMARE Team, and (b) submitting details on all expenditures reported by the ZAMARE Team, converting Kwacha to U.S. Dollars on a First-In-First-Out basis.

Recommendation No. 4

We recommend that upon receipt of the information requested in Recommendation No 3, USAID/Zambia: (a) review the data to ensure it is reasonably accurate, and (b) ensure that the amount for which University of Illinois is still accountable is either refunded to A.I.D. or deducted from University of Illinois's billings.

Discussion - In March 1983, University of Illinois began transferring varying amounts of funds to its Team Leader in Zambia for project activities. These funds were initially transferred to a U.S. Dollar account established by the ZAMARE Team Leader (with his personal funds) at Citibank N.Y. He subsequently opened a Kwacha account at Citibank Lusaka. Consequently, personal and project funds were commingled in the same account. Subsequently, a separate U.S. Dollar account was opened at Citibank N.Y. for project funds, and all funds

transferred by University of Illinois to this account were billed to AID.

Initially, the University of Illinois attempted to control these transfers on an individual basis by offsetting reported expenditures against each transfer. The University of Illinois recognized they were having considerable difficulties with this approach in about June 1984. As a result, the University of Illinois switched to an imprest fund basis whereby it would reimburse expenditures in the exact amount reported. However, at the time the switch was made, University of Illinois did not determine the exact amount of funds transferred but not expended by the ZAMARE Team. During the audit, University of Illinois's project accountant prepared an analysis showing that $160,000 had been advanced and that $154,681 had been accounted for. This left a baseline amount of $5,319 at the time the switch was made to an imprest basis. Subsequent transfers increased the accountability to $55,319. However, the records examined by us did not conclusively support the figures.

Periodic reports were submitted by the ZAMARE Team to the University of Illinois providing (a) the opening and closing balances of the Citibank New York and Citibank Lusaka accounts as shown on ZAMARE records, (b) details on deposits into and checks written on the accounts, and (c) the original receipts supporting disbursements. These reports were at times prepared by persons working for USAID/Zambia's Project Support Unit (PSU) and at other times by persons working at the ZAMARE office.

The University of Illinois had obviously not reconciled account balances shown on the reports with bank account statements for the five year period. For instance, we noted that at times errors were found by the University of Illinois accountant which changed the amount reimbursed from the amounts shown on the ZAMARE reports. These changes were not always reported to the ZAMARE team. As a result, we found numerous errors on both the U.S. Dollar and Kwacha reports. If reconciliations had been prepared, many of the types of errors found would have been corrected.

Following are examples of the problems/errors noted during the review of reports submitted by the ZAMARE team to the University of Illinois:

(a) The following bank statements were not available at either the ZAMARE office or in PSU files:

	Period
Citibank N.Y. Account No. 32369304:	03/05/83-04/04/83 11/05/83-12/04/83
Citibank N.Y. Account No. 27515581:	04/05/84-05/07/84 1/ 09/05/85-11/04/85 1/ 06/04/86-07/04/86 1/ 09/04/86- Cut-off 1/
Citibank Lusaka Account No. 0108	02/24/83-12/23/83 04/25/84-06/06/84
Citibank Lusaka Account No. 0261	10/05/85-10/24/85 03/01/86-03/31/86 1/

1/ The ZAMARE Team Leader requested copies of all missing bank statements from the University of Illinois (Dollar Accounts) and Citibank Lusaka (Kwacha Accounts). Except for the periods noted (1/), copies of these bank statements were not received as of the completion of our field work.

(b) Comparison of available U.S. Dollar bank statements to the ZAMARE reports disclosed the following deposits were made to bank statements, but did not appear in the reports:

Account 32369304	12/30/83	$150
Account 27515581	05/16/84	150
Account 27515581	05/16/84	150
Account 27515581	04/08/85	216

(c) Comparison of available Kwacha bank statements to the ZAMARE reports disclosed the following deposits were made to bank statements, but did not appear in the reports (the Kwacha had fluctuated from one Kwacha to $1.00, to twenty Kwacha per $1.00, to a current value of eight Kwacha per $1.00. For illustration purposes only, the following Kwacha total about $5,853):

Account No. 0108

6/20/84	K 7,340
6/30/84	3,337

Account No. 0261

5/28/85	K 10,350
4/2/86	1,057
4/14/86	15,204
6/20/86	3,000
8/26/86	15
10/23/86	3,000
2/5/87	3,400
3/4/87	116

(d) Comparison of available Kwacha bank statements and the ZAMARE reports disclosed the following deposits which did not appear in the bank statements (Kwacha value is about $427):

Report No.	Date	Amount
9	Not shown on Report	K 35
12	6/4/84	3
34	2/27/86	3,377

(e) U.S. Dollar transfers from Citibank N.Y. (per Dollar reports) not shown on the Kwacha reports:

Date	Amount
5/29/85	$4,500

(f) We found evidence that blank U.S. Dollar and Kwacha checks were at times signed by the former ZAMARE Team Leader and left with the PSU staff for use during his absences. This represented a very serious potential problem which fortunately did not become one.

In sum, we found (a) commingling of personal and project funds, (b) failure to establish exact financial balances of unexpended funds, (c) missing bank statements, (d) lack of reconciliations of expenditure report balances to bank account statements, (e) failure to record all fund transfers in Lusaka, and, (f) errors in reports submitted by Lusaka. For these reasons, we could not conclusively confirm that the University of Illinois was accountable for only $55,316.80. Even if that was the exact amount in June 1984, due to reasons already noted the accountable amount would undoubtedly have changed in the last three years.

To address these series of problems and ensure that University of Illinois accounts for all project funds, USAID/Zambia needs to require the University of Illinois to submit a detailed report to A.I.D. providing the following data:

(1) A complete list of dates and amounts of all U.S. dollar transfers to Citibank N.Y. from inception of the contract. (Although the auditors did not see any direct U.S. dollar transfers from University of Illinois to the ZAMARE Team, if any were made they should be added to this list).

(2) A detailed list, by report number, of all U.S. dollar and Kwacha expenditures made by the ZAMARE Team. These amounts should be adjusted to reflect all errors noted by either the University of Illinois accountant or the auditor, and by amounts disallowed as a result of the audit. Considering the extreme fluctuations in exchange rates, the Kwacha amounts should be listed both as Kwacha and U.S. dollar equivalent and should be computed on a first-in first-out basis. This will require research of currency control forms for each conversion and the scheduling of amounts of Kwacha received and disbursed until that specific amount is fully disbursed. This phase of the work will require considerable time. It should begin as soon as possible.

Upon receipt of the above information, USAID/Zambia should ensure that it is reasonably accurate, and that the amount for which University of Illinois is still accountable is either refunded to A.I.D. or deducted from University of Illinois's final billing.

Management Comments

USAID/Zambia concurred with both recommendations. According to the Mission, it will notify the University of Illinois to account for funds transferred to Zambia which were not used for project purposes. In addition, USAID/Zambia's financial analyst will take appropriate action to carry out the steps outlined in Recommendation Number 4.

Office of Inspector General Comments

Both recommendations are considered resolved. However, we will close them once more concrete actions have taken place.

4. Project Commodities Were Not Being Properly Controlled

The contract prescribes criteria for control and accounting of non-expendable equipment. Project commodities were not being properly controlled by University of Illinois ZAMARE Team. Two principle problems were noted: (a) physical inventories were not reconciled to perpetual items, and (b) numerous errors were made in taking the most current inventory. There were two reasons why this took place: (a) there was no clear division of responsibilities between University of Illinois ZAMARE Team and USAID/Zambia's PSU, and (b) perpetual inventory records were not prepared. Without a reconciliation, there is no assurance that the contractor had accounted for all non-expendable property purchased with project funds. Similar problem was previously reported in RIG/A/N Audit Report 3-611-86-1 dated October 25, 1985. Although the recommendation had been cleared, the problems had not been corrected.

Recommendation No. 5

We recommend that USAID/Zambia require the University of Illinois ZAMARE Team to:

a. compile a list of all equipment and vehicles procured by A.I.D., the University of Illinois, and the ZAMARE team for use on the Research Stations;

b. take a complete physical inventory of all ZAMARE equipment and vehicles labeling the items as they are inventoried;

c. compare the results of the physical inventory to the all inclusive list of major items procured, researching all differences; and,

d. obtain USAID/Zambia's approval prior to "writing-off" any misplaced or stolen items.

Discussion - According to Section 17 of the Contract's General Provisions (AID 1420-23C), the Contractor is responsible for the proper care and accounting of non-expendable property purchased with project funds. Four different organizations bought commodities for the ZAMARE Project:

- Initial orders for equipment and vehicles (including motorcycles) were processed by USAID/Zambia before the University of Illinois contract was signed.

- Equipment, vehicles, furniture and appliances were procured by the USAID/Zambia Project Support Unit. (Some of this was [illegible] on the [illegible] Controller records as Commodities, some as Operational Recurring Costs).

- Equipment was procured by the University of Illinois.

- Equipment and vehicles (including motorcycles) were procured by the Lusaka based ZAMARE Team.

One principal problem was that there was no clear division of responsibility between the University of Illinois ZAMARE Team and USAID/Zambia's PSU. For instance, the University of Illinois ZAMARE Team did not prepare stock control cards or any other type of perpetual inventory record for any of the project commodities. On the other hand, the Project Support Unit prepared stock control cards for vehicles and motorcycles, but nothing else.

Several physical inventories were taken over the life of the project. The most recent ones were reportedly taken on the following dates:

Type of Commodities	Date
Station Equipment and Vehicles	April 1987
Household Furniture and Appliances	September 1987
Furniture, Appliances & Equipment in the USAID/Zambia Warehouse	October 1987

However, there was never an attempt by the PSU or the ZAMARE Team to compare the inventory items to a list of items procured for the project.

During the audit, we accumulated a list of major items procured by each of the four groups shown above, and attempted to compare it to the findings of the above physical inventories. Our initial comparison disclosed that:

- Four vehicles and 26 motorcycles did not appear on the physical inventory list.

- Thirteen groups of equipment from the initial commodities ordered by A.I.D. before the contract was signed could not be identified on the physical inventory list. These included plows, rotary hoes, spinner planters, printing calculators, table photocopiers, etc.

- Twelve types of items (computer equipment, moisture meter, analyzer, tiller, etc) procured by University of Illinois could not be identified on the physical inventory list.

