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AUDIT OF GLOBAL EXCHANGE INCORPORATED
USAID/BOLIVIA CONTRACT 511-0583-130-HCC
HANDICRAFT EXPORT DEVELOPMENT PROJECT

Audit Report No. 1-511-88-21
July 22, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

U S MAILING ADDRESS
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA HONDURAS

TELEPHONES
32 9987
also 32 5125 FAX 2721 2724

July 22, 1988

MEMORANDUM

TO : D/USAID/Bolivia, R. Van Raalte
FROM : RIG/A/T, *Coinage N. Gothard*
SUBJECT: Audit of Global Exchange Incorporated, USAID/Bolivia Report
No. 1-511-88-21

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the Global Exchange Incorporated, USAID/Bolivia Contract 511-0583-130-HCC, Handicraft Export Development Project. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains four recommendations. All four recommendations are considered resolved but remain open until we are in receipt of documentation of the Mission's actions. Please advise me within 30 days of any additional actions taken to implement the recommendations in this report.

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

EXECUTIVE SUMMARY

Effective August 29, 1985, USAID/Bolivia authorized a grant to the Association of Handicraft and Fashion for execution of the Handicraft Export Development Project. The project called for \$5.2 million in funding, of which the A.I.D. contribution was \$3 million. On March 7, 1986, the grantee and Global Exchange, Inc. signed a cost-plus-fixed-fee host country contract for \$1,993,137 with estimated completion 36 months thereafter, but the association terminated the contract for convenience on November 14, 1986.

At the request of USAID/Bolivia, the Office of the Regional Inspector General for Audit Tegucigalpa made a financial and compliance audit of contract activities carried out by Global Exchange Inc. and the subcontractor, the Fashion Institute of Technology, under the Handicraft Export Development Project, contract No. 511-0583-130-HCC. The audit was limited to the contractor's activities related to this specific contract. The purpose was to determine whether the contractor and subcontractor had complied with applicable laws, regulations, and agreement terms and whether contract costs claimed were reasonable, eligible, and allocable.

The audit disclosed that the contractor and subcontractor had not complied with applicable laws, regulations, and agreement terms, and that not all contract costs claimed were reasonable, eligible, and allocable. In addition, the contractor's books and records were generally inadequate, causing a lack of adequate internal and financial controls to account for project costs.

This report contains four findings which note that the contractor had not complied with applicable laws, regulations, and agreement terms. Global Exchange Inc.'s costs were often not reasonable, eligible, and allocable; accounting and internal control systems were inadequate to account for A.I.D. funds; USAID/Bolivia payment of outstanding in-country bills of Global Exchange Inc. was a duplication of payment of these expenses; and foreign exchange liquidation costs claimed by the Central Bank of Bolivia are the responsibility of Global Exchange Inc.

Global Exchange Inc. had claimed a total of \$651,781 as appropriate project costs to be reimbursed under the project. However, a review of these claimed costs showed that Global Exchange Inc. had not complied with applicable laws, regulations, and agreement terms. As a result, the audit showed that Global Exchange Inc. had: (1) incurred \$4,120 in additional costs eligible for reimbursement; (2) claimed \$100,901 in costs which were ineligible; and (3) requested reimbursement for \$45,907 in costs that were not properly supported. Based on these factors, only \$17,201 in general and administrative expenses should be allowable for payment, and payment for fixed fee should be negotiated based on the percentage of contract completion. The report recommends that the responsible contracting official(s) for USAID/Bolivia make these adjustments.

A detailed Regional Inspector General for Audit/Washington analysis of Global Exchange Inc. internal controls and accounting practices and our own review of Global Exchange Inc. books and records disclosed that the contractor lacked adequate internal controls and appropriate accounting books and records to account for A.I.D. project funds. According to A.I.D. regulations, which are attached to all agreements and have to be followed by implementing agencies, contractors, and subcontractors, entities managing A.I.D. funds are required to maintain adequate accounting books and records which should be available for A.I.D. audits and reviews and maintained for three years after the project has been completed (or the contract has been terminated). However, there was no pre-award survey of the contractor which would have revealed the inadequacy of Global's accounting and internal control systems and its lack of financial resources. These undetected deficiencies led to the contractor's failure to perform its activities as required and also to problems discussed in Finding No. 1. The report recommends that responsible contracting official(s) for USAID/Bolivia, in the future, request the appropriate Inspector General office to perform pre-award surveys of selected contractors prior to the execution of contracts, and not enter into future contracts with Global Exchange Inc. until an independent auditor certifies the adequacy of their financial records and system of internal controls.

