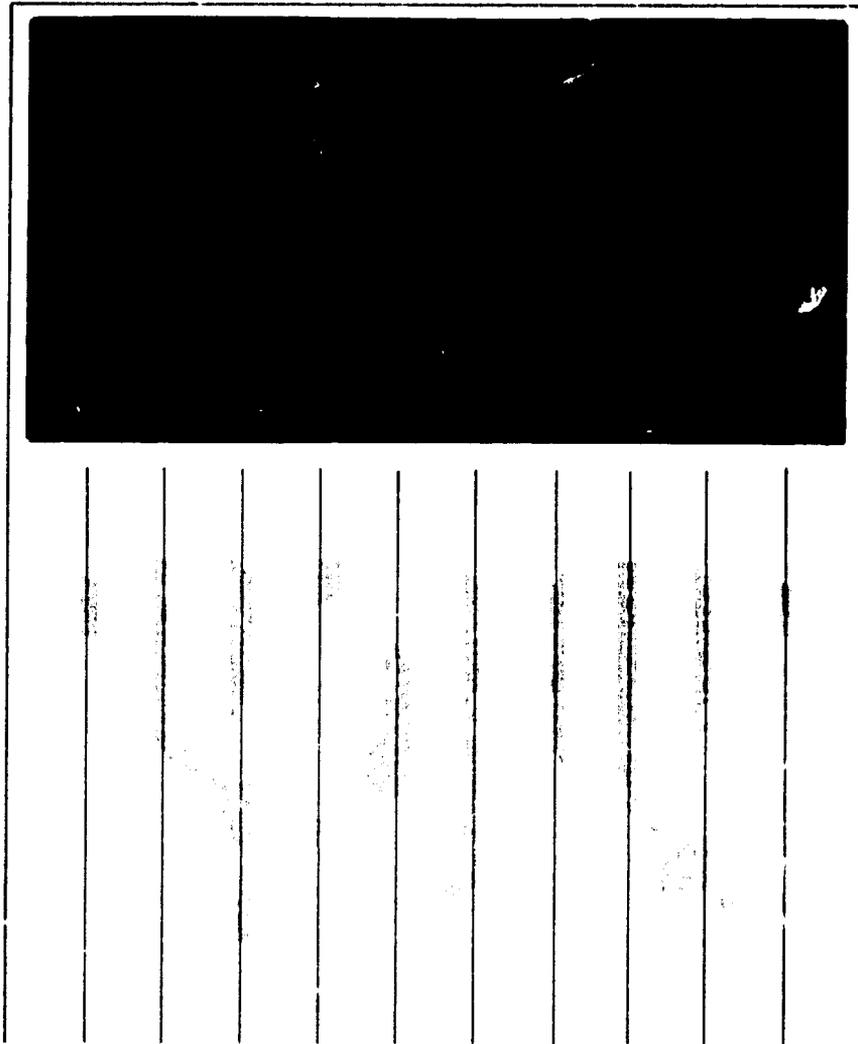


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
WASHINGTON

CONTRACT AUDIT OF
THE UNIVERSITY OF NORTH CAROLINA
(SOYBEAN UTILIZATION PROJECT NO. 931-0225)

CONTRACT NO. AID/TA-C-1349

AUDIT REPORT NO. 1-511-83-3

NOVEMBER 16, 1982

Under the terms of Contract No. AID/ TA-C-1349, AID made available \$1.3 million to the University of North Carolina to study the possibilities of introducing soybeans as a food staple to the rural poor in a selected Less Developed Country. The study took place in Bolivia.

The Contractor made the study and satisfactorily completed the project in January 1982. Our audit of the contract costs showed questionable costs amounting to \$10,947. The remaining \$1,295,053 may be accepted as allowable contract costs. In addition, AID needs to negotiate with the Contractor the disposition of some non-expendable property purchased under the contract.