- Two types of items (photocopiers and cold storage units) procured by the ZAMARE Team could not be identified on the physical inventory list.

- Twenty-four types of items appeared on the physical inventory list but could not be definitely identified as items procured by A.I.D., University of Illinois or the ZAMARE Team. These items included air conditioners, rototiller, compressor unit, projectors, copiers, digital computer, printers, and others.

Regarding household furniture and appliances, there were differences between what was ordered, invoiced, and on hand. Here are some examples:

- Ten sets of furniture were ordered for three bedroom houses. According to the invoices, all ten were received and paid for. However, the physical inventories showed that only nine sets of furniture for three bedroom houses were available.

- Eleven sets of appliances (refrigerators, freezers, stoves, washing machines, dryers) were ordered. Invoices for only eight sets were found. The physical inventories accounted for 11 refrigerators, 6 freezers, 10 stoves, 8 washing machines, and 10 dryers.

- Fifty two (52) air conditioners were ordered. Invoices accounted for payment of 28 air conditioners. The physical inventories accounted for 37 such units.

Follow-up work disclosed that:

- An accurate physical inventory had not been taken of equipment at the research stations.

- Equipment was not labeled or marked to identify it as ZAMARE commodities; some ZAMARE equipment was not inventoried while non-ZAMARE equipment was inventoried.

- After extensive research by RIG/A/N personnel, the University of Illinois ZAMARE Team Leader, and another University of Illinois Team Member, most of the station equipment which had not been recorded on the physical inventory list was located.

The USAID/Zambia Executive Office considers itself responsible for control over project household furniture and appliances, and over vehicles assigned to the PSU. Comments on this aspect of inventory controls are included in a separate report.

We concluded that prior to phase out of the University of Illinois ZAMARE Team, and turning over complete control of project commodities to the GRZ, efforts should be taken to establish perpetual inventory records, take an accurate and complete physical inventory of all major ZAMARE commodities procured for the Research Stations, resolve differences between perpetual records and the physical inventory, and properly dispose of any inappropriate or unrepairable items. To assist the University of Illinois ZAMARE Team, we provided them with our list of all major items procured for the project.

As noted previously, similar problems were reported in RIG/A/N Audit Report No. 3-611-86-1, dated October 25, 1985. The report contained a recommendation (Number 4(c)) for USAID/Zambia, in conjunction with Government and other concerned project personnel, to establish a procedure to record equipment when it is received and to include the taking of annual inventories.

This recommendation was closed based on the following assurances:

> "(C) The standard Receiving and Inspection Report Form 127 is now being used, along with shipping documents to record commodities and equipment when received. The equipment and commodities procured under this project have already been turned over to the MAWD. We have worked with GRZ to up-date the inventory of project commodities and equipment, a copy of which was transmitted to RIG/A/Nairobi by our memorandum dated October 22, 1985. We will continue to work with the GRZ on inventory and accountability to assure that proper controls exist".

Considering the findings of our current audit, it was obvious that USAID/Zambia's prior efforts did not succeed in ensuring that adequate inventory controls were established.

Management Comments

USAID/Zambia concurred with the recommendation. According to the Mission, it has taken appropriate action to have the University of Illinois ZAMARE Team carry out the steps called for in Recommendation No. 5.

Office of Inspector General Comments

Recommendation No. 5 is considered resolved. However, we will close it once more concrete actions have taken place.

5. Some Equipment Was Inappropriate or Unrepairable

To be useful, equipment bought with project funds should meet the needs of the activity and be kept operational. Due to poor project planning, many of the items ordered by A.I.D. prior to signing the University of Illinois contract were not appropriate for use on the ZAMARE project. Once the equipment arrived in country, it was turned over to the GRZ. However, the ZAMARE Team continued to monitor its maintenance and use. Numerous pieces of equipment needed repairs. The principal reason was inappropriate maintenance practices by the GRZ, combined with lack of spare parts. As a result, some equipment was not being utilized on the project. Recommendation No. 6 should be implemented in conjunction with Recommendation No 5. Inappropriate equipment was previously reported in RIG/A/N Audit Report 3-611-86-1, dated October 25, 1985. Although the recommendation had been cleared, the problems had not been corrected.

Recommendation No. 6

We recommend that USAID/Zambia require the University of Illinois ZAMARE Team to:

a. identify inappropriate equipment and arrange for its sale;

b. arrange to repair inoperable, but repairable equipment; and,

c. dispose of equipment which is beyond repair.

Discussion - Since inception of the project, a total of about $1.4 million of equipment and commodities have been financed. These items should have been used on the activity and kept operational.

The project needs could have been better planned. As reported in the prior audit of this project, USAID/Zambia had known for many years that many of the items ordered by A.I.D. prior to signing the University of Illinois contract were not appropriate for use on the ZAMARE project. As a result, these items were not being utilized. Some efforts were made to identify and sell the inappropriate equipment. Ten items were sold and the proceeds utilized on the project.

During the current audit, several costly items were found which had never been utilized. Here are two examples:

- a John Deere Model 7000 Zero-Till Planter procured by A.I.D. in 1982 on the initial order, and two attachments for the planter procured by University of Illinois in 1984 -- total cost $18,038 plus freight. However, the Planter was too small to pull any of the larger pieces of farm equipment.

- a Model 7600 Multi-processing Micro Computer and an extra work station (costing $23,500 plus freight). This computer (purchased in England in 1984 with an appropriate waiver) reportedly worked for only a few days. We were unable to determine what caused the computer to go out of order.

The procurement of 26 motorcycles is an example of poor planning in connection with spare parts needs. These 26 motorcycles were procured by A.I.D. prior to signing the contract with University of Illinois at a cost of $30,758. They were turned over to a Provincial Agriculture Officer for use by his extension workers. No spare parts were procured for the motorcycles. The audit disclosed that only one of these motorcycles was currently operational -- and that one had recently been repaired after being in the shop for over a year. We were told by the Deputy Provincial Agriculture Officer that most of the other motorcycles were used for about three years, and that the prime reason these motocycles were not regularly repaired was lack of spare parts .

During the audit numerous pieces of equipment were found requiring repairs. For example: three rotary cutters were procured under the initial A.I.D. order (cost $730 each). One of rotary cutter was operational; we were told the other two had not worked for "years." An orbit shaker (cost $3,100) reportedly had not been usable for a year.

Three copy machines (cost could not be determined), located in the ZAMARE section of USAID/Zambia's warehouse, appeared to be beyond repair.

Efforts should be taken by the University of Illinois ZAMARE Team to identify inappropriate and inoperable equipment. Measures need to be taken to either repair equipment when feasible or dispose of inappropriate or unrepairable equipment. Unless this is done before the project ends, it is very doubtful if the GRZ will have the capability or resources to follow through with necessary actions, and the inappropriate and inoperable equipment will remain unused.

RIG/A/Nairobi Audit Report No. 3-611-86-1, October 25, 1985, contained a recommendation (Number 4(a)) for USAID/Zambia, in conjunction with Government and other concerned project personnel, to sell those pieces of equipment considered inappropriate for project use in accordance with current regulations.

This recommendation was closed based on the following assurances:

> "We have finally managed to get the bids opened at the Ministry of Agriculture and Water Development (MAWD) that were received as a result of the advertisement in the local newspapers. Only one bid each was received on three of the six separate pieces of equipment. Only two bids for two pieces of equipment were acceptable by MAWD. We are exploring alternative means of disposing of the remaining pieces of equipment. Will advise progress."

Considering the quantity of inappropriate equipment noted during our current audit, additional efforts should have been taken to dispose of remaining inappropriate equipment.

Management Comments

USAID/Zambia concurred with the recommendation. According to the Mission, it has taken appropriate action to have the University of Illinois ZAMAPE Team carry out the steps called for in Recommendation No. 6.

Office of Inspector General Comments

Recommendation No. 6 is considered resolved. However, we will close it once more concrete actions have taken place.

6. Receipt and Use of Xerox Paper Needs Further Research

University of Illinois purchased 2,200 reams of Xerox paper, valued at $10,567, for use in the project. Neither the University of Illinois ZAMARE Team nor the PSU could account for receipt or use of 1,700 reams of this paper. The exact reason(s) why this happened was not known. As a result, project commodities worth $9,492 could not be accounted for.

Recommendation No. 7

We recommend that USAID/Zambia and the University of Illinois ZAMARE Team research their records to account for and determine what happened to the 170 boxes (1,700 reams) of Xerox paper procured by University of Illinois in 1984.

Discussion - In February 1984, the University of Illinois procured a Rank Xerox Copy Machine, from England, for the Mount Makulu Research Station Library. Included as part of the order were 1,000 reams (100 boxes) of copy paper (CIF Lusaka $2,149). About the same time (January 1984), the University of Illinois procured and shipped, from the U.S., an additional 1,200 reams (120 boxes) of copy paper to Lusaka (cost plus freight $8,418). We recommended, in another section of this report, the disallowance of all costs related to the Rank Xerox Copy Machine and accessories. We are not questioning the higher cost of the paper bought in the U.S. because of the requirements of the "buy American" provisions of the contract.

Follow-up during the audit disclosed that the Mt. Makulu Library had an informal record of having received 50 boxes of Xerox paper at the time they received the copy machine. The ZAMARE Team Zambian Assistant told us that he thought the balance had been retained by A.I.D. for storage. Neither he nor the Librarian had knowledge of the 120 boxes shipped from the U.S.

The Chief of the recently disbanded PSU stated that she had no recollection of USAID receiving any Xerox paper procured by University of Illinois. She also stated that in 1984, A.I.D. would not have had storage facilities for such a large quantity of Xerox paper. She said that PSU at times procured supplies (including copy paper) for the projects they serviced and for Mission use. These supplies were not separated for project and Mission. A stock control record was not maintained for copy paper.

An examination of the USAID/Zambia warehouse confirmed that stock control records were not maintained for copy paper (or other expendable supplies), and the warehouseman stated that no attempts were being made to segregate expendable items for projects or Mission purposes. At the time of the examination of the warehouse, we counted 245 reams of 8 1/2 X 11 copy paper and 588 reams of 8 1/2 X 14 copy paper. The source of this copy paper could not be identified.

Additional follow-up was necessary to determine if this large quantity of copy paper was received and utilized.

Management Comments

USAID/Zambia concurred with the recommendation. According to the Mission, if the missing 170 boxes of Xerox paper cannot be properly accounted for, a refund will be requested.

