

Financial Audits

**AUDIT OF  
NORTH CAROLINA STATE UNIVERSITY  
A.I.D. Contract No. 527-02282-C-00-8168-00  
April 1, 1988 to September 30, 1993**

**Report No. 0-000-94-04-N  
March 14, 1994**



**"CONTRACTOR INFORMATION CONTAINED IN THIS  
REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF  
18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY  
INFORMATION IS RELEASED TO THE PUBLIC."**

**INSPECTOR  
GENERAL**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

March 15, 1994

MEMORANDUM FOR USAID/Peru ~~George Wachtenheim~~  
FROM: IG/A/FA, *R. Howard* Reginald Howard  
SUBJECT: Audit of North Carolina State University

The accounting firm of Deloitte & Touche performed a financial-related audit of Contract No. 527-0282-C-00-8168-00 between North Carolina State University (NCSU) and USAID. Five copies of the report are enclosed for your action.

NCSU is a land-grant university located in Raleigh, North Carolina. Under the contract, USAID/Peru engaged NCSU to provide assistance to the Government of Peru in developing and implementing a system to generate and transfer agricultural technology. NCSU's assistance was planned to contribute to the goal of increasing rural employment, on-farm capital formation, and agricultural output. Deloitte & Touche audited \$8,584,930 in expenditures incurred by NCSU during the period April 1, 1988 to September 30, 1993.

The audit objectives were to determine whether: the Statement of Contract Expenditures was presented fairly in accordance with the contract's terms; NCSU's internal control structure was adequate for the purposes of the contract; and NCSU had complied with the applicable laws, regulations, and terms of the contract.

Deloitte & Touche determined that NCSU's Statement of Contract Expenditures was presented fairly in all material respects. However, the audit disclosed \$271,047 in questioned costs consisting entirely of costs considered ineligible. The \$271,047 represented consultant costs which were questioned because NCSU could not produce evidence it had complied with a contract provision requiring prior written approval from USAID for each consultant hired under the contract.

NCSU agreed with the finding that prior written approval had not been obtained for the consultant contracts. NCSU, however, stated that it had received verbal approval for hiring the consultants and that the consultants' reports were provided to USAID/Peru (pages 15 through 20).

With respect to NCSU's internal control structure, the auditors identified no material weaknesses nor any reportable conditions. The auditors also reported that NCSU complied in all material respects with the provisions of the contract and laws, regulations, grants and binding policies and procedures except for compliance with approval and consultant report submission procedures required under the contract.

Recommendation No. 1: We recommend that USAID/Peru resolve the \$271,047 (ineligible) in questioned costs identified in the audit report (page 12).

The recommendation will be included in the Inspector General's audit recommendation follow-up system. Within 30 days, please provide this Office with the status of actions planned or taken to resolve and close the recommendation.

-b

**Deloitte &  
Touche**

---



---

**NORTH CAROLINA STATE UNIVERSITY**  
**REPORT ON AUDIT OF AID CONTRACT 527-0282-C-00-8168-00**  
**FOR THE PERIOD FROM APRIL 1, 1988 TO SEPTEMBER 30, 1993**

---

C'

**NORTH CAROLINA STATE UNIVERSITY**  
**REPORT ON AUDIT OF AID CONTRACT 527-0282-C-00-8168-00**  
**FOR THE PERIOD FROM APRIL 1, 1988 TO SEPTEMBER 30, 1993**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Transmittal Letter	1
Statement of Contract Expenditures	
Independent Auditors' Report	6
Statement of Contract Expenditures	7
Compliance with the Terms of the Contract and Applicable Laws and Regulations	
Independent Auditors' Report	9
Schedule of Questioned Costs	11
Schedule of Findings	12
Response to Findings and Supporting Documents	15
Internal Controls	
Independent Auditors' Report	21





November 8, 1993

Mr. Reginald Howard  
Director of Financial Audits  
IG/A/FA SA-16 (RPE)  
Room 514  
Washington, D.C. 20523-1604

Dear Mr. Howard:

This report presents the results of our audit of direct and indirect costs under contract 527-0282-C-00-8168-00 between North Carolina State University (NCSU) and the United States Agency for International Development (USAID) for the period from April 1, 1988 (inception) to September 30, 1993 (the audit period).

## BACKGROUND

NCSU, located in Raleigh, North Carolina, provides a diverse higher educational curriculum to over 24,000 students. NCSU also uses its faculty and staff to conduct various programs requested by private and government organizations. These programs, organized in 44 groups, include educational, research and experimentation programs.