Contract Audit of
The University of North Carolina
(Soybean Utilization Project No. 931-0225)
Contract No. AID/TA-C-1349

EXECUTIVE SUMMARY

Introduction

The University of North Carolina at Chapel Hill (Contractor or UNC-CH) was contracted by A.I.D. on July 30, 1976 (Contract No. AID/TA-C-1349) to study the feasibility of introducing soybeans as a food staple among the rural poor in a selected Less Developed Country. The study was conducted in Cochabamba, Bolivia. The Contractor employed the services of three subcontractors: (a) the School of Home Economics of UNC at Greensboro; (b) the Greater University of San Simon of Cochabamba, Bolivia; and (c) the Sociedad Aceitera del Oriente in Bolivia.

The study was completed in January 1982. During the 5-1/2-year period that the contract was active, the Contractor was reimbursed a total of \$1,306,000.

Purpose and Scope

The audit was made at the request of USAID/Bolivia. It covered the period from inception of the contract, on July 30, 1976, to its termination on January 31, 1982. The thrust of the examination was to determine the propriety and allowability of costs claimed and reimbursed under the contract. The review was made in accordance with acceptable auditing standards as adopted by the U.S. Government.

Conclusions

Three main conclusions were drawn from our examination:

- Out of \$1,306,000 reimbursed to the Contractor, we consider \$1,295,053 as acceptable and allowable contract costs. The remaining \$10,947 represents net questionable costs which must be reviewed and negotiated by the Office of Contract Management (Page 3).
- The Contractor purchased \$8,320 of non-expendable computer equipment for use in Chapel Hill. The Office of Contract Management needs to negotiate the disposition of this property (Page 3).
- The Contractor's technical performance was satisfactory. However, he did not monitor subcontract costs in a careful manner (Page 4).

Recommendations

We have included two recommendations in the body of the report and in Appendix A. The findings related with the subcontract between UNC and the Greater University of San Simon were discussed with USAID/Bolivia and the sub-contractor. The findings related to all aspects of the contract were discussed with the AID Office of Nutrition and the University of North Carolina. Any comments made during these meetings were considered in preparing the final version of this report.

BACKGROUND AND SCOPE

Background Information

The University of North Carolina at Chapel Hill, North Carolina (Contractor or UNC-CH) was founded in 1789 as an institution of higher learning. It is governed by a Board of Governors which has the authority to conduct legal affairs and establish basic policies for all institutions within the State's Consolidated University system. The university has its own principal officer, a Chancellor, and a Board of Trustees.

UNC's operating and fiscal procedures are audited annually by the State Legislative Auditor. The UNC-CH is also subject to periodic audits by the Department of Health and Human Resources of Inspector General (HHS-OIG) for the U.S. Federal Contracts and Grants made available to the UNC. HHS's last audit report, dated August 31, 1982, covered the University's implementation of the Office of Management and Budget (OMB) Circular A-21 and a new labor distribution system which became effective on July 1, 1980. The prior HHS report of audit dated November 20, 1981, reported on the Direct Cost Incurred on Federal Contracts and Grants for the period July 1, 1978, through June 30, 1979. However, Contract No. AID/TA-C-1349 - the subject of this audit report - has not been previously audited.

Contract No. AID/TA-C-1349 was signed between AID and the Contractor on July 30, 1976. Under the terms of this reimbursable contract, the Contractor was to test the feasibility of introducing soybeans as a food staple among the rural poor in a selected Less Developed Country (LDC). Country site selection was made by a UNC/U.S. Department of Agriculture team upon completion of a survey of three selected countries: Chile, Colombia, and Bolivia. Chile was the only country where the project could be successfully completed within the funding level and the time frame, i.e., (\$769,000 and three years). However, it was decided that Chile was not a typical LDC; for this reason, the decision was made to implement the project in Bolivia. Both the implementation time and funding level were subsequently increased to 5-1/2 years and \$1.3 million, respectively.