Office of Inspector General Comments

Recommendation No. 7 is considered resolved. However, we will close it once more concrete actions have taken place.

B. Compliance and Internal Controls

Compliance

The audit identified several areas of non-compliance with provisions of the A.I.D./University of Illinois contract and other U.S. Government agreements. These areas related to payment of overseas incentives, misapplication of approved Indirect Cost rates, procurement of commodities from ineligible sources, and use of U.S. Government funds for entertainment. The costs related to these defects were recommended for disallowance. There were also areas of possible non-compliance such as payments of additional salaries for administrative responsibilities, and shipment of personal effects in excess of contract limitations. These costs have been treated as "questioned costs" which are subject to further negotiations.

Nothing else came to our attention to indicate that untested items did not conform to U.S. Government laws and regulations or to provisions of the A.I.D./University of Illinois contract.

Internal Controls

The audit identified several areas where appropriate internal controls were lacking. The most important related to the (a) inability of the University of Illinois to readily account for funds transferred to the ZAMARE Team; (b) lack of reconciliations between balances shown on U.S. Dollar and Kwacha expenditure reports and bank statements; (c) signing of blank checks by the former University of Illinois ZAMARE Team Leader; (d) comingling of personal and project funds by the former University of Illinois ZAMARE Team Leader; and, (e) lack of reconciliations between physical inventory and commodities procured. Considering the pervasive nature of the problems and the fact that most of the deficiencies occurred over the entire six year life of the project, it is our opinion that internal controls by the University of Illinois were generally not adequate over funds transferred to the ZAMARE Team or over project commodities and equipment.

AUDIT OF
THE UNIVERSITY OF ILLINOIS - URBANA/CHAMPAIGN
CONTRACT AFR-0101-C-00-1097
UNDER USAID/ZAMBIA's
AGRICULTURAL DEVELOPMENT RESEARCH AND
EXTENSION PROJECT

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM INCEPTION THROUGH AUGUST 31, 1987

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$1,265,912	$ 126,346	$ 12,417	Appendix 1
		3,089		Appendix 5-1/
			30,331	Appendix 5-2/
HOME OFFICE SALARIES	1,052,532		111,036	Appendix 2
FRINGE BENEFITS	317,380	18,102	17,169	Appendix 3
TRAVEL:				
U.S. TRAVEL	60,321			
INTERNATIONAL TRAVEL	487,314	518	2,707	Appendix 5-3/
FREIGHT & STORAGE	204,273			
INTERNATIONAL PER DIEM	59,286			
ALLOWANCES:				
POST DIFFERENTIAL	265,114			
UTILITIES	756			
POST ALLOWANCE	16,938			
EDUCATION ALLOWANCE	12,431			
LOCAL PER DIEM	28,778			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	128,525			
VEHICLE FUEL AND MAINTENANCE	152,078			
LIBRARY	55,365	44,990		Appendix 5-4/
PURCHASING COSTS	2,390			
COMPUTER	72			
OFFICE FURNITURE	14,562			
HOME OFFICE OPERATIONS	185,023	774		Appendix 5-7/
			8,645	Appendix 5-8/
PREPARATION OF REPATRIATION	10,319			
FIELD OFFICE OPERATIONS	117,229			
			5,116	Appendix 5-7/
				Appendix 5-9/
EQUIPMENT AND SUPPLIES	450,908	20,102		Appendix 5-6/
			151	Appendix 5-8/
PARTICIPANT COSTS:				
GENERAL	46,544			
LONG-TERM TRAINING	1,553,728			
SHORT-TERM TRAINING	357,420			
IN COUNTRY TRAINING	41,270			
INTERNATIONAL TRAVEL	343,392			
INDIRECT COSTS:				
TUITION FEE WAIVER	16,738			
ON CAMPUS	612,399	48	36,745	Appendix 6
		230,934		Appendix 4
OFF CAMPUS	1,046,178	5,849		Appendix 4
		49,351	16,947	Appendix 6
TOTAL COSTS	$8,905,172*	$500,103	$241,264	

* Costs per UIUC books and total billed on the 47 vouchers submitted to A.I.D. by UIUC for the period September 1981 through August 1987.

** Because of space limitations, the following acronyms will be used: University of Illinois at Champaign Urbana (UIUC), University of Maryland-Eastern Shores (UMES), Southern Illinois University (SIU), University of Hawaii (UH), and Fiscal Year (FY).

EXHIBIT 2

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM SEPTEMBER 1, 1981 THROUGH JUNE 30, 1982

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$56,111	$8,251	$1,167	Appendix 1
HOME OFFICE SALARIES	59,427			
FRINGE BENEFITS	14,119	1,280	162	Appendix 3
TRAVEL:				
U.S. TRAVEL	15,262			
INTERNATIONAL TRAVEL	20,339			
FREIGHT & STORAGE	-			
INTERNATIONAL PER DIEM	424			
ALLOWANCES:				
POST DIFFERENTIAL	-			
UTILITIES	-			
POST ALLOWANCE	-			
SEPARATION ALLOWANCE	-			
LOCAL PER DIEM	-			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	-			
VEHICLE FUEL AND MAINTENANCE	-			
LIBRARY	-			
PUBLISHING COSTS	-			
COMPUTER	-			
OFFICE FURNITURE	-			
HOME OFFICE OPERATIONS	6,710			
PREPARATION/REPATRIATION	-			
FIELD OFFICE OPERATIONS	2,776			
EQUIPMENT AND SUPPLIES	107			
PARTICIPANT COSTS:				
GENERAL	2,710			
LONG-TERM TRAINING	2,860			
SHORT-TERM TRAINING	-			
IN COUNTRY TRAINING	66			
INTERNATIONAL TRAVEL	-			
INDIRECT COSTS:				
TUITION FEE WAIVER	-			
ON CAMPUS	28,385	12,037		Appendix 4
OFF CAMPUS	44,245	8,464		Appendix 4
		2,739	302	Appendix 6
EXCEPTION	3,125			
TOTAL COSTS	$256,666	$ 32,771	$ 1,631	

EXHIBIT 3

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM JULY 1, 1982 THROUGH JUNE 30, 1983

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$166,507	$22,240	$2,000	Appendix 1
HOME OFFICE SALARIES	152,928			
FRINGE BENEFITS	37,442	2,511	270	Appendix 3
TRAVEL:				
U.S. TRAVEL	11,413			
INTERNATIONAL TRAVEL	82,244			
FREIGHT & STORAGE	69,272			
INTERNATIONAL PER DIEM	306			
ALLOWANCES:				
POST DIFFERENTIAL	50,228			
UTILITIES	600			
POST ALLOWANCE	5,117			
EDUCATION ALLOWANCE	9,182			
LOCAL PER DIEM	15,712			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	-			
VEHICLE FUEL AND MAINTENANCE	199			
LIBRARY	-			
PUBLISHING COSTS	49			
COMPUTER	-			
OFFICE FURNITURE	477			
HOME OFFICE OPERATIONS	11,665			
PREPARATION/REPATRIATION	131			
FIELD OFFICE OPERATIONS	55,482			
EQUIPMENT AND SUPPLIES	8,012			
PARTICIPANT COSTS:				
GENERAL	13,984			
LONG-TERM TRAINING	208,123			
SHORT-TERM TRAINING	-			
IN COUNTRY TRAINING	-			
INTERNATIONAL TRAVEL	24,176			
INDIRECT COSTS:				
TUITION FEE WAIVER	-			
ON CAMPUS	119,990	80,117		Appendix 4
OFF CAMPUS	174,633	57,473		Appendix 4
		6,601	515	Appendix 6
EXCEPTION	(3,125)			
TOTAL COSTS	$1,214,747	$168,942	$ 2,785	

EXHIBIT 4

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM JULY 1, 1983 THROUGH JUNE 30, 1984

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$172,189	$23,743	$2,000	Appendix 1
		740		Appendix 5-1/
HOME OFFICE SALARIES	235,423			
FRINGE BENEFITS	42,270	2,728	304	Appendix 3
TRAVEL:				
U.S. TRAVEL	7,934			
INTERNATIONAL TRAVEL	69,874			
FREIGHT & STORAGE	21,312			
INTERNATIONAL PER DIEM	3,279			
ALLOWANCES:				
POST DIFFERENTIAL	48,051			
UTILITIES	-			
POST ALLOWANCE	-			
EDUCATION ALLOWANCE	2,700			
LOCAL PER DIEM	-			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	650			
VEHICLE FUEL AND MAINTENANCE	8,565			
LIBRARY	74	12,496*		Appendix 5-4/
PUBLISHING COSTS	47			
COMPUTER	-			
OFFICE FURNITURE	1,224			
HOME OFFICE OPERATIONS	29,245			
PREPARATION/REPATRIATION	1,373			
FIELD OFFICE OPERATIONS	8,882			
EQUIPMENT AND SUPPLIES	244,918	20,102		Appendix 5-4/
PARTICIPANT COSTS:				
GENERAL	7,931			
LONG-TERM TRAINING	287,852			
SHORT-TERM TRAINING	116,690			
IN COUNTRY TRAINING	144			
INTERNATIONAL TRAVEL	59,680			
INDIRECT COSTS:				
TUITION FEE WAIVER	1,292			
ON CAMPUS	171,093	85,633		Appendix 4
OFF CAMPUS	175,426	25,175		Appendix 4
		8,054	523	Appendix 6
TOTAL COSTS	$1,718,118	$170,671	$2,827	

* This was originally miscoded to equipment and supplies; it was subsequently transferred to library.