The Association of Handicraft and Fashion-Global Exchange Inc. contract was terminated for convenience on November 14, 1986. However, at that point in time, Global Exchange Inc. had a series of outstanding in-country bills which were not paid when Global Exchange Inc. closed its Bolivian office. These were costs which USAID/Bolivia had reimbursed under direct project costs, such as per diem and housing allowance costs; therefore, under normal business practices Global Exchange Inc. was responsible for payment. As a result, USAID/Bolivia had to use \$16,700 in project resources to cover Global Exchange Inc.'s outstanding debts. These resources should be recovered from Global Exchange Inc. and returned to funds available for project implementation. The report recommends that the responsible contracting official(s) for USAID/Bolivia deduct a total of \$16,700 from its final payment to Global Exchange Inc.

In late 1986, Global Exchange Inc. exported a total of 220 alpaca garments produced by artisan organizations working under the project. Under Bolivian law, exporting companies for Bolivian products have to pay the Central Bank of Bolivia certain costs for the liquidation of foreign exchange, which is a small percentage of the value of commodities exported. Because Global Exchange Inc.'s Bolivian office was closed upon contract termination (November 14, 1986) and given its limited knowledge of Bolivian laws, Global Exchange Inc. did not liquidate costs claimed by the Central Bank. As a result, the Central Bank of Bolivia is charging the project the amount due for the liquidation of foreign exchange plus fines for non-payment. This claim is hampering the current export activities of the project. Since the products were exported by Global Exchange Inc. and payment for exported goods was received by them, the project should not bear this type of expenses which are legally Global

Exchange Inc.'s expenses. The report recommends that the responsible Contracting Official(s) for USAID/Bolivia require Global Exchange Incorporated to liquidate foreign exchange charges claimed by the Central Bank of Bolivia for the export of 220 alpaca sweaters.

Office of the Inspector General

AUDIT OF GLOBAL EXCHANGE INCORPORATED
USAID/BOLIVIA CONTRACT 511-0583-130-HCC
HANDICRAFT EXPORT DEVELOPMENT PROJECT

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AUDIT OF GLOBAL EXCHANGE INCORPORATED
USAID/BOLIVIA CONTRACT 511-0583-130-HCC
HANDICRAFT EXPORT DEVELOPMENT PROJECT

PART I - INTRODUCTION

A. Background

Effective August 29, 1985, USAID/Bolivia authorized a grant to the Association of Handicraft and Fashion (Asociacion de Artesania y Moda, ADAM) for execution of the Handicraft Export Development Project No. 511-0583. The project called for \$5.2 million in funding, of which the A.I.D. contribution was \$3 million.

The purpose of the project was to provide selected Bolivian knitwear producers with design, production, and marketing services which would enable them to sell better quality and higher priced products. These activities were to be implemented by ADAM with technical assistance provided under a contract with a U.S. consulting firm. The consulting firm was to be selected under public bidding procedures.

Global Exchange Inc. (GEI) was incorporated in Ohio in 1982 and was qualified as a small disadvantaged business concern under Section 8(a) of the Small Business Act. GEI was one of four firms that responded to the request for proposal to provide technical assistance under the Handicraft Export Development Project.

GEI was selected over the other three firms on the basis of providing the best technical proposal. On March 7, 1986, ADAM and Global Exchange Inc. signed a cost-plus-fixed-fee host country contract (No. 511-0583-130-HCC) for \$1,993,137 with estimated completion 36 months thereafter. The contract included \$441,212 for the execution of a subcontract with the New York Fashion Institute of Technology.

Effective November 14, 1986, ADAM terminated the contract with GEI. USAID/Bolivia had concurred with the termination action in a Board of Director's meeting on November 7, 1986. The primary reason for contract termination was for convenience to ADAM and USAID/Bolivia.

From March 1986 to February 1987, GEI presented to ADAM a total of 10 invoices claiming contract costs of \$651,781, of which USAID/Bolivia reimbursed \$382,958.

The remaining \$268,823 was questioned by ADAM and/or USAID/Bolivia due to the lack of adequate supporting documentation. This amount was claimed by GEI as an appropriate contract cost which should be reimbursed by USAID/Bolivia under the contract.