Since its inception as a land-grant university in 1862, NCSU has sought to expand research initiatives which support its original purpose and provide an enhanced educational forum for its students.

Today, NCSU sponsors research activities with expenditures in excess of \$200 million focused on the land-grant mission and the research needs identified. NCSU continues to coordinate its research efforts with industry and government to address their needs. A great effort continues to be made in agricultural and earth science studies, but programs in other diverse areas as technology transfer, manufacturing process, and biotechnology are also in place to allow for further expansion. NCSU is developing the Centennial Campus, a multi-purpose research facility to centralize their future research effort.

During the time period noted above, NCSU was engaged by USAID to perform services under the aforementioned contract in Peru. The Agricultural Technology Transformation (ATT) Project strategy was to utilize lessons learned from prior Peruvian agricultural assistance programs to assist in development of an effective and dynamic agricultural technology generator and transfer system (ATG&T) by:

- Consolidating and enhancing the capacity of the public sector research organization known as the National Agricultural and Agro-Industrial Research Institute (INIAA).
- Enhancing the capacity of the National Agrarian University (UNA) and regional universities to produce suitably qualified technical and professional personnel for staffing both public and private agricultural technology transformation operations.

Mr. Reginald Howard  
November 8, 1993  
Page 2

- Designing and testing innovative methods for involving the private sector in research generation, technical information production and technology transfer processes, and for strengthening linkages among private and public sector sources and users of technology.

The USAID and Government of Peru (GOP) goal to which ATT contributes is to increase agricultural and rural employment, and on-farm capital formation in Peru, while increasing agricultural output for domestic consumption and export. In order to achieve the ATT purpose, ATT incorporates three closely interrelated components:

- Technology Generation Component - the function of carrying out applied and adaptive agricultural research in accord with accepted scientific research methods.
- Technology Transfer Component - the function of converting research outputs into communicable form for technology transfer purposes, as well as its actual dissemination and communication to those involved in technology transfer, and to the end user, the farmer.
- Human Resources Development Component - the function of training and education to develop the technical and managerial talent required to operate, expand and improve the ATG&T system.

Each of the three components have three discrete sets of activities. The technology generation component seeks to involve INIAA since INIAA has major direct responsibility for the technology generation function in the ATG&T. The consolidation and integration of INIAA's nine National Research (NR) Programs in crops and livestock, and its six National Research Support (NRS) Programs, and strengthening INIAA's administration and management capabilities are the primary activities of the technology generation component.

The technology transfer component serves to facilitate expanding participation and resources from public and private sector sources to carry out technology transfer functions, including the creation of operational corps of Technology Transfer Specialists in INIAA to serve as the link between researchers and those who transfer technology to farmers. The technology transfer component also seeks to stimulate private sector technology transfer enterprises to provide resources to implement pilot technology transfer enterprise models and provide support to National Farmers Organization (ONA), and to stimulate an improved seed production and distribution system to promote investment in sustainable private commercial seed production, conditioning, quality control, certification and distribution activities.

The human resources development component includes activities to strengthen UNA administration and teaching programs through improvement of UNA's capacity to plan, obtain and allocate resources, stimulate curriculum revisions to match the evolving science knowledge base, create an incentive system to stimulate faculty concern for excellent and additional performance, and expand faculty skills, knowledge, vision and understanding of the Peruvian agriculture sector. The human resources development component also seeks to improve research, teaching and extension materials, and develop competitive graduate study fellowship and participant training programs.

Mr. Reginald Howard  
November 8, 1993  
Page 3

Total expenditures incurred under this contract between USAID and NCSU are as follows:

<u>DIRECT COSTS</u>	<u>INDIRECT COSTS</u>	<u>TOTAL COSTS</u>
\$7,201,940	\$1,382,990	\$8,584,930

AUDIT OBJECTIVE AND SCOPE

The objective was to perform a financial audit of direct and indirect costs incurred in the contract during the audit period.

We performed our work in accordance with Generally Accepted Auditing Standards and the Comptroller General's Government Auditing Standards and, accordingly, included such tests of the accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The Statement of Contract Expenditures presents fairly in all material respects the direct and indirect expenditures during the audit period, according to the terms of the contract and generally accepted accounting procedures, identifying unsupported costs or those costs not considered appropriately allocable to or allowable under the contract.
2. The direct and indirect costs incurred under the contract are allowable, allocable and reasonable in accordance with the terms of the contract, OMB Circulars, Federal acquisition regulations, and USAID acquisition regulations, where applicable.
3. NCSU complied in all material respects with the terms of the contract and applicable laws and regulations.
4. NCSU's internal control structure was sufficient to capture data under the contract and was adequate for the contract's purpose.