EXHIBIT 5

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM JULY 1, 1984 THROUGH JUNE 30, 1985

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$ 226,609	$ 21,605	$ 2,000	Appendix 1
		2,349		Appendix 5-1
			9,842	Appendix 5-2
HOME OFFICE SALARIES	212,559			
FRINGE BENEFITS	61,157	3,531	1,706	Appendix 3
TRAVEL:				
U.S. TRAVEL	11,553			
INTERNATIONAL TRAVEL	76,155			
FREIGHT & STORAGE	22,947			
INTERNATIONAL PER DIEM	22,770			
ALLOWANCES:				
POST DIFFERENTIAL	48,830			
UTILITIES	-			
COST ALLOWANCE	4,526			
EDUCATION ALLOWANCE	163			
LOCAL PER DIEM	12,765			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	51,262			
VEHICLE FUEL AND MAINTENANCE	37,915			
LIBRARY	31,928	10,900		Appendix 5-4/
PUBLISHING COSTS	360			
COMPUTER	-			
OFFICE FURNITURE	280			
HOME OFFICE OPERATIONS	28,290			
PREPARATION/REPATRIATION	1,504			
FIELD OFFICE OPERATIONS	18,722		5,116	Appendix 5-7/
EQUIPMENT AND SUPPLIES	142,465			
PARTICIPANT COSTS:				
GENERAL	4,767			
LONG-TERM TRAINING	319,225			
SHORT-TERM TRAINING	129,615			
IN COUNTRY TRAINING	1,223			
INTERNATIONAL TRAVEL	69,490			
INDIRECT COSTS:				
TUITION FEE WAIVER	1,773			
ON CAMPUS	148,967	76,674		Appendix 4
OFF CAMPUS	138,717	(82,386)		Appendix 4
		9,317	4,025	Appendix 6
TOTAL DIRECT & INDIRECT COSTS	$1,920,237	$ 42,190	$ 22,689	

EXHIBIT 6

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM JULY 1, 1965 THROUGH JUNE 30, 1986

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$ 280,211	$ 23,302	$ 2,000	Appendix 1
HOME OFFICE SALARIES	187,699		10,625	Appendix 5-2/
			36,007	Appendix 2
FRINGE BENEFITS	76,082	3,844	5,286	Appendix 3
TRAVEL:				
U.S. TRAVEL	6,452			
INTERNATIONAL TRAVEL	160,647			
FREIGHT & STORAGE	36,698			
INTERNATIONAL PER DIEM	22,955			
ALLOWANCES:				
POST DIFFERENTIAL	55,385			
UTILITIES	156			
POST ALLOWANCE	-			
EDUCATION ALLOWANCE	-			
LOCAL PER DIEM	301			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	39,153			
VEHICLE FUEL AND MAINTENANCE	78,000			
LIBRARY	12,514	11,013		Appendix 5-4/
MEMBERSHIPS COSTS	770			
COMPUTER	-			
OFFICE FURNITURE	5,102			
HOME OFFICE OPERATIONS	60,027	774		Appendix 5-5/
			3,705	Appendix 5-6/
PREPARATION REPATRIATION	7,269			
FIELD OFFICE OPERATIONS	5,154			
EQUIPMENT AND SUPPLIES	23,068			
			151	Appendix 5-8/
PARTICIPANT COSTS:				
GENERAL	2,129			
LONG-TERM TRAINING	340,472			
SHORT-TERM TRAINING	72,675			
IN COUNTRY TRAINING	36,804			
INTERNATIONAL TRAVEL	143,925			
INDIRECT COSTS:				
TUITION FEE - IVEP	5,509			
ON CAMPUS	43,795	48	12,115	Appendix 6
		(20,236)		Appendix 4
OFF CAMPUS	275,333	(3,763)		Appendix 4
		10,758	4,691	Appendix 6
TOTAL COSTS	$1,978,282	$ 25,740	$ 74,580	

EXHIBIT 7

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM JULY 1, 1986 THROUGH JUNE 30, 1987

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$ 337,129	$ 25,566	$ 3,250	Appendix 1
			9,864	Appendix 5-2/
HOME OFFICE SALARIES	179,085		75,029	Appendix 2
FRINGE BENEFITS	78,357	4,040	9,441	Appendix 3
TRAVEL:				
U.S. TRAVEL	7,415			
INTERNATIONAL TRAVEL	77,353	518	2,707	Appendix 5-3/
FREIGHT & STORAGE	53,841			
INTERNATIONAL PER DIEM	9,552			
ALLOWANCES:				
POST DIFFERENTIAL	55,458			
UTILITIES	-			
POST ALLOWANCE	7,295			
EDUCATION ALLOWANCE	386			
LOCAL PER DIEM	-			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	32,930			
VEHICLE FUEL AND MAINTENANCE	26,127			
LIBRARY	10,727	10,581		Appendix 5-4/
PUBLISHING COSTS	1,164			
COMPUTER	72			
OFFICE FURNITURE	7,134			
HOME OFFICE OPERATIONS	45,990		4,940	Appendix 5-6/
PREPARATION/REPATRIATION	42			
FIELD OFFICE OPERATIONS	26,213			
EQUIPMENT AND SUPPLIES	32,152			
PARTICIPANT COSTS:				
GENERAL	14,315			
LONG-TERM TRAINING	357,372			
SHORT-TERM TRAINING	38,440			
IN COUNTRY TRAINING	3,033			
INTERNATIONAL TRAVEL	39,834			
INDIRECT COSTS:				
TUITION FEE WAIVER	7,117			
ON CAMPUS	86,164		24,630	Appendix 6
		(3,291)		Appendix 4
OFF CAMPUS	224,387	886		Appendix 4
		11,492	6,891	Appendix 6
TOTAL COSTS	$1,759,084	$ 49,792	$ 136,752	

EXHIBIT 8

UNIVERSITY OF ILLINOIS - CHAMPAIGN/URBANA
CONTRACT NO AFR-0201-C-00-1097
SUMMARY OF COSTS CLAIMED, DISALLOWED, AND QUESTIONED
FROM JULY 1, 1987 THROUGH AUGUST 31, 1987

LINE ITEMS DESCRIPTION	COSTS BILLED	COSTS DISALLOWED	COSTS QUESTIONED	REFERENCE
FIELD STAFF SALARIES	$ 27,156	$ 1,439	$	Appendix 1
HOME OFFICE SALARIES	25,411			
FRINGE BENEFITS	7,953	168		Appendix 3
TRAVEL:				
U.S. TRAVEL	292			
INTERNATIONAL TRAVEL	702			
FREIGHT & STORAGE	203			
INTERNATIONAL PER DIEM	-			
ALLOWANCES:				
POST DIFFERENTIAL	7,162			
UTILITIES	-			
POST ALLOWANCE	-			
EDUCATION ALLOWANCE	-			
LOCAL PER DIEM	-			
OTHER DIRECT COSTS:				
SPECIAL STUDIES PROGRAM	4,530			
VEHICLE FUEL AND MAINTENANCE	1,272			
LIBRARY	122			
PUBLISHING COSTS	-			
COMPUTER	-			
OFFICE FURNITURE	345			
HOME OFFICE OPERATIONS	3,096			
PREPARATION/REPATRIATION	-			
FIELD OFFICE OPERATIONS	-			
EQUIPMENT AND SUPPLIES	186			
PARTICIPANT COSTS:				
GENERAL	708			
LONG-TERM TRAINING	37,824			
SHORT-TERM TRAINING	-			
IN COUNTRY TRAINING	-			
INTERNATIONAL TRAVEL	6,287			
INDIRECT COSTS:				
TUITION FEE WAIVER	1,046			
ON CAMPUS	14,004			
OFF CAMPUS	13,437	390		Appendix 6
TOTAL COSTS	$ 151,736	$ 1,997	$ -	

ADDITIONAL SALARY PAYMENTS TO ZAMARE FIELD STAFF FOR WORKING OVERSEAS

UIUC, SIU and UMES were all increasing the prior salary of those persons selected for the ZAMARE permanent field staff by 10%. With a few exceptions, this was a one-time increment -- not included in the base for subsequent year merit or cost-of-living increases.

UMES also increased the salary for the three team members provided by UMES for "lost consultant fees". Both UMES and SIU increased the salary of the Team Leader for administrative responsibilities.

According to the three universities, they were paying the one-time incentive increment to partially compensate staff members for the adjustments in relocating their personal and professional activities from campus to an overseas location. They felt this met the authorization prescribed by Section 4 of the General Provisions (A.I.D. 1420-23C) of the A.I.D./University of Illinois contract which states that compensation of personnel will be reimbursable in accordance with the contractors established policies, procedures, and practices except as otherwise provided in the contract. Based on booklets provided by University of Illinois and UMES, the auditors verified their policies and procedures do contain such statements. The statements contain policies on an "incentive increment" and also payment of the usual A.I.D. allowances such as post differential, living quarter, temporary lodging, education, separate maintenance, etc.

Payment of overseas recruitment incentives are authorized by the contract, but are subject to some restrictions. For instance, the Additional General Provisions (AID 1420-23D) of A.I.D.'s contract with University of Illinois (Section 4: Personnel Compensation) provide for an overseas recruitment incentive of up to 10 percent on the initial base annual salary <u>if</u> the employees do not qualify and receive an exemption for overseas income provided under the U.S. Internal Revenue Code. This same restriction is specifically stated in the policies of one university. For instance, the personnel policy states "...The Office of International Programs should be consulted on specific policies governing each donor funded project. For example, the incentive increment may not conflict with the 1981 tax law amendment (see section 14.2) governing eligibility for overseas tax exemptions."

All employees listed on Appendix 1 qualified and received an exemption for overseas income provided under the U.S. Internal Revenue Code. For this reason, the incentives awarded to them did not meet the restriction specified by the Additional General Provisions (A.I.D. 1420-23 D) or even the restrictions stipulated by the policies of at least one university.

Section 4 of the General Provisions (A.I.D. 1420-23C) provides for an addition to the academic salary of related professional income earned during the preceding year. Thus, the A.I.D./UIUC contract does provide for lost consultant fees, and these contract employees were entitled to such an increase.

Neither set of the General Provisions included in the A.I.D./UIUC contract mention the allowability of additional salary for Team Leader administrative responsibilities.