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B. Audit Objectives and Scope

At the request of USAID/Bolivia, the Office of the Regional Inspector General for Audit/Tegucigalpa made a financial and compliance audit of contract activities carried out by Global Exchange Inc. and the subcontractor, the Fashion Institute of Technology, under the Handicraft Export Development Project, contract No. 511-0583-130-HCC. The audit was limited to the contractor's activities related to this specific contract. The audit covered \$651,781, the total amount claimed by Global Exchange Inc. as contract costs. The \$268,823 originally questioned was included in this amount. It included the period from March 7, 1986 through January 31, 1987. We made field reviews from January 25 to March 14, 1988.

The purpose of this financial and compliance audit was to determine whether the contractor and subcontractor had complied with applicable laws, regulations, and agreement terms and whether contract costs claimed were reasonable, eligible, and allocable. The specific audit objectives were to:

- 1) determine whether internal controls and accounting practices of GEI were adequate to account for A.I.D. program funds;
- 2) verify the adequacy of documentation in support of direct costs charged to the contract for long-term assistance, home office support, short-term consultants and subcontractor costs;
- 3) verify amounts reimbursed by A.I.D. to cover contract and subcontract costs and actual amounts paid to consultants and subcontractors; and
- 4) determine compliance with contractual conditions and other requirements.

We relied on a detailed Regional Inspector General for Audit/Washington (RIG/A/W) analysis to determine whether internal controls and accounting practices of GEI were adequate to account for A.I.D. programs. To accomplish audit objectives we held interviews with officials of the following organizations and reviewed their files: USAID/Bolivia; ADAM, in Cochabamba, Bolivia; Global Exchange Inc., home office in Xenia, Ohio; and the Fashion Institute of Technology in New York. The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF GLOBAL EXCHANGE INCORPORATED
USAID/BOLIVIA CONTRACT 511-0583-130-HCC
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PART II - RESULTS OF AUDIT

The audit disclosed that the contractor and subcontractor had not complied with applicable laws, regulations, and agreement terms, and that not all contract costs claimed were reasonable, eligible, and allocable. In addition, the contractor's books and records were generally inadequate, causing a lack of adequate internal and financial controls to account for project costs.

This report contains four findings which note that the contractor had not complied with applicable laws, regulations, and agreement terms. Global Exchange Inc.'s costs were often not reasonable, eligible, and allocable; accounting and internal control systems were inadequate to account for A.I.D. funds; USAID/Bolivia payment of outstanding in-country bills of Global Exchange Inc. was a duplication of payment of these expenses; and foreign exchange liquidation costs claimed by the Central Bank of Bolivia are the responsibility of Global Exchange Inc.

This report recommends that the responsible contracting official(s) for USAID/Bolivia:

- adjust the Global Exchange Inc. claim upwards by \$4,120 in eligible costs incurred but not claimed;
- disallow \$100,901 in ineligible costs;
- suspend \$45,907 in costs claimed that were not properly supported;
- negotiate general and administrative expense;
- arrange pre-award surveys of selected contractors;
- require Global Exchange Inc. to submit an independent audit of their financial records and system of internal controls before awarding any future contract to them;
- deduct a total of \$16,700 from its final payment to Global Exchange Inc.; and
- require Global Exchange Inc. to liquidate foreign exchange charges.

A. Findings and Recommendations

1. Global Exchange Inc.'s Costs Were Often Not Reasonable, Eligible, and Allocable

Global Exchange Inc. (GEI) had claimed a total of \$651,781 as appropriate project costs to be reimbursed under the project. However, a review of these costs claimed showed that GEI had not complied with applicable laws, regulations, and agreement terms. As a result, the audit showed that GEI had: (1) incurred \$4,120 in additional costs eligible for reimbursement; (2) claimed \$100,901 in costs which were ineligible; and (3) requested reimbursement for \$45,907 in costs that were not properly supported.

Recommendation No. 1

We recommend that the responsible contracting official(s) for USAID Bolivia:

- a. adjust the Global Exchange Incorporated claim upwards by \$4,120 in eligible costs incurred but not claimed;
- b. disallow \$100,901 in ineligible costs claimed by Global for costs not reimbursable under the project;
- c. suspend \$45,907 in costs claimed that were not properly supported, and therefore could not be determined to be reasonable, allocable, and allowable under the contract; and,
- d. negotiate general and administrative expense, not to exceed \$17,201.

Discussion

From March 1986 to February 1987, Global Exchange Inc. had presented to ADAM a total of 10 invoices claiming contract costs of \$651,781. USAID Bolivia, based on their own review of the limited GEI documentation available in country and on ADAM's partial analysis of costs claimed by GEI, paid \$382,958 and suspended payment on the remaining \$268,823 pending a review of additional support to be provided by GEI. This amount (\$268,823) was claimed by GEI as an appropriate contract cost which should be reimbursed by USAID Bolivia under the contract.