The audit included direct costs incurred during the audit period. Indirect costs charged to this contract were recomputed based on predetermined rates previously approved by the cognizant agency, the United States Department of Health and Human Services. Such costs were not in excess of those provided for under the contract. Audit procedures conducted during our work in order to meet the audit objectives included the testing of a sample of transactions incorporating the following:

Salaries

Examination of selected employees' timesheets or other reports to determine the propriety of amounts charged to the contract.

Mr. Reginald Howard  
November 8, 1993  
Page 4

#### Consultants/Advisors

Examination of consultant and advisor contracts, reports and expenditures to determine whether the purpose of the consultant/advisor services was in keeping with the terms of the contract, whether costs for the services provided were reasonable, and whether consultant reporting requirements were met.

#### Allowances

Analysis of selected allowances charged to the contract to verify employees' eligibility to receive the allowances and determine whether the allowances were in accordance with applicable laws and regulations.

#### Subcontractor Costs

Evaluation of the support for and reasonableness of charges incurred by subcontractors and the allowability of those charges within the terms of the contract.

#### Other Direct Costs

Examination of documentation supporting selected expenses to determine allowability of expenses and compliance with the terms of the contract, applicable laws and regulations.

#### Internal Control Review

Study and evaluation of NCSU's internal control structure relative to the contracts in order to assess control risks and as a basis for our auditing procedures.

### RESULTS OF THE AUDIT

#### Statement of Contract Expenditures

In our opinion, the Statement of Contract Expenditures presents fairly, in all material respects, the expenditures on the contract for the period April 1, 1988 to September 30, 1993 in compliance with applicable laws, regulations, and contractual terms. However, the audit disclosed potentially ineligible costs totaling \$271,047.18.

#### Compliance with the Terms of the Contract and Applicable Laws and Regulations

As part of our audit, we performed tests of NCSU's compliance with certain provisions of the contract and laws, regulations, and binding policies and procedures. We performed those tests of compliance in conjunction with our procedures to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Mr. Reginald Howard  
November 8, 1993  
Page 5

The results of our tests of compliance indicate that with respect to the items tested, NCSU had complied, in all material respects, with the provisions of the contract and laws, regulations, grants, and binding policies and procedures, except for compliance with approval and consultant report submission procedures required under the contract. With respect to items not tested, the extent of non-compliance noted in our testing indicates that there is a relatively low risk that NCSU may have violated the terms of the contract or applicable laws and regulations.

#### Internal Control Structure

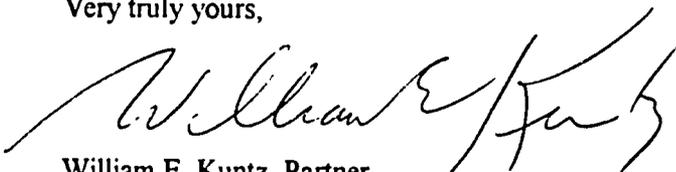
We studied and evaluated NCSU's internal control structure relative to the contract in order to assess the control risks and in order to determine our auditing procedures for the purpose of expressing an opinion on the Statements of Contract Expenditures, and not to provide assurance on NCSU's internal control structure taken as a whole. Due to the material amount of expenditures made by the Midamerica International Agricultural Consortium (MIAC), a subcontractor to NCSU, we relied on the A-133 audits of MIAC conducted by Deloitte & Touche Lincoln, Nebraska. We reviewed the MIAC audit reports for the years ended June 30, 1990 and June 30, 1991, and made inquiries of the audit team which performs the MIAC audit. Based on this evaluation, no issues were identified which cause us to believe that MIAC did not use effective internal controls over expenditures incurred in the NCSU contract.

We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined under Generally Accepted Auditing Standards and the United States Comptroller General's Government Auditing Standards.

#### Management Comments

The findings included in this report have been presented to management, and management has verbally concurred with the factual accuracy of these findings. Each finding also includes a management-prepared response.