ADDITIONAL SALARY PAYMENT TO ZAMARE FIELD STAFF
FOR WORKING OVERSEAS
INCEPTION THROUGH AUGUST 1987 1/
(BY EMPLOYEE (A,B,C,ETC) OF UNIVERSITY AND U.S. DOLLARS)

	Maryland-Eastern Shore			Southern Illinois University				University of Illinois-Urbana/Champaign						
	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Annual Salary Prior to Employment under ZAMARE	30,400	30,800	41,022	27,300	28,100	44,154	54,180	32,700	33,375	35,000	32,500	35,000	36,100	8/
Adjustments to Annual Salary:														
One Time Increment	3,600	3,850	4,206 2/	2,730	2,610	4,416	5,418	3,270 5/	3,340	3,500 7/	3,250	3,500	3,610	-
Team Leader Increment	2,000	-	-	-	-	-	6,000 4/	-	-	-	-	-	-	-
Loss of Consultant Fees	3,800	7,600	1,037	-	-	-	-	-	-	-	-	-	-	-
(Date) Annual Salary When Initially Employed For ZAMARE	(12/81) 39,800	(12/81) 42,250	(8/86) 46,265	(1/82) 30,030	(2/82) 28,710	(1/86) 48,570	(8/86) 59,598	(3/82) 35,970	(9/82) 36,715	(8/82) 38,500	(5/84) 35,750	(9/85) 38,500	(4/86) 39,710	(4/87) 40,000
(Date) Annual Salary at time of Departure From ZAMARE or at Conclusion of Audit	(5/87) 55,580	(8/86) 57,722	3/ 48,973	(12/85) 38,910	(7/86) 39,186	3/ 53,201	3/ 66,582	(3/85) 41,100	(2/86) 45,840	(7/84) 41,800	3/ 42,495	3/ 41,915	3/ 43,270	3/ 40,000
Annual Salary Upon Resuming Academic Responsibilities	46,180	46,272	3/	36,180	36,576	3/	3/	37,700	6/	6/	3/	3/	3/	3/
Total Accumulated Additional Salary Payments:														
One Time Increment	18,750	17,967	3,855	10,920	11,745	6,256	4,515	10,331	11,690	7,300	10,635	6,767	5,615	-
Team Leader Increment	10,417	-	-	-	-	-	2,000	-	-	-	-	-	-	-
Loss of Consultant Fees 9/	19,790	35,467	950	-	-	-	-	-	-	-	-	-	-	-

1/ UMES - Thru June 87; SIU - Thru May 87; UIUC - Thru August 87
2/ Increment Increased in Second Year to $4,452
3/ Still On Board - Salary Shown is Latest Annual Salary
4/ Team Leader Increment Effective February 87
5/ Increment Increased in Second Year to $3,400
6/ Salary After ZAMARE Not Available
7/ Increment Increased in Second Year to $3,800
8/ Salary Prior to ZAMARE Not Available. This employee did not receive the one-time increment because he was hired as a consultant.
9/ Contract does authorize these types of salary increases.

ADDITIONAL SALARY PAYMENTS 1/ TO ZAMARE FIELD STAFF
FOR WORKING CONDITIONS
DECEMBER 1981 THRU AUGUST 1987 2/
(IN U.S. DOLLARS)

	By Fiscal Years							
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Two Months FY 1988	TOTAL
One Time Increment								
UMES:								
Employee A	2,100	3,600	3,600	3,600	3,600	2,250	-	18,750
" B	2,246	3,850	3,850	3,850	3,850	321	-	17,967
" C	-	-	-	-	-	3,855	-	3,855
Sub-Total	4,346	7,450	7,450	7,450	7,450	6,426	-	40,572
SIU:								
Employee D	1,365	2,730	2,730	2,730	1,365	-	-	10,920
Employee E	1,088	2,610	2,610	2,610	2,610	217	-	11,745
Employee F	-	-	-	-	2,208	4,048	-	6,256
Employee G	-	-	-	-	-	4,515	-	4,515
Subtotal	2,453	5,340	5,340	5,340	6,183	8,780	-	33,436
UIUC:								
Employee H	1,452	3,307	3,400	2,172	-	-	-	10,331
Employee I	-	2,876	3,340	3,340	2,134	-	-	11,690
Employee J	-	3,267	3,780	253	-	-	-	7,300
Employee K	-	-	433	3,250	3,250	3,250	452	10,635
Employee L	-	-	-	-	2,781	3,500	486	6,767
Employee M	-	-	-	-	1,504	3,610	501	5,615
Employee N	-	-	-	-	-	-	-	-
Sub-Total	1,452	9,450	10,953	9,015	9,669	10,360	1,439	52,338
Total	$8,251	$22,240	$23,743	$21,805	$23,302	$25,566	$1,439	$126,346
Year Long Increment								
UMES - Employee A	1,167	2,000	2,000	2,000	2,000	1,250	-	10,417
SIU - Employee G	-	-	-	-	-	2,000	-	2,000
Total	$1,167	$2,000	$2,000	$2,000	$2,000	$3,250	-	$12,417

1/ One Time Increment and Year Long Increment
2/ University Fiscal Year ends 6/30. UMES Billings Thru 6/87; SIU Billings Thru 5/87; UIUC Billings Thru 6/87

Conclusion:

The A.I.D./UIUC contract precludes payment of the One Time Increment, thus these costs have been disallowed:

UMES	$40,572
SIU	33,436
UIUC	52,338
	$126,346

It is not clear if the increased salary for Year Long responsibilities are allowable under the contract, therefore these costs are questioned:

UMES	$10,417
SIU	2,000
	$12,417

SIGNIFICANT INCREASE IN HOME OFFICE SALARIES IN LAST TWO YEARS BY UIUC

From inception of the contract thru August 1985, the UIUC Campus salaries charged to the contract consisted of:

Director International Agriculture	25%
Campus Coordinator	25%
Academic Liaison and Support Person	70%
Secretary to Director of International Agriculture	30%

This represented a Full Time Equivalency (FTE) of 1.5 persons. Beginning September 1985, the percent of time charged by the Director of International Agriculture and his deputy (Campus Coordinator) increased to 40% each. The Assistant Director for Training was charged for 2% of his time. The Academic Liaison and Support person was dropped, and another part-time secretary was added. Beginning early 1986 time charges for additional academic and clerical people were added to Home Office Support Costs.

At our request, UIUC computed the FTE for FY 1986 and 1987 to be 2.67 persons and 3.18 persons, respectively. Review of their computations indicated the FTEs computed by UIUC to be reasonably accurate. (In discussing this situation with cognizant audit personnel, they assured us that persons could not be included both as direct and indirect costs.)

The following schedule shows the significant increase in Home Office Salaries charged to the contract in the UIUC On-Campus accounts:

	Academic	Assistants 1/	Non-Academic/Student Clerical	Hourly	Total
6/30/82	15,539	390	2,546	-	18,475
6/30/83	26,887	-	4,526	-	31,413
6/30/84	32,144	-	4,877	-	37,021
6/30/85	29,983	-	5,192	-	35,175
6/30/86	48,129	1,740	14,853	5,821	70,543
6/30/87	59,674	4,019	21,561	24,311	109,565
	212,356	6,149	53,555	30,132	302,192

1/ Does not include Research Assistants working on the Special Studies part of the contract.

Note: The last two years (FY 1986 and 1987) totals $180,108 or 59.6% of the total.

USAID/Manila personnel stated they had not requested additional Home office support in the last two years.

Conclusion:

Due to a change in policy by the UIUC during the past two years, home office (on Campus) salaries have significantly increased. The FTE has gone from 1.5 persons to 3.18 persons; and the total home office (on Campus) salaries have more than doubled the total at the end of FY 1985.

Discussions should be held with UIUC toward recouping the amount of Home Office salaries which appear to be excessive. Using FY 1983, 1984, and 1985 as reasonable years (FTE of 1.5 persons), the average reasonable annual cost would be $34,536. Amounts above that average are being questioned by the auditor.

Fiscal Year	Questioned Costs
FY 1986	$ 36,007
FY 1987	75,029
	$111,036

EFFECT OF DISALLOWED AND QUESTIONED COSTS
ON FRINGE BENEFITS
(IN U.S. DOLLARS)

Appendix Reference	Description	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	TOTAL
	Disallowed Costs								
1	Additional Field Staff Salaries-One Time Increment:								
	U.M.E.S.								
	Disallowed Salary	4,346	7,450	7,450	7,450	7,450	6,426	-	
	Fringe Benefit Rate	13.9%	13.5%	15.2%	16.4%	26.1%	24.2%		
	Disallowed Fringe Benefits	604	1,006	1,132	1,222	1,944	1,555	-	7,463
	S.I.U.								
	Disallowed Salary	2,453	5,347	5,347	5,347	6,183	8,780	-	
	Fringe Benefit Rate	15.4%	12.6%	12.0%	12.4%	11.5%	11.2%	-	
	Disallowed Fringe Benefits	378	673	641	662	711	983		4,048
	U.I.U.C.								
	Disallowed Salary	1,452	9,450	10,995	9,225	9,664	10,367	1,439	
	Fringe Benefit Rate	20.5%	8.6%	7.7%	14.7%	12.2%	14.5%	11.7%	
	Disallowed Fringe Benefits	298	812	843	1,352	1,189	1,502	168	6,094
5-2/	Additional Salary Per Salary Then Amount Below In Final Letter:								
	U.M.E.S.								
	Disallowed Amount	-	-	740	2,349	-	-	-	
	Fringe Benefit Rate	-	-	15.2%	16.4%	-	-	-	
	Disallowed Fringe Benefits	-	-	112	385		-	-	497
	Total Disallowed Fringe Benefits:								
	U.M.E.S.	604	1,006	1,244	1,607	1,944	1,555	-	7,960
	S.I.U.	378	673	641	662	711	983	-	4,048
	U.I.U.C.	298	812	843	1,352	1,189	1,502	168	6,094
		1,280	2,491	2,728	3,621	3,844	4,040	168	18,102

Appendix Reference	Description	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	TOTAL
	Questioned Costs								
1	Additional Field Staff Salaries-Team Leader Increment:								
	U.M.E.S.	1,167	2,000	2,000	2,000	2,000	1,250	-	
	Fringe Benefit Rate	13.9%	13.5%	15.2%	16.4%	26.1%	24.2%	-	
	Questioned Fringe Benefits	162	270	304	328	522	303	-	1,889
	S.I.U	-	-	-	-	-	2,000	-	
	Fringe Benefit Rate	-	-	-	-	-	11.2%	-	
	Questioned Fringe Benefits	-	-	-	-	-	224	-	224
2	Home Office Salaries Appear Excessive								
	U.I.U.C	-	-	-	-	36,007	75,029	-	
	Fringe Benefit Rate	-	-	-	-	9.6%	8.7%	-	
	Questioned Fringe Benefits	-	-	-	-	3,457	6,527	-	9,984
5-2/	Field Staff Salaries Billed to A.I.D. After Employee Should Be Off Contract:								
	U.I.U.C.	-	-	-	9,842	10,625	-	-	
	Fringe Benefit Rate	-	-	-	14.0%	12.3%	-	-	
	Questioned Fringe Benefits	-	-	-	1,378	1,307	-	-	2,685
	U.M.E.S.	-	-	-	-	-	9,864	-	
	Fringe Benefit Rate	-	-	-	-	-	24.2%	-	
	Questioned Fringe Benefits	-	-	-	-	-	2,387	-	2,387
	Total Questioned Fringe Benefits:								
	U.M.E.S.	162	270	304	328	522	2,690	-	4,276
	S.I.U	-	-	-	-	-	224	-	224
	U.I.U.C.	-	-	-	1,378	4,764	6,527	-	12,669
		162	270	304	1,706	5,286	9,441	-	17,169

MISAPPLICATION OF APPROVED INDIRECT COST RATES FY 1982 THRU FY 1987

A. U.I.U.C. - The indirect cost rates negotiated by UIUC with the cognizant U.S. Government Agency (Dept. of Navy) provided for use of a Modified Total Direct Cost (MTDC) base. This means that total direct costs must be reduced by certain factors before applying the indirect cost rate for the applicable fiscal year. The most important of the factors to reduce direct costs for UIUC were:

- All sub-contract costs exceeding $25,000 per sub-contract.
- Purchased equipment with an estimated life of more than one year and having an acquisition cost of more than $500.
- Federal financing for long-term participants including tuitions, fees, allowances and transportation.
- Travel costs exceeding $25,000 per University fiscal year per contract. (FY 1984 and prior years)

We noted that, initially, UIUC was applying the negotiated rates to total Direct Costs - without any reduction toward the modified base. Subsequently, some adjustments were made for Off Campus Indirect Costs. No significant adjustments/corrections were noted for On-Campus Indirect Costs.