To fulfill the contract requirements and accomplish the necessary objectives of the project, the principal Contractor (UNC-CH) signed three subcontracts:

- In the U.S., a subcontract was signed with the School of Home Economics of the UNC at Greensboro to provide all personnel, facilities, supplies, equipment, and to perform all actions which would help the UNC-CH to perform the necessary tasks and reach the project objectives.
- In Bolivia, two subcontracts were signed with two different organizations. One was with the Greater University of San Simon (USS) at Cochabamba; this subcontractor was to carry out the fieldwork in three areas of the region. The other subcontract was with the

Sociedad Aceitera del Oriente (SAO) to procure, clean, package, and store the soybeans made suitable for human consumption to be used in the project. In actual project implementation, SAO did not play an important role and no costs were incurred under this subcontract.

As of January 31, 1982, the Contractor had been reimbursed \$1,306,000. Exhibit A and A-1 provide the details on the results of our examination.

Scope

The audit of Contract No. AID/TA-C-1349 was made by RIG/A/LA at the request of AID/ Bolivia. The review was made to determine the propriety and allowability of costs reimbursed to the Contractor and covered the period from inception of the contract, on July 30, 1976, to its termination date, January 31, 1982. This examination was made in accordance with acceptable auditing standards as adopted by the U.S. Government and included a review of records at UNC-CH in North Carolina, and at the University of San Simon in Cochabamba, Bolivia. Within AID/Washington we reviewed the correspondence files on the Contractor's performance at the Office of Nutrition.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Summary of Contract Costs

From inception of the contract to its termination date, the University of North Carolina was reimbursed the total value of the contract (\$1.3 million). The results of our examination are summarized on Exhibit A and the related details on questioned costs are shown on Exhibit A-1. Based on our examination, the following conclusions were reached:

Costs reimbursed to principal Contractor		\$1,306,000
Add: Net overhead costs not claimed, but due Contractor	\$13,023	
Deduct: Costs questioned for UNC-CH	(12,541)	
Net costs questioned for the University of San Simon	(11,429)	
Net costs questioned and potentially refundable to AID		<u>(10,947)</u>
Total acceptable and allowable contract costs		\$1,295,053 =====

The questioned costs are still subject to a final allowability determination by the Office of Contract Management and negotiations with the principal Contractor. Therefore, the final costs allowed under the contract are subject to change.

Recommendation No. 1

The Office of Contract Management (M/SER/CM) should review the questioned costs shown on Exhibits A and A-1 and negotiate final cost settlement with the Contractor from contract inception to termination.

Non-Expendable Property

With AID's approval, the UNC-CH purchased (at \$8,320) the computer equipment shown on Exhibit B for use on the soybean utilization project. The computer equipment was purchased early in the implementation of the contract and used in the Contractor's campus at Chapel Hill, North Carolina. According to the terms of the contract, the AID Contracting Officer needs to provide disposition instructions of this non-expendable property.

Our examination of the Contractor's records showed that this equipment was to be used in conjunction with the UNC-CH computer to reduce the costs

of analyzing the data collected from the field study in Bolivia. Upon completion of the project, the required statistical reports were prepared with the appropriate information required under the contract. Therefore, the project was completed except for the administrative close-out functions stated in the Additional General Provisions (Clause 16) of the contract. According to this contractual clause, the Contractor should have transferred the title for the computer equipment to either the Host Country or to one of its public or private agencies. In addition, the equipment should have been reported to the AID Contracting Officer for any disposition instructions. As stated previously, the equipment was purchased specifically for use at the Contractor's home office and therefore never arrived in-country. Also, the equipment was not reported to the AID Contracting Officer. Because of the special nature of the equipment, there need to be negotiations between AID and the Contractor on the disposition of equipment or possible refund of some costs of the equipment.