Very truly yours,



William E. Kuntz, Partner  
Deloitte & Touche



**NORTH CAROLINA STATE UNIVERSITY**  
**AID CONTRACT 527-0282-C-00-8168-00**  
**STATEMENT OF CONTRACT EXPENDITURES**  
**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying Statement of Contract Expenditures of North Carolina State University (NCSU), for the period from April 1, 1988 (inception) to September 30, 1993, under the terms of the abovementioned contract between NCSU and the United States Agency for International Development (USAID). The Statement of Contract Expenditures is the responsibility of NCSU's management. Our responsibility is to express an opinion on the Statement of Contract Expenditures based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the Statement of Contract Expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement of Contract Expenditures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Statement of Contract Expenditures referred to above presents fairly, in all material respects, the contract expenditures of NCSU for the period from April 1, 1988 (inception) to September 30, 1993, in accordance with the terms of the contract referred to above. As described in Note 2 Basis of Presentation, the accompanying statement only includes NCSU's expenditures on the abovementioned contract; the statement is not intended to present the financial position, results of its operations or changes in the fund balances of NCSU in its entirety in accordance with generally accepted accounting principles.

This report is intended solely for the use of the U.S. Agency for International Development and North Carolina State University. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Deloitte & Touche*

November 8, 1993

NORTH CAROLINA STATE UNIVERSITY

AID CONTRACT 527-0282-C-00-8168-00

STATEMENT OF CONTRACT EXPENDITURES

FOR THE PERIOD FROM APRIL 1, 1988 (INCEPTION) TO SEPTEMBER 30, 1993

	<u>Notes</u>	<u>Budget</u>	<u>Actual</u>
Salaries		\$ 2,543,685	\$ 2,480,539
Consultants		725,159	694,716
Fringe benefits		447,407	382,107
Travel and travel related		506,293	503,143
Allowances		445,000	542,816
Other direct costs		422,134	425,617
Equipment/Supplies		123,000	106,008
Indirect costs		<u>1,384,058</u>	<u>1,346,608</u>
Total technical assistance		<u>6,596,736</u>	<u>6,481,554</u>
Training		<u>1,017,000</u>	<u>1,010,529</u>
Commodity - bulk 1		83,291	83,291
Commodity - bulk 2		391,581	391,581
Commodity - bulk 3		581,557	581,593
Administrative fee		<u>35,438</u>	<u>36,382</u>
Total commodities		<u>1,091,867</u>	<u>1,092,847</u>
<b>TOTAL</b>	<b>3</b>	<b><u>\$ 8,705,603</u></b>	<b><u>\$ 8,584,930</u></b>

See notes to Statement of Contract Expenditures.

**NORTH CAROLINA STATE UNIVERSITY**

**AID CONTRACT 527-0282-C-00-8168-00**

**NOTES TO STATEMENT OF CONTRACT EXPENDITURES**

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a) North Carolina State University (NCSU), located in Raleigh, North Carolina, provides a diverse higher educational curriculum to over 24,000 students. NCSU also uses its faculty and staff to conduct various programs requested by private and government organizations. These programs include educational, research and experimentation programs organized in 44 groups.
- b) Expenditures are related to the disbursing of funds provided by USAID to accomplish the objectives of the projects discussed above. Expenditures are recognized as incurred, in accordance with generally accepted accounting principles.
- c) The contract for the project includes a budget of allowable costs, the fee structure, and obligations of each party. This contract forms the basis for cost reimbursement to NCSU.

**2. BASIS OF PRESENTATION**

The Statement of Contract Expenditures is not intended to be a presentation of NCSU's financial position, results of its operations or changes in its fund balances in accordance with generally accepted accounting principles. Rather, the statement presents the expenditures reported during the audit period for the specific contract and was prepared in accordance with the financial reporting requirements of the contract.

Expenditures incurred by category include those expenditures of NCSU and of its subcontractor, the Midamerica International Agricultural Consortium (MIAC). MIAC is an administrative organization for international agricultural projects conducted by Iowa State University, Kansas State University, the University of Nebraska, and Oklahoma State University in conjunction with USAID.

**3. POTENTIALLY DISALLOWED AND INELIGIBLE COSTS**

Included in the Statement of Contract Expenditures are costs potentially disallowed by USAID, relating to expenditures for consultant services amounting to \$66,775. USAID provided notice of the potential disallowance on August 26, 1992, however no amounts have been disallowed.

Also included in the Statement of Contract Expenditures are potentially ineligible costs totaling \$271,047.18 which are reported in the Schedule of Questioned Costs and related findings which accompany this report.