During our audit of GEI, we visited its home offices in Xenia, Ohio, where we reviewed one hundred percent of all costs claimed by GEI under the contract. Our review showed that GEI had not complied with applicable laws, regulations, and agreement terms, for example: (1) GEI had billed the project based on estimates rather than actual costs incurred (i.e. the long-term advisor's transfer allowances were billed based on estimates; however, his personal effects were never sent to Bolivia and actual cost incurred for packing and storage was only about one fourth of the amount billed); (2) A.I.D. regulations were not always followed in computing per diem claimed under the contract; and (3) a

consultant was hired and travel within the U.S. and to Bolivia for him was allowed by GEI without ADAM's previous approval as required by the contract. A summary of all questioned costs is presented in Exhibit 1. Exhibits 2 through 8 provide details.

As a result of our audit of costs claimed by GEI under the contract, we determined that Global had incurred \$4,120 in costs eligible for reimbursement which had not been claimed under the contract. These costs represent differences in per diem computation and other costs for which GEI had supporting documentation.

In addition, we identified \$100,901 in costs not reimbursable under the contract terms. Costs of \$45,907 were not properly supported. Since general and administrative (G & A) expense was calculated based on costs incurred, subtraction of the questioned amounts from contract costs would allow only \$17,201 in G & A expenses. A fixed fee payment should be based on the percentage of the terminated portion of the contract.

Management Comments

The Mission fully concurred with the finding and recommendation (see Appendix 1).

2. Global Exchange Inc. Accounting and Internal Control Systems Were Inadequate to Account for A.I.D. Funds

Global Exchange Inc. lacked adequate internal controls and appropriate accounting books and records to account for A.I.D. project funds. According to A.I.D. regulations (which are attached to all agreements and have to be followed by implementing agencies, contractors, and subcontractors), entities managing A.I.D. funds are required to maintain adequate accounting books and records. In addition, regulations require that all Missions ensure that A.I.D. funded recipients have proper accounting systems in place. However, there was no pre-award survey of the contractor which would have revealed the inadequacy of GEI's accounting and internal control systems and their lack of financial resources. These undetected deficiencies led to the contractor's failure to perform its activities as required and also to problems discussed in Finding No. 1.

Recommendation No. 2

We recommend that the responsible contracting official(s) for USAID/Bolivia:

- a. in the future, request the appropriate Inspector General office to perform pre-award surveys of selected contractors prior to the execution of contracts, whether the contracts are directly controlled by the Mission or by the host country; and
- b. not enter into future contracts with Global Exchange Inc. until an independent auditor certifies the adequacy of their financial records and system of internal controls.

Discussion

The Regional Inspector General for Audit/Washington (RIG/A/W) conducted a pre-award review of GEI in early 1987 in reference to its bid on a different contract. According to their review, GEI was insolvent and unable to demonstrate that its accounting system was adequate for Government contract accounting. RIG/A/W and our own review of GEI books and records (our review was limited to activities related to the Bolivian contract) disclosed that GEI records consisted of miscellaneous forms and worksheets that summarized financial information from various sources. A conventional ledger, or similar record, to tie the data together was not maintained. This resulted in a lack of financial and internal controls.

The A.I.D. standard regulations section related to Reports, Records, Inspections, and Audits requires that entities receiving A.I.D. funds "maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the project and to its agreement, adequate to show, without limitation, the receipt and use of goods and services acquired with project funds. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and

maintained for three years after the date of last disbursement by A.I.D." These regulations apply not only to implementing agencies but also to contractors and subcontractors who are being financed with A.I.D. resources.

During the time of contract negotiations, the host country implementing agency (ADAM) questioned the financial capability of the contractor (Global Exchange Inc.). ADAM unofficially requested a pre-award survey of GEI. Because pre-award surveys are not required by A.I.D. regulations, USAID/Bolivia decided it was not necessary to do one in this case. However, under normal business practices pre-award surveys are recommended, especially when the contractor is not known to the Mission and the amount involved is of material importance (in this case the GEI contract was for two thirds of the total A.I.D. contribution to the project).

Subsequent events tend to support the assertion that Global Exchange Inc. not only lacked the financial capability to carry out this contract, but also lacked adequate accounting practices to support project expenditures. For example, GEI did not have the financial resources as required by the agreement to advance funds