After the contractor was informed of this requirement, the AID Contracting Officer was contacted and informed of the equipment in the university's possession. Since the condition had not been finalized prior to the auditor's departure, the following recommendation is made to assure that the equipment is disposed of as required.

Recommendation No. 2

AID Office of Contract Management (M/SER/CM) should (a) review the list of computer equipment shown on Exhibit B; (b) determine the course of action that is in the best interest of the U.S. Government; and (c) negotiate with the Contractor a possible refund of some costs or the satisfactory disposition of the non-expendable computer equipment.

Contractor's Performance

According to the AID Office of Nutrition, the University of North Carolina made a very interesting study on the feasibility of soybean utilization in different parts of Bolivia. The study will help in directing future studies in this area. The Contractor completed two reports on the project:

- (a) Strategy for Promotion of Soybean Consumption in Cochabamba, Bolivia;
- (b) The final methodology and comprehensive report for the introduction of the campaign. The required 500 copies were submitted to AID.

In our opinion, the Contractor did not monitor the expenditures of the subcontractor very closely. As a result, the subcontractor (Greater University of San Simon) did not exercise care in using project funds.

University of North Carolina
Contract No. AID/TA-C-1349
Summary of Contract Costs - Reimbursed, Questioned and Allowed
For the Period: July 30, 1976, Thru January 31, 1982

<u>Cost Category</u>	<u>Costs Reimbursed</u>	<u>Costs Questioned</u>	<u>Total Allowable Costs</u>	<u>Related Notes Exhibit A-1</u>
1. Salaries & Wages	\$238,407	\$(3,153)	\$235,254	1.0
2. Fringe Benefits	33,575	- 0 -	33,575	
3. Consultants	15,707	- 0 -	15,707	
4. Travel	71,810	(1,374)	70,436	2.0
5. Equipment & Materials	52,042	(80)	51,962	3.0
6. Other Direct Costs	76,927	(114)	76,813	4.0
7. Sub-Contracts	660,394	(11,429)	648,965	5.0
8. Secret., Clerical & Tech. Services	<u>2,141</u>	<u>-0</u>	<u>2,141</u>	
9. Total Direct Costs	\$1,151,003	(\$16,150)	\$1,134,853	
10. Overhead	147,177	13,023	160,200	9.0
11. Unexpended Contract Funds	7,820	(7,820)	-0-	
12. Total Contract Funds	<u>\$1,306,000</u> =====	<u>(10,947)^{1/}</u> =====	<u>\$1,295,053</u> =====	

^{1/} Amount subject to change on rulings on costs questioned.

University of North Carolina
Contract No. AID/TA-C-1349
Details on U.S. Dollar Costs Questioned or Due to Contractor
For the Period: July 30, 1976 Thru January 31, 1982

1. Salaries and Wages

1.1 The total costs questioned (\$3,153) relate to the difference between the allowable salary per the contract scale and the amount paid to the UNC-CH Principal Investigator for the contract.

1.2 Details of the periods involved and the questioned costs follow:

<u>Periods Involved</u>	<u>Employee's Salary</u>	<u>Allowable Salary Scale</u>	<u>Amount Paid Employee</u>	<u>Amount Allowable</u>	<u>Difference</u>
9/2/76 - 6/30/77	\$43,000	\$39,600	\$8,778	\$8,084	(694)
7/1/77 - 9/30/77	46,530	39,600	2,909	2,475	(434)
7/1/78 - 12/31/78	50,020	47,500	6,252	5,940	(312)
1/1/79 - 6/30/79	50,020	47,500	6,250	5,938	(312)
7/1/79 - 9/30/79	53,521	47,500	3,344	2,969	(375)
10/1/79 - 6/30/80	53,521	50,112	10,081	9,396	(685)
7/1/80 - 12/31/80	61,550	50,112	1,834	1,493	(341)
			<u>\$39,448</u>	<u>\$36,295</u>	
Excess Salary Payments Charged Contract					(3,153) *****

2.0 Travel Costs

2.1 The total travel costs questioned relate to payments made to UNC-CH personnel while they were working at the University of San Simon, Bolivia.