**NORTH CAROLINA STATE UNIVERSITY****AID CONTRACT 527-0282-C-00-8168-00****COMPLIANCE WITH THE TERMS OF THE CONTRACT AND APPLICABLE  
LAWS AND REGULATIONS****INDEPENDENT AUDITORS' REPORT**

We have audited the Statement of Contract Expenditures of North Carolina State University (NCSU) for the period from April 1, 1988 (inception) to September 30, 1993 on the above mentioned contract between North Carolina State University (NCSU) and the U.S. Agency for International Development (USAID), and have issued our report thereon dated November 8, 1993.

We have also audited NCSU's compliance with the requirements governing types of services allowed or unallowed; eligibility; level of effort; reporting; and claims for advances and reimbursements. The management of NCSU is responsible for NCSU's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence about NCSU's compliance with these requirements. We believe that our audit, provides a reasonable basis for our opinion.

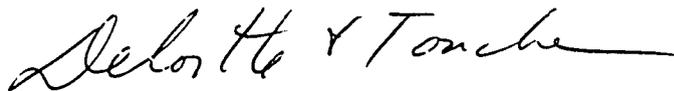
As described in the accompanying findings and schedule of questioned costs, the results of our audit procedures disclosed that NCSU did not comply with contract provisions which require that NCSU obtain advance written approval for the hiring of consultants, and that it submit consultant reports to USAID for approval.

In our opinion, except as described in the fourth paragraph of this report, the results of our tests of compliance indicate that with respect to the items tested, NCSU complied, in all material respects, with the provisions referred to in the third paragraph of the report. With respect to the items not tested, nothing came to our attention that caused us to believe that NCSU had not complied, in all material respects, with those provisions.

Resolving instances of noncompliance identified in the fourth paragraph of this report is the responsibility of the U.S. Agency for International Development. The determination of whether the identified instances of noncompliance will ultimately result in a disallowance of costs cannot presently be determined. Accordingly, no adjustment for any disallowances that may result has been made to the program amounts listed in the accompanying Statement of Contract Expenditures and no provision for any liability that may result has been recognized in the Statement of Contract Expenditures.

We considered these instances of noncompliance in forming our opinion on whether NCSU's Statement of Contract Expenditures are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated November 8, 1993 on the Statement of Contract Expenditures:

This report is intended solely for the use of the U.S. Agency for International Development and NCSU. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in black ink and is positioned to the right of the date.

November 8, 1993

**NORTH CAROLINA STATE UNIVERSITY**

**AID CONTRACT 527-0282-C-00-8168-00**

**COMPLIANCE WITH THE TERMS OF THE CONTRACT  
AND APPLICABLE LAWS AND REGULATIONS**

**SCHEDULE OF QUESTIONED COSTS**

According to applicable USAID regulations, costs charged to a project must meet the following general criteria:

- a) Be reasonable for the performance of the project. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b) Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c) Conform to any limitations or exclusions set forth in the agreement on which the project is based.
- d) Be adequately documented.

Ineligible costs are all those costs unallocable and/or unallowable in accordance with the terms of the contract, applicable laws and regulations. Unsupported costs are costs not properly supported by the recipient, or costs in excess of the budgeted amount per line item including allowable variances, or costs considered unreasonable under the circumstances.

The following costs which are described in the Schedule of Findings, were questioned because they were not adequately supported or were not in compliance with the contract, applicable laws or regulations:

<b><u>Budget Category</u></b>	<b><u>Ineligible Costs</u></b>
Consultants	<b><u>\$271,047.18</u></b>

**NORTH CAROLINA STATE UNIVERSITY**

**AID CONTRACT 527-0282-C-00-8168-00**

**STATEMENT OF CONTRACT EXPENDITURES**

**SCHEDULE OF FINDINGS**

**No evidence of USAID approval for consultant costs.**

**CONDITION:**

Documentation of approval by USAID for hiring of the following consultants was not provided. (These consultants comprise all consultant expenditures selected in our testing):