As noted on Page 3 of this Appendix, A.I.D. was overbilled by UIUC for Indirect Costs as follows:

	On Campus	Off Campus
FY 1982	$ 12,037	$ 8,464
FY 1983	89,117	57,473
FY 1984	85,633	25,175
FY 1985	76,674	(82,386)
FY 1986	(20,236)	(3,763)
FY 1987	(3,291)	(1,205)
Disallowed Costs (UIUC)	$230,934	$3,758

B. S.I.U. - Indirect cost rates negotiated by SIU with the cognizant U.S. Government Agency (Dept. of Health and Human Services) provided for a MTDC base for FYs 1984 and subsequent years. The base for FY 1982 and FY 1983 was direct salaries and wages.

Through FY 1986, SIU was correctly computing indirect costs under the ZAMARE contract. During all of FY 1987, however, SIU used the indirect cost rate of 35.6% (which was the rate for FY 1985 and FY 1986) instead of the approved rate of 34.4%. The 34.4% rate was negotiated on 7/10/86 as a provisional rate, and was finalized on 4/8/87. Thus, all indirect costs billed by SIU during FY 1987 should have been billed using the rate of 34.4%. As noted on Page 4 of this Appendix, on those invoices submitted by SIU during FY 1987, the effect of using the incorrect rate resulted in overbillings for indirect costs of $2,091.

Disallowed Costs (S.I.U.) FY 1987 $2,091

C Total disallowed costs:

	On Campus	Off Campus
UIUC	$230,934	$3,758
SIU		2,091
Totals (Exhibit 1)	$230,934	$5,849

COMPUTATION OF OVER (UNDER) BILLING
OF INDIRECT COSTS AT U.T.U.C.
FISCAL YEAR 1982 THRU 1987
(U.S. DOLLARS)

	FY 1982		FY 1983		FY 1984		FY 1985		FY 1986		FY 1987	
	On Campus	Off Campus	On Campus	Off Campus	On Campus	Off Campus	On Campus	Off Campus	On Campus	Off Campus	On Campus	Off Campus
Total Direct Costs	$79,352	$130,646	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$644,826	$937,814
Less: Tuition Fee Waiver												
Special Study Research Assistants 2/	-	-	-	-	-	6,634	-	8,515	7,372	15,872	27,637	1,522
Exclusions:												
-Sub-Contract Costs Exceeding $25,000 Per Award	41,709	41,452 3/	67,763	259,528	14,361	216,237 5/	109,351	382,596	57,824	502,949	62,181	464,714
-Equipment with Estimated Life of More Than One Year & Costing More Than $500 4/	-	-	-	-	-	92,529	-	10,237	-	1,292	-	-
-U.S. Govt. Financing For Long Term Participants	-	5,570	239,526	20	286,612	1,050	320,225	-	340,472	-	358,881	-
-Travel Costs Exceeding $25,000 Per Year 5/	-	-	-	61,576	-	103,779	-	-	-	-	-	-
Modified Total Direct Cost Base	37,643	83,614	53,761	347,846	172,195	467,386	185,222	629,610	179,664	671,085	196,127	471,578
Approved Indirect Cost Rates	26.[illegible]%	26.[illegible]%	26.[illegible]%	18.[illegible]%	24.[illegible]%	24.[illegible]%	27.[illegible]%	21.[illegible]%	31.[illegible]%	24.[illegible]%	30.[illegible]%	24.3%
Eligible Indirect Costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	114,593
Indirect Costs Billed To A.I.D.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	113,388
Over (Under) Billing of Indirect Cost to A.I.D.	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$[illegible]	$(1,205)

1/ Approved Indirect Cost Rates for Indirect Fee Waivers.
2/ Approved Indirect Cost Rate. This rate applied this to all costs of [illegible] 200 [illegible]. Auditor also excluded the following Library Equipment: [illegible] Xerox Printer purchased FY 1984-$[illegible]. - Included in Object Code 220.
3/ Exclusion applies to FY 1982, FY 1983, FY 1984.
4/ $25,000 left in the [illegible] and U.M.S. Sub-Contract Costs.
5/ $25,000 left in the [illegible] Sub-Contract Costs.

COMPUTATION OF OVER BILLING OF INDIRECT COSTS
BY S.I.U.
FISCAL YEAR 1987

Billing Period Covered	M.T.D.C. 1/	Indirect Costs Billed 2/ Rate	Amount
7/1 - 7/31/86	$ 22,099	35.6%	$ 7,867
8/1 - 9/30/86	29,194	35.6%	10,393
10/1 -11/30/86	39,501	35.6%	14,062
12/1 - 1/31/87	26,565	35.6%	9,457
2/1 - 3/31/87	29,628	35.6%	10,548
4/1 - 5/31/87	27,352	35.6%	9,737
	$174,339		62,064
Approved Rate		34.4%	
Eligible Indirect Costs			59,973
Overbilled Indirect Costs			$2,091

1/ Modified Total Direct Costs
2/ All coded by U.I.U.C. as Off Campus.

OTHER DISALLOWED AND QUESTIONED COSTS

1/ Each year UMES issued an annual letter to their staff advising them of merit and cost-of-living increases, and their new base salary. For two years, the base salary shown on the annual letters and billed to A.I.D. exceeded the amount eligible after adding the applicable percentage increase.

	Base Salary Billed to A.I.D.	Eligible Amount of Base Salary	Excess Billed
Employee A			
(7/1/83-6/30/84)	$36,478	$36,196	$ 282
(7/1/84-6/30/85)	40,148	39,092	1,056
Employee B			
(7/1/83-6/30/84)	37,042	36,584	458
(7/1/84-6/30/85)	40,437	39,144	1,293
			$ 3,089

Disallowed (U.M.E.S.)

FY 1984	$ 740
FY 1985	2,349
	$3,089

2/ In three instances, salaries billed for team members continued beyond the date USAID/Zambia records show as departure dates:

	Departure Date	Salary Billed Thru	Amount Extra Salary Billed
UIUC			
Employee H	1/11/85	3/85	$ 9,842 a/
Employee I	11/22/85	2/86	10,625 b/
UMES			
Employee A	2/18/87	5/87	13,712 c/

a/ Total base salary billed for Employee H subsequent to annual increase 8/21/84 thru remainder of time under contract	$28,275
Amount eligible from 9/84 thru 1/85 (5 months) (5/12 x $37,700)	(15,708)
Month of 9/82 not billed to A.I.D.	(2,725)
Overbilled	$ 9,842
b/ Total base salary billed for Employee I subsequent to annual increase 8/21/85 thru remainder of time under contract	$21,250
Amount eligible from 9/85 thru 11/85 (3 months) (3/12 x $42,500)	(10,625)
Overbilled	$10,625
c/ Total base salary billed for Employee A subsequent to annual increase 7/1/86 thru remainder of time under contract	$42,575
Amount eligible from 7/86 thru 2/87 (8 months) (8/12 x $46,180)	(28,863)
Time on Home Campus Authorized by USAID/Zambia	(3,848)
Overbilled	$ 9,864

USAID/Zambia stated they were unaware of any reason why Employees H and I (UIUC) should be billed to A.I.D. subsequent to their departure from Zambia. USAID/Zambia stated they had informed Employee A (UMES) he could spend about one month on his home campus to assist in finalizing the Annual ZAMARE report. (One additional month base salary for Employee A equals $3,848, thus amount overbilled would be $7,940).

Questioned Costs:

UIUC - FY 1985	$ 9,842
FY 1986	10,625
UMES - FY 1987	9,864
	$ 30,331

3/ In 12/86, the UIUC ZAMARE Team bought air tickets for Employee M and his Spouse for Rest and Recuperation (R&R). Check No. 1182 was issued to Embassy Travel Agency for $5,300; however, the value stated on copies of the tickets totaled $3,746. Discussions with the current Team Leader disclosed that Employee M had been told he was entitled to use Business Class; but that if he actually bought Economy class tickets he would be issued Miscellaneous Charge Orders (MCO's) for the difference in cost. This is what Employee M decided to do, and he was issued MCO's for $1,554. When the current Team Leader discovered this, he obtained the unused MCO's (worth $1,036) from Employee M, and deposited that amount in the ZAMARE account. The $518 difference represents the value of MCO's used by Employee M to extend his trip beyond the eligible R&R point.

Disallowed Cost (UIUC-FY 1987) $518

In 9/86, the UIUC ZAMARE Team bought air tickets for Employee L for Home Leave. Check No. 1166 was issued to Embassy Travel Agency for $2,707. A copy of the air ticket was not available in Lusaka at the time of the audit. Considering the situation reported above pertaining to Employee M, follow-up is necessary to determine if this employee was also issued MCO's; and the cost of the air ticket for employee L is being questioned. (Note that in other instances reviewed during the audit, issuance of MCO's for lesser fares was not found, and air tickets were issued using Economy class).

Questioned Cost (UIUC - FY 1987) $2,707

4/ The A.I.D./GRZ Grant Agreement for ZAMARE states that procurement for the project is to be done in Code 000 countries (U.S.), except that tractors, vehicles and motorcycles may be procured in Code 935 countries (special Free World). PIL No. 1 (revised in PIL No. 3) provides for "Off Shelf" procurement in Zambia up to $209,800.