2.2 Details of the questioned costs follow:

<u>Expense Date</u>	<u>Employee Involved</u>	<u>Cause for Expenditure</u>	<u>Rate of Exchange</u>	<u>Bolivian Pesos</u>	<u>U.S.\$ Amount</u>
8/4/77	Principal Investigator	Funds provided for shipment of 20 kg. soybeans & 5 kg. forms (No receipts)	20.00	1,364	(\$68)
9/23/77	" "	Shipment of samples (No receipts)	20.90	2,090	(100)
8/25/78	" "	(No receipts)	20.80	2,080	(100)
4/4/78	" "	Survey and lab. test	20.00	2,000	(100)
8/8/78	" "	Travel: La Paz to Cochabamba & return to La Paz (No air tickets)	20.00	689	(35)
8/8/78	" "	" " ")	20.00	689	(34)
8/9/78	" "	Excess baggage (No receipts)	20.00	2,100	(105)
8/24/78	" "	Expenses for transporting 2 ea. vehicles to project site (No receipts)	20.00	9,633	(482)
8/24/78	" "	Travel advance for trip to Rio de Janeiro, Brazil (No receipts)	20.00	5,200	(250)
8/25/78	Mary Dickey	Excess baggage	20.00	<u>2,080</u>	<u>(100)</u>
		Travel Costs Questioned		<u>\$827,926</u> *****	<u>(\$1,374)</u> *****

3.0 Equipment & Materials

3.1 Procurement of Chevrolet Carry-All on 1/26/79 included an AM Radio or a luxury item (\$79.79)	<u>(\$80)</u>
	<u>(\$80)</u> *****

4.0	<u>Other Direct Costs</u>	
4.1	Payment for lunch during workshop - Carolina Inn, Check No. AP 941215, 12/30/76 - charged to Acct. No. 1511 (\$49.71)	(\$50)
4.2	Payment for refreshments, Check No. AP 992423 5/5/78 - charged to Acct. No. 3919 (\$63.68)	<u>(\$64)</u>
	Total	(\$114) =====

5.0 Summary Status of Sub-Contract Cost of University of San Simon

5.1	Cost questioned per following Section 6.0	(\$20,408)
5.2	Add: Profits from sale of soybean (see Section 7.0)	<u>(5,561)</u>
	Sub-Total	(25,969)
5.3	Deduct: Last expenditure voucher claimed by sub-contractor (see Section 8.0)	<u>14,540</u>
	Total costs reimbursable to contractor by sub-contractor	(\$11,429) =====

6.0 Questionable Sub-Contract Costs:

<u>Item of Expenditure</u>	<u>Amount in Bol. Pesos</u>	<u>Amount in U.S. Dollars</u>
6.1 Cooking utensils, etc. to be contributed by sub-contractor - Contract Section 4.1.9	\$26,500.00	
6.2 Long distance telephone calls charged contract without proper approval	2,304.80	
6.3 Double reimbursement to employees	1,200.00	
6.4 Guarantee payments - telephones/movies; these guarantees are refundable and should not be reimbursed by AID	8,000.00	
6.5 Unauthorized or unadjusted bonus payments	4,600.00	

6.6	Double charges for employee soc. security deduction	63,994.98	
6.7	Procurement of tires for a rented vehicle; vehicles received under contract are new	<u>25,400.00</u>	<u>(\$6,352)</u>
6.8	Refreshments: coffee, tea, New Year's party, etc.	21,444.80	(1,007)
6.9	Cloth for uniforms which were not authorized for project	53,526.00	(2,437)
6.10	Revolving funds & outstanding advances not cleared	6,000.00	(653)
6.11	Allowable bonuses paid monthly, but also added to 14th month and X'mas bonus	27,691.96	(1,385)
6.12	Identifiable taxes and customs duties; project procurements are free of taxes and duties (GOB Agreement)	29,046.11	(1,382)
6.13	Unsupported warehouse charges estimated at approximately 60.224 percent of Bolivian \$241,051.66 and not supported by valid documents	<u>145,170.99</u>	<u>(7,192)</u>
	Total	Bo1. 424,879.64 *****	(\$20,408) *****