<u>Date</u>	<u>Consultant/ Advisor</u>	<u>Voucher/ Check Number</u>	<u>Journal Entry Reference</u>	<u>Selection Amount (1)</u>	<u>Expense Amount</u>	<u>Total Paid to Consultant/ Advisor</u>
4/26/89	Villachica	275987	PAA501443	\$ 13,437.48	\$ 4,032.00	\$ -
12/27/89	Villachica	365309	PAA501555	14,215.57	4,003.00	-
4/05/91	Villachica	532272	PAA501798	8,355.93	4,003.00	164,958.38
6/11/90	Narro	423178	PAA501649	3,981.57	2,000.00	3,983.77
12/27/89	Galvan	365309	PAA501555	14,215.57	4,000.00	13,000.00
12/27/89	Lopez	365309	PAA501555	14,215.57	4,491.00	8,977.40
12/27/89	Ramirey	365309	PAA501555	14,215.57	800.00	1,761.66
12/27/89	Garay	365309	PAA501555	14,215.57	500.00	959.77
4/26/89	Chavez	275987	PAA501443	13,437.48	4,029.00	<u>77,406.20</u>
<b>Total ineligible costs</b>						<b><u>\$ 271,047.18</u></b>

(1) The general ledger amount selected for testing. The expense amount represents one item within the selection amount.

**CRITERIA:**

The NCSU-USAID contract section B.5 paragraph a (2) specifies that USAID approval for hiring of consultants is required.

**CAUSE:**

NCSU claimed that approvals were obtained from USAID but that the records for these approvals were kept in Peru. Although given time, NCSU did not retrieve the records from Peru so that we could verify NCSU's claim that approvals had been obtained from USAID.

**EFFECT:**

Consultant costs totaling \$271,047.18 are considered ineligible because we were not able to corroborate evidence whether salaries paid to consultants were properly authorized and allowable project expenditures.

**RECOMMENDATION:**

NCSU should refine its procedures over the retention and filing of documentation supporting contract expenditures. Duplication of information on consultants and timely mailing of this information from Peru to NCSU to support local expenditures should be considered.

**NORTH CAROLINA STATE UNIVERSITY**  
**AID CONTRACT 527-0282-C-00-8168-00**  
**STATEMENT OF CONTRACT EXPENDITURES**  
**SCHEDULE OF FINDINGS**

**Approval of consultants reports.**

**CONDITION:**

Documentation of approval by USAID for the final reports of the consultants named in the previous finding was not provided. (These consultants comprise all consultant expenditures, selected in our testing.)

**CRITERIA:**

The NCSU-USAID contract section C, part B, paragraph 8 specifies that USAID approval for final reports of consultants is required.

**CAUSE:**

NCSU claimed that approvals were obtained from USAID but that the records for these approvals were kept in Peru. Although given time, NCSU did not retrieve the records from Peru so that we could verify NCSU's claim that approvals had been obtained from USAID.

**EFFECT:**

We were not able to corroborate whether USAID approved the final work product for these consultants.

**RECOMMENDATION:**

NCSU should refine its procedures over the retention and filing of documentation supporting contract expenditures. Duplication of information on consultants and timely mailing of this information from Peru to NCSU to support local expenditures should be considered.

NORTH CAROLINA STATE UNIVERSITY

AID CONTRACT 527-0282-C-00-8168-00

RESPONSE TO FINDINGS AND SUPPORTING DOCUMENTS

North Carolina State University (hereinafter "University") contends that its use of the consultants under question was approved by AID and consultants' reports were furnished to the AID Office in Peru during the contract.

This project (total expenditures of \$8,584,930) was conducted under difficult circumstances characterized by terrorist destruction and murder, political unrest, economic instability, fiscal and monetary chaos (inflation was 3,399% in 1989) and U.S. economic sanctions against Peru. The project also experienced many personnel changes (five AID project officers and three University chiefs-of-party). Each project officer and chief-of-party had different management styles that ranged from highly formal to very informal and resulted in different documentation standards. It is difficult now to reconstruct a written history of events as: some University records were left in Peru because of the abrupt termination of the project by the U.S. State Department resulting in the COP having very little time to close the office; the University's longest-serving chief-of-party (three years) is no longer in our employ and lives in Kenya; and, AID's longest-serving project officer is no longer employed by the agency.

Throughout the project, weekly meetings of several hours duration were held at the AID office, to ensure continuing dialogue on project progress and activities. Consultancies were discussed at these meetings. In Spring 1992, the project officer requested information regarding consultants. The University provided a list of all consultants (national consultants, national advisors, special studies, etc.) that included fees, dates, reimbursed expenditures and summary of work performed. The individuals questioned in this audit were listed on that report. In all cases except one, these individuals had completed their work and submitted reports prior to or during 1990. The University had been reimbursed by AID for their fees.