The General provisions (Section 15, A.I.D. 1420-23C, 10/81) of the UIUC contract state that all goods and services financed under the contract with U.S. dollars shall be procured in and shipped from the U.S. (code 000), or from other countries as authorized in the contract. The section of the UIUC contract which discusses procurement (Article I,E) does not provide for procurement outside the U.S.

Following is a list of commodities (other than vehicles and motocycles) UIUC procured outside the United States and Zambia:

Item	Procured	Value
Microcomputer and Accessories	England	44,863 a/
Xerox Copier and Consumables	England	11,257
Newport Analyzer	England	20,102 b/
Memory Typewriter and Supplies	England	1,239
Various Journals and Subscription	England	32,494
		109,955

Other than as noted on a/ for the Microcomputer, a waiver could not be located in USAID/Zambia official files to allow UIUC to procure project commodities outside the United States. Thus, $65,092 of the items noted above are not eligible for financing under the AID/UIUC contract.

Disallowed Costs	(UIUC - FY 1984)	$ 32,598
	(" - FY 1985)	10,900
	(" - FY 1986)	11,013
	(" - FY 1987)	10,581
		$ 65,092

a/ Waiver obtained from A.I.D.
b/ Station Equipment $20,102; other items - Library ($44,990)

5/ During April and May 1986, Zambia's Ambassador to the U.S. visited both UIUC and UMES. At UIUC, he and his party were entertained at a dinner. At UMES, he and his party were provided lodging and meals. Costs billed to A.I.D. were:

UIUC	$ 155
UMES	619
	774

Entertainment costs are not an allowable contract expense.

Disallowed Costs	(UIUC - FY 1986)	$ 155
	(UMES - FY 1986)	619
		$ 774

6/ During 1985 and 1986, UIUC signed consultant contracts with a consultant (F. J.) who had been employed in Zambia by the F.A.O. The monthly fee paid this consultant during 1985 was $2,765. During 1986, the monthly fee paid was $4,000 — an increase of 45%.

Contract periods — 4/1/85 - 10/31/85
4/1/86 - 12/31/86 (excluding 7/1/86-8/31/86)

The UIUC Team Leader stated that he had verbally been informed by the UIUC campus coordinator, that this consultant had worked beyond the expiration date of his 1985 contract, expecting it would be extended. UIUC determined the contract could not be extended, therefore increased the consultants fee in his 1986 contract to compensate him for unreimbursed wages. At the conclusion of the audit, neither the UIUC Team Leader nor the current USAID ADO were able to locate documentation supporting the verbal information. Nor were they able to locate documentation to (a) justify the increase, or (b) show that the USAID had approved the increase.

The 1986 contract provided for seven months of services. The increased fee for a seven month period amounts to $8,645 (7 X $1,235). These costs are being questioned.

Questioned Costs	(UIUC - FY 1986)	$ 3,705
	(UIUC - FY 1987)	4,940
		$ 8,645

7/ The Kwacha Report submitted by the ZAMAPE Team to UIUC for the period 12/1/84 thru 12/31/84 (Report No. 18) has a disbursement of Kwacha 10,700 (U.S. $5,116) for a "loan to GRZ". The current Team Leader located documentation (a) stating the loan was made for data collection for Zambia Agriculture, Research and Extension Strategy; and (b) supporting a request to MAWD to repay the loan. At the conclusion of our audit, the Team Leader was unable to determine if the loan had been repaid. Therefore, these costs are being questioned.

Questioned Costs (UIUC - FY 1985) $5,116

8/ Kwacha check #51452 (Kwacha 850; equivalent to U.S. $151) was recorded twice by the ZAMARE Team -- in Kwacha Report Nos. 31 and 32. Information was not available in Lusaka to determine if UIUC had reimbursed this amount both times; therefore the cost in the second report is being questioned.

Questioned Costs (UIUC - FY 1986) $151

9/ Follow-up work at UIUC on $2,200 of fees paid for the ZAMARE Team Leader to attend an Agricultural Research Policy Seminar at the University of Minnesota disclosed that his attendance was cancelled, and a person under another country's A.I.D. contract went to the seminar. Prior to the auditors departure from UIUC, a transfer was issued to credit the ZAMARE contract and charge the correct A.I.D. contract. This represents an additional audit saving to the ZAMARE contract of $2,200.

EFFECT OF DISALLOWED AND QUESTIONED COSTS ON INDIRECT COSTS DEFERRED THROUGH 6/31/87 1/

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986		FY 1987		FY 1988	TOTAL	
	Off Campus	Off Campus	Off Campus	Off Campus	On Campus	Off Campus	On Campus	Off Campus	Off Campus	On Campus	Off Campus
Disallowed Indirect Costs:											
U.M.E.S.	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]		$ [illegible]		$ 2,554			
S.I.U.	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]		3,358			
U.I.U.C.	[illegible]	[illegible]	[illegible]	[illegible]	$ [illegible]	[illegible]		5,580	$ 390		
Total	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]		$ [illegible]	$ 390	$ 48	$49,351
Questioned Costs:											
U.M.E.S.	$ [illegible]	$ [illegible]	$ [illegible]	$ 545		$ [illegible]		$ 4,268			
S.I.U.								765			
U.I.U.C.				3,441	$ [illegible]	3,664	$ 24,63[illegible]	1,858			
Total	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ 6,891		$36,745	$16,947

1/ U.M.E.S. - Thru 6/30/87; S.I.U. - Thru 5/31/87; U.I.U.C. - Thru 8/31/87

U.M.E.S.
EFFECT OF DISALLOWED AND QUESTIONED COSTS
ON INDIRECT COSTS a/
INCEPTION THROUGH 6/30/87

Appendix Reference	Description	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total Indirect Costs
	Disallowed Costs							
1	One Time Salary Increment	$ 4,346	$ 7,450	$7,450	$7,450	$ 7,450	$ 6,426	
3	Fringe Benefits on Disallowed Salaries	604	1,006	1,244	1,607	1,944	1,555	
5-b/	Base Salary Billed Exceed Amount in Annual Letter			740	2,349			
5-b/	Entertainment Cost b/							
	Total Applicable Disallowed Costs	$ 4,950	$ 8,456	$ 9,434	$11,4[illegible]	$ 9,394	$ 7,981	
	Approved Indirect Cost Rates	22.7%	22.7%	22.7%	23.4%	32.0%	32.0%	
	Disallowed Indirect Costs	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ 2,554	$ 13,415
	Questioned Costs							
1	Team Leader Salary Increment	$ 1,167	$ 2,[illegible]	$ 2,010	$ 2,[illegible]	$ 2,010	$ 1,250	
3	Fringe Benefits on Questioned Salaries	162	27[illegible]	304	325	522	2,224	
5-b/	Salaries Billed After Departure of Team Member						9,864	
	Total Applicable Questioned Costs	$ 1,329	$ 2,270	$ 2,304	$ 2,325	$ 2,522	$13,338	
	Approved Indirect Cost Rates	22.7%	22.7%	22.7%	23.4%	32.0%	32.0%	
	Questioned Indirect Costs	$ 302	$ 515	$ 523	$ 545	$ 807	$ 4,268	$ 6,960

a/ All indirect costs on this schedule are "off campus".

b/ Indirect costs for U.M.E.S. not applicable to this cost element.

S.I.U.
EFFECT OF DISALLOWED AND QUESTIONED COSTS
ON INDIRECT COSTS a/
[illegible] THROUGH 5/31/87

Appendix Reference	Description	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total Indirect Costs
	Disallowed Costs							
1	One Time Salary Increment	$ 2,453	$ 5,34	$5,341	$5,34[illegible]	$ 6,183	$ 8,780	
3	Fringe Benefits on Disallowed Salaries	b/	b/	641	662	711	963	
	Total Applicable Disallowed Costs	$ 2,453	$ 5,34	$ 5,981	$ 6,[illegible]	$ 6,894	$ 9,763	
	Approved Indirect Cost Rates	53.[illegible]%	53.[illegible]%	35.[illegible]%	35.[illegible]%	34.4%	34.4%	
	Disallowed Indirect Costs	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ 14,126
	Questioned Costs							
1	Two Years Salary Increment						$ 2,[illegible]	
3	Fringe Benefits on Questioned Salaries						224	
	Total Applicable Questioned Costs						$ 2,224	
	Approved Indirect Cost Rates						34.4%	
	Questioned Indirect Costs						$ 765	$ 765

a/ All indirect costs on this schedule are "off campus".

b/ Indirect Costs on Fringe Benefits not applicable in FY 1982 and FY 1983

U.I.U.C.
EFFECT ON DISALLOWED AND QUESTIONED COSTS
ON INDIRECT COSTS
INCURRED THROUGH 6/31/87

Appendix Reference	Description	FY 1982 Off Campus	FY 1983 Off Campus	FY 1984 Off Campus	FY 1985 Off Campus	FY 1986 On Campus	FY 1986 Off Campus	FY 1987 On Campus	FY 1987 Off Campus	FY 1988 Off Campus	Total Indirect Costs
	Disallowed Costs										
1	One Time Salary Increment	$ 1,452	$ 9,45[illegible]	$[illegible]	$[illegible]		$ 9,669		$10,360	$ 1,439	
3	Fringe Benefits on Disallowed Salaries	298	832	843	1,[illegible]		1,189		1,502	168	
5-3	Employee Use of Unallowable M.C.C.								518		
5-4	Procurement Salaries Not Eligible [illegible]			3,771	10,[illegible]		11,013		10,581		
5-5	Entertainment Cost					$ 155					
	Total Applicable Disallowed Costs	$ 1,750	$ 10,282	$ 15,567	$21,[illegible]	$ 155	$21,871		$22,961	$ 1,607	
	Approved Indirect Cost Rates	[illegible] %	[illegible] %	24.7%	[illegible] %	30.7%	24.6%		24.3%	24.3%	
	Disallowed Indirect Costs	$ [illegible]	$ [illegible]	$ 3,[illegible]	$ 4,[illegible]	$ 48	$ 5,380		$ 5,580	$ 390	$ 21,858
	Questioned Costs										
2	Significantly Increased Home Office Salaries					$36,007		$ 75,029			
3	Fringe Benefits on Questioned Salaries				$ 1,378	3,457	$ 1,307	6,527			
5-2	Salaries Billed After Departure of Team Member				$ 9,842		10,625				
5-3 a/	Possible Employee Use of Unallowable M.C.C.								$ 2,707		
5-6	Increased Consultant Fee						3,705		4,940		
5-7 a/	Repayment of Loan to GRI Unknown				5,116						
5-8 a/	Possible Duplicate Reimbursement of Medical Check						151				
	Total Applicable Questioned Costs				$16,336	$39,464	$15,788	$ 81,556	$ 7,647		
	Approved Indirect Cost Rates				21.3%	30.7%	24.6%	30.2%	24.3%		
	Questioned Indirect Costs				$ 3,480	$12,115	$ 3,884	$ 24,630	$ 1,858		$ 45,967

a/ Equipment for which indirect costs not applicable (or deducted by auditor on Appendix 4) not included on this schedule ($28,827).