7.0 Sub-Contractor's Profits From Sale of Soybeans to be refunded to Contractor as Required by the Contract:

7.1 Soybean Marketing Operation: (In Bolivian Pesos)

	<u>Year</u>	<u>Income</u>	<u>Expenses</u>	<u>Cumulative Totals</u>
	1978	176,343.70	159,000.00	17,343.70
	1979	507,973.40	409,665.60	115,651.50
	1980	<u>368,947.50</u>	<u>104,847.20</u>	<u>379,751.80</u>
Totals		B\$ 1,053,264.60 *****	B\$ 673,512.80 *****	B\$ 379,751.80 *****

7.2 Sub-Contractor Operating Expenses:

1977	1,196,810.00	1,313,416.84	(116,606.84)
1978	4,514,000.00	3,130,128.6	1,267,265.09
1979	2,100,000.00	4,712,237.28	(1,344,972.19)
1980	<u>3,431,000.00</u>	<u>2,310,389.70</u>	<u>(224,361.89)</u>
Totals	\$11,241,810.00 *****	\$11,466,171.89 *****	(\$224,361.89) *****

7.3 Net Profit from soybean operations after deduction of operating expenses in Bolivian Pesos B\$ 155,390

7.4 Conversion to U.S. Dollars

Converted to US\$ (B\$24.51 = US\$1.00) (\$6,356)

Less: UNC-CH payment due for social security of employees (\$795)

Amount due UNC-CH from University of San Simon (\$5,561)

8.0 Additional Allowable Sub-Contract Costs

8.1 Expenditure Voucher Claimed by Sub-Contractor (USS) but still pending payment by principal contractor US\$14,540

US\$14,540

9.0 Overhead Costs

9.1 Summary of overhead costs questioned

Overhead costs due Contractor (Section 9.4) \$15,034
Less: Adjustments for overhead on excess salary payments (Section 9.2) (2,011)

Total due Contractor \$13,023

9.2 Adjustments for overhead charged on excess salary payments

	<u>Predetermined Percentage Factor</u>	<u>Excess Salary</u>	<u>Excess Overhead</u>
08/02/76 - 06/30/77	54.0	(\$694)	(375)
07/01/77 - 09/30/77	56.6	(434)	(246)
06/01/78 - 12/31/78	62.0	(312)	(193)
01/01/79 - 06/30/79	62.0	(312)	(193)
07/01/79 - 09/30/79	73.3	(375)	(275)
10/01/79 - 06/30/80	73.3	(685)	(502)
07/01/80 - 12/31/80	66.5	(341)	(227)
		<u>(\$3,153)</u>	<u>(\$2,011)</u>
		*****	*****

- 9.3 The contractor was authorized two alternative overhead bases. The first alternative was to apply the overhead percentage (66.5% from July 1, 1980 through June 30, 1981) against direct salaries and wages including vacation, holidays and sick pay, but excluding other fringe benefits. The second alternative was to apply the overhead percentage (44.0% from July 1, 1980 through June 30, 1981 and 39.6% thereafter) against all direct expenses up to \$25,000 limit per item.
- 9.4 Because of the funding limitations of the contract, the Contractor used the first alternative most of the time, but was not consistent. If the contractor had used the second alternative, he could have legally claimed \$15,034 more in the following manner:

<u>Period of Application</u>	<u>Alternative #2 Basis</u>	<u>Allowable OH Amount</u>	<u>Overhead Claimed</u>	<u>Difference Due Contractor</u>
07/1/80 - 07/31/80	\$8,894	\$3,913	\$1,800	\$2,113
08/1/80 - 08/31/80	9,353	4,116	1,772	2,344
09/1/80 - 09/30/80	7,521	4,002	4,002	-0-
10/1/80 - 10/31/80	8,405	3,698	2,484	1,214
11/1/80 - 11/30/80	3,206	1,755	1,755	-0-
12/1/80 - 12/31/80	3,117	1,755	1,755	-0-
01/1/81 - 01/01/81	9,883	4,348	1,370	2,977
02/1/81 - 02/28/81	2,557	1,125	728	397
03/1/81 - 03/31/81	349	154	-0-	154
04/1/81 - 06/30/81	15,804*	6,954	-0-	6,954
07/1/81 - 09/30/81	(9,171)	(4,272)	(3,623)	649
10/1/81 - 12/31/81	6,978	2,763	2,763	
01/1/82 - 01/31/82	1,684	667	667	-0-
	<u>\$68,580</u>	<u>\$30,978</u>	<u>\$15,464</u>	<u>\$15,515</u>
	*****	*****	*****	*****

Less: Overhead charged and claimed on sub-contractor's costs questioned:	<u>\$481</u>
Net : Additional overhead allowable to UNC-CH	\$15,034 *****

NOTE: * Check for \$14,540.13 was written in one period and cancelled next period. Application of overhead rates changed at the same time. Auditor adjusted for this in total.

University of North Carolina
Contract No. AID/TA-C-1349

July 30, 1976 through January 31, 1982

Listing of Non-Expendable Equipment Approved and Purchased for Contractor's
On Campus Location for Use in Project

<u>Supplier</u>	<u>Quantity</u>	<u>Item</u>	<u>Cost</u>
1. WANG Laboratories	1	Controller Module	\$190.00
	1	Retrofit Charge Service	285.00
	1	Printer	4,750.00
	1	Audio Signal)	
	1	Alpha Numeric Basic Keyboard)	1,425.00
		Conversion 2200 B to 2200 C)	
	1	Teletypewriter	<u>1,404.00</u>
		Sales Tax	<u>266.00</u>
		Total	<u>\$8,320.00</u> *****

LIST OF RECOMMENDATIONS

Recommendation No. 1

The Office of Contract Management (M/SER/CM) should review the questioned costs shown on Exhibits A and A-1 and negotiate final cost settlement with the Contractor from contract inception to termination.

Recommendation No. 2

AID Office of Contract Management (M/SER/CM) should (a) review the list of computer equipment shown on Exhibit B; (b) determine the course of action that is in the best interest of the U.S. Government; and (c) negotiate with the Contractor a possible refund of some costs or the satisfactory disposition of the non-expendable computer equipment.

LIST OF RECIPIENTS

	<u>No. of Copies</u>
Deputy Administrator	1
Assistant Administrator - Bureau for Latin America and the Caribbean (AA/LAC),	5
Mission Director, USAID/Bolivia	5
Office of the Inspector General - Department of Health and Human Services - Atlanta	3
Assistant Administrator - Bureau for Development Support	1
Assistant Administrator - Office of Legislative Affairs (LEG)	1
Assistant to the Administrator for Management (AA/ii)	1
Office of Financial Management - (M/FM/ASD)	3
Directorate for Program and Management Services	1
General Counsel (GC)	1
Audit Liaison Office (LAC/DF)	3
Director, (OPA)	4
DS/DIU/DI	4
PPC/E	1
Office of the Inspector General (IG/W)	1
IG/PPP	1
IG/EMS	12
AIG/II	1
RIG/A/Washington	1
RIG/A/Abidjan	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
RIG/A/NE, New Delhi Residency	1
RIG/A/LA, Panama Residency	1
RIG/A/LA, La Paz Residency	1
GAO, Latin America Branch, Panama	1