The University was notified of the potential of disallowed expenditures for consultant services of \$66,775 in a letter of August 26, 1992 from Mr. Gene Westlake, Chief, Letter of Credit Branch, AID Office of Financial Management. The University wrote to Mr. Stan Nevin, Regional Contracting Officer, on September 2, 1992 (see Attachment A) indicating our understanding that AID had approved the use of consultants and requesting a detailed description of the expenditures comprising the \$66,775. Mr. Nevin responded on September 4, 1992 (see Attachment B) indicating he was requesting the AID/Peru Office to confirm our understanding that the consultants were approved by AID. Mr. Nevin promised to keep us informed of his progress in resolving the issue. The University received no additional information from Mr. Nevin and, therefore, assumed the issue was resolved.

The seven (7) individuals were national advisors and/or consultants and did require the approval of AID. Their contracts, in all but one case, were signed and conducted during the period that Dr. Paul Kretchmer was project officer. Dr. Kretchmer indicated in a letter dated September 30, 1992 (see Attachment C) that he was informed by the University's chief-of-party at that time, Dr. Dale Bandy, of contracts with the national consultants, their terms of reference and their compensation. At the time the consultants were hired, the University interpreted Dr. Kretchmer's verbal approval as meeting the requirements of the contract. In hindsight, the University agrees that it should have insisted on Dr. Kretchmer's written approval but, since he did not indicate that such written approval was necessary at the time, it was not requested.

The reports of all consultants were furnished to the AID Office in Peru. As stated previously, the University was unable to return all of its records to the U.S. Thus we have written to the AID Office in Peru (see Attachment D) requesting copies of these reports.

We agree with the audit recommendation to ensure that copies of all contract documentation be located at the University and will follow this policy in the future. As previously stated, the situation surrounding this contract was very unusual.

September 2, 1992

Attention: Stan Nevin  
Regional Contracting Officer  
U. S. AID/Ecuador  
Unit 5330  
APO AA, 34039-3420

Subject: Contract No. 527-0282-C-00-8168, Disallowance of Costs

Dear Mr. Nevin:

We have received a letter from Gene Westlake, Chief of the Letter of Credit Branch of the AID Office of Financial Management concerning disallowance of certain costs relating to consultants. He stated that there are 29 charges totalling \$66,775.00 that are to to be disallowed because prior written approval from AID was not obtained and that specific reports on the consultants work were not provided.

The NCSU Mission to Peru assures us that all consultancies were approved in writing and that the Mission has written reports of each consultant's work. Each contract was signed by the consultant and the AID ATT Project Manager or Dr. Dale Bandy, Chief of Party, both of which represent AID approvals. The Peru staff can provide you with copies of whatever substantiation you require.

Please provide our office by FAX a list of the charges in question. We will use this information for review of prior approvals. Our FAX number is 919-515-7721.

Sincerely,



Earl N. Pulliam  
Director

CC: Dr. A. J. Coutu

AGENCY FOR INTERNATIONAL DEVELOPMENT  
USAID / ECUADOR

U.S. ADDRESS: AMEMBASSY, Quito (USAID) UNIT 5330, APO AA 34039-3420  
FAX NUMBER: 593-2-561-228 PHONE NUMBER: 593-2-521-100



TELEFAX CONTROL No.

TO: Dr. Earl N. Pulliam  
NCSU

*Earl N. Pulliam*  
FAX No.: 919-515-7721  
DATE: September 4, 1992  
No. of PAGES: 1 (include cover sheet)

FROM: S.R. Nevin

OFFICE: RCO/Quito

SUBJECT: Contract No.: 527-0282-C-00-8168-00

Ref: Your letter of September 2, 1992

Dear Dr. Pulliam:

The fact that Mr. Westlake is in Washington, I am in Quito, the contract effort is being conducted in Lima and NCSU has its headquarters in Raleigh, North Carolina tends to make settling problems on subject contract a little difficult.

I was unaware of the proposed disallowances until receipt of your letter. I suspect that my colleagues in Peru are also unaware of the problem. Therefore, I will send my colleagues in Peru a copy of your letter with a request that they confirm the understandings presented by the NCSU staff in Peru. If such a confirmation is received I will advise Mr. Westlake that disallowances will not be appropriate.

As I am confident that this matter is of more than a passing interest to NCSU, I will keep you informed of my progress in settling this problem.

Regards.