ACTION: AID-3 INFO: ECON RIG

OFFICIAL FILE

>IGVZCZCNA0155 25-MAR-25-MAR-881 TOR: 00:00
OO RUEHNR CN: 05848
DE RUEHLS #1400/01 0851409 CHRG: AID
ZNR UUUUU ZZH DIST: AID
O 251406 MAR 88 ADD.
FM AMEMBASSY LUSAKA
TO AMEMBASSY NAIROBI IMMIDIATE 2421
BT
UNCLAS SECTION 01 OF 03 LUSAKA 01400

AIDAC

NAIROBI FOR RIG/A THABET,
REDSO/ESA RCO, AND RFMC

E.O. 12356:N/A
SUBJECT: USAID/ZAMBIA'S COMMENTS ON DRAFT AUDIT REPORTS FOR THE AGRICULTURAL DEVELOPMENT: RESEARCH AND EXTENSION PROJECT (ZAMARE; 611-0201)

1. OVERALL, MISSION'S IMPRESSION OF THE DRAFT AUDIT REPORTS IS QUITE FAVORABLE. OUR COMMENTS ON THE TWO REPORTS ON THE SUBJECT PROJECT ARE PROVIDED BELOW.

2. PARAGRAPH 2 HAD FIVE PARTS, ALL DEALING WITH A SEPARATE AUDIT WHICH COVERS THE USE OF THE RETAINED FUNDS FROM THE ZAMARE PROJECT. WE HAVE DELETED THEM FOR THE PURPOSE OF A RESPONSE TO THIS REPORT.

3. DRAFT REPORT ON AUDIT OF THE UNIVERSITY OF ILLINOIS-URBANA/CHAMPAIGN CONTRACT AFR-0201-C-00-1097, AUDIT REPORT NO. 3-611-88-XX.
A. RECOMMENDATION NO.1: UNALLOWABLE COSTS. MISSION CONCURS WITH THE RECOMMENDATION. REDSO/ESA/RCO SHOULD ADVISE CONTRACTOR OF AUDIT FINDINGS, AND RECOVER AMOUNT DISALLOWED.

B. RECOMMENDATION NO. 2: QUESTIONABLE COSTS. MISSION CONCURS WITH THE RECOMMENDATION. REDSO/ESA/RCO SHOULD ADVISE CONTRACTOR OF AUDIT FINDINGS AND RESOLVE OR RECOVER, AS APPROPRIATE, THE AMOUNT IN QUESTION.

C. RECOMMENDATION NO. 3. MISSION CONCURS AND WILL NOTIFY THE UNIVERSITY OF ILLINOIS TO ACCOUNT FOR FUNDS TRANSFERRED TO ZAMBIA WHICH WERE NOT USED FOR PROJECT PURPOSES.

D. RECOMMENDATION NO. 4. MISSION CONCURS WITH THE RECOMMENDATION. USAID/ZAMBIA'S FINANCIAL ANALYST WILL TAKE APPROPRIATE ACTION TO CARRY OUT STEPS CALLED FOR.

E. RECOMMENDATION NO. 5. MISSION CONCURS WITH THE RECOMMENDATION. USAID/ZAMBIA HAS TAKEN APPROPRIATE ACTION TO HAVE THE UNIVERSITY OF ILLINOIS ZAMARE TEAM CARRY OUT THE STEPS CALLED FOR.

G. RECOMMENDATION NO. 6. MISSION CONCURS WITH THE RECOMMENDATION, AND HAS REQUESTED THAT THE UNIVERSITY OF ILLINOIS ZAMARE TEAM CARRY OUT THE STEPS CALLED FOR.

H. RECOMMENDATION NO. 7. MISSION CONCURS. IF MISSING 174 BOXES OF XEROX PAPER CAN NOT BE PROPERLY ACCOUNTED FOR, A REFUND WILL BE REQUESTED.

I. COMMENTS ON OTHER RESULTS OF THE AUDIT.

(1) COMPLIANCE AND INTERNAL CONTROLS. IN MISSION'S JUDGMENT, PROBLEMS IDENTIFIED WITH COMPLIANCE AND

INTERNAL CONTROLS ARE BEING RECTIFIED THROUGH EFFORTS UNDERTAKEN BY USAID/ZAMBIA AND NEW ZAMARE TEAM LEADERSHIP.

(2) OTHER PERTINENT MATTERS. MISSION HAS TAKEN NOTE OF THE AUDIT'S FINDINGS, AND WILL TAKE THE APPROPRIATE ACTION(S) IF NECESSARY. HARE
BT
#1400

NNNN

University of Illinois
at Urbana-Champaign

Grants and Contracts Office
105 Davenport House
809 South Wright Street
Champaign, IL 61820-6219

217 333-2186

14 April 1988

Mr. Richard C. Thabet
Regional Inspector General/Audit
U.S. Agency for International Development
Box 232
APO, NY 09675

Subject: Project 611-0201
Audit Report No. 3-611-88-XX

Dear Mr. Thabet:

We have reviewed the report submitted by the Examining Auditor, Mr. Ray Cramer, and appreciate the opportunity to comment.

We have taken action to credit the contract in the amount of $236,677 identified by Mr. Cramer as misapplication of indirect cost rates. Additional cost disallowances for travel and entertainment totaling $1292 are accepted and will be credited to the contract.

We have taken exception to several of Mr. Cramer's recommendation for disallowable and questionable costs. These are contained in the attached "Contractor comments" and exhibits. We take strongest exception to Mr. Cramer's finding related to contractor salary policy. This policy was reviewed at the time of contract negotiation and is consistent with published institutional policies and practices relating to domestic and international assignments of faculty and staff of this institution. While institutional policies are always subject to review, we believe any action taken with respect to new interpretation of policy should be directed to future, not retroactive, application.

We are sending information copies of our response to our field team leader, Dr. Oval Myers, and our two collaborating universities, Southern Illinois University at Carbondale and University of Maryland Eastern Shore. We assume you will transmit our response to USAID/Zambia for their study and action prior to issuing the final report.

There are several issues in our response that may require a conference to resolve. The Project Campus Coordinator is scheduled to be in Zambia in late June, in connection with close-out of the technical assistance component of the project. I can travel at that time, either

to Zambia or to REDSO/Kenya, for a meeting of the concerned parties--USAID/Zambia, RIG/A/REDSO/ESA, and contractor field and campus representatives--to work toward a final resolution of the findings of the audit report. I strongly believe that such a meeting will contribute to a fair solution of issues identified by Mr. Cramer.

I look forward to your response.

Sincerely,

J.J. Kamerer

J.J. Kamerer, Director
Grant and Contract Administration

cc: Oval Myers
Gilbert Kroening
Dennis Ignasias
Thomas Mc Cowen

List of Report Recommendations

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Recommendation No. 1 — 6

We recommend that USAID/Zambia, in conjunction with the Contracting Officer of the Regional Economic Development Services Office for East and Southern Africa, take action to evaluate and disallow, if required, $500,103 billed by the University of Illinois - Urbana/Champaign.

Recommendation No. 2 — 10

We recommend that USAID/Zambia, in conjunction with the Contracting Officer of the Regional Economic Development Services Office for East and Southern Africa, take appropriate action to resolve or recover, as appropriate, $241,264 of questioned costs billed to A.I.D. by the University of Illinois - Urbana/Champaign.

Recommendation No. 3. — 13

We recommend that USAID/Zambia require University of Illinois to account for funds transferred to Zambia and not used for project purposes by (a) submitting a detailed recapitulation of all funds transferred to the ZAMARE Team, and (b) submitting details on all expenditures reported by the ZAMARE Team, converting Kwacha to U.S. Dollars on a First-In-First-Out basis.

Recommendation No. 4 — 13

We recommend that upon receipt of the information requested in Recommendation No 3, USAID/Zambia: (a) review the data to ensure it is reasonably accurate, and (b) ensure that the amount for which University of Illinois is still accountable is either refunded to A.I.D. or deducted from University of Illinois's billings.

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Recommendation No. 5 18

We recommend that USAID/Zambia require the University of Illinois ZAMARE Team to:

a. compile a list of all equipment and vehicles procured by A.I.D., the University of Illinois, and the ZAMARE team for use on the Research Stations;

b. take a complete physical inventory of all ZAMARE equipment and vehicles labeling the items as they are inventoried;

c. compare the results of the physical inventory to the all inclusive list of major items procured, researching all differences; and,

d. obtain USAID/Zambia's approval prior to "writing-off" any misplaced or stolen items.

Recommendation No. 6 23

We recommend that USAID/Zambia require the University of Illinois ZAMARE Team to:

a. identify inappropriate equipment and arrange for its sale;

b. arrange to repair inoperable, but repairable equipment; and,

c. dispose of equipment which is beyond repair.

Recommendation No. 7 26

We recommend that USAID/Zambia and the University of Illinois ZAMARE Team research their records to account for and determine what happened to the 170 boxes (1,700 reams) of Xerox paper procured by University of Illinois in 1984.

Appendix 10

REPORT DISTRIBUTION

Director, USAID/Zambia	5
REDSO/ESA	3
AA/AFR	1
AFR/SA/ZS	1
AFR/CONT	1
AA/XA	2
XA/PR	1
LEG	1
GC	1
AA/M	2
M/FM/ASD	2
SAA/S&T	1
PPC/CDIE	3
M/SER/MO	1
M/Ser/EOMS	1
M/AAA/SER	1
IG	1
DIG	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
AIG/I	1
RIG/I/N	1
IG/PSA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/W	1
RFMC/Nairobi	1