**Paul Kretchmer, Ph.D.  
3 Pine Ridge Way  
Mill Valley, CA 94941  
Tel: 415-389-0731**

September 30, 1992

Dr. George Wilson  
Chief of Party  
NCSU/MIAC Mission to Peru  
Apartado 248  
Lima 100, Peru

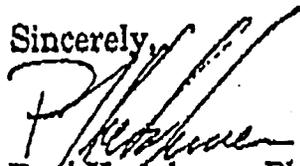
Transmitted by Fax: 51-14-759016

Dear George,

In reference to your letter dated July 19, 1992 regarding the contracting of national consultants by NCSU under the ATT Project I will do my best to remember the procedures taken, however it has been almost three years since I was in Peru.

As the Project Manager of the ATT Project I met with Dr. Dale Bandy, Chief of Party for the NCSU Mission in Peru, on a regular basis. A number of these meetings were in Project Implementation Committee meetings, where not only Dr. Bandy and I were present but also all our counterparts from the participating institutions. During these regular meetings we discussed all aspects of the project including the contracting of national consultants, their terms of reference and compensation. To the best of my memory Dr. Bandy included the final details of these contracts in his periodic reports.

Sincerely,

  
Paul Kretchmer, Ph.D.



# North Carolina State University

Office of Finance and Business  
Finance Division  
Contracts and Grants

Box 7214  
Raleigh, NC 27695-7214  
(919) 515-2153  
FAX: (919) 515-4893

February 9, 1994

Mr. Harry Wing  
Project Officer  
USAID/Peru  
Miami, Florida 30286

RE: Contract no. 527-0282-C-00-8168-00

Dear Mr. Wing:

We are in the process of responding to an audit, regarding the above referenced contract, which was conducted by Deloitte & Touche at the request of USAID.

One of their findings related to the fact that the University did not have copies of the following consultants' reports reflecting AID approval.

Villachica, H.	Narro, L.	Weise, A.
Torres, V.	Galvan, J.	Alvarado, L.
Gomez, G.	Lopez, A.	Ramirez, L.
Garay, O.	Chavez, A.	Pulvar, E.

Since these reports were provided to your office at the time they were submitted to us by the consultants during the project, please provide us with an approved copy of these reports for our files. If you have any questions, please call me.

Very truly yours,

Earl N. Pulliam  
Director

ENP:scg  
cc: Mr. Jack Ottke  
USAID/IG/A/FA  
Room 514 SA-16  
Washington, DC 20523-1604



## NORTH CAROLINA STATE UNIVERSITY

### AID CONTRACT 527-0282-C-00-8168-00

#### INTERNAL CONTROLS

#### INDEPENDENT AUDITORS' REPORT

We have audited the Statement of Contract Expenditures of North Carolina State University (NCSU), for the period from April 1, 1988 (inception) to September 30, 1993 and have issued our report thereon dated November 8, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Contract Expenditures is free of material misstatement.

In planning and performing our audit of the Statement of Contract Expenditures of NCSU for the period from April 1, 1988 to September 30, 1993 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Contract Expenditures and not to provide assurance on the internal control structure.

The management of NCSU is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

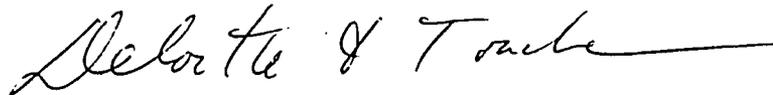
For the purpose of this report, we have classified the significant internal control structure policies and procedures of NCSU applicable to the contract in the following categories:

- . Accounting processes
- . Payroll procedures
- . Procurement system

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Statement of Contract Expenditures being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the use of NCSU and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

A handwritten signature in cursive script, reading "Deloitte & Touche", followed by a long horizontal flourish.

November 8, 1993

REPORT DISTRIBUTION LIST

APPENDIX A  
Page 1 of 1

	<u>No. of Copies</u>
Administrator, A/AID	1
Director, Office of Procurement, M/FA/OP	5
Assistant Administrator, Bureau for Management, AA/M	1
Office of Financial Management, M/FA/FM/CONT	1
Office of External Affairs, LPA/XA/PR	1
Bureau for Legislative and Public Affairs, LPA	1
Office of the General Counsel, GC	3
Center for Development Information and Evaluation, PPC/POL/CDIE	1
Management Control Staff, M/FA/MCS	1
IG	1
AIG/A	1
AIG/I&S	1
IG/LC	1
IG/A/PPO	2
IG/A/PSA	1
RIG/A/B	1
RIG/A/C	1
RIG/A/D	1
RIG/A/N	1
RIG/A/S	1
RIG/A/SJ	1
RIG/A/EUR/W	1
RAO/M	1
IG/RM/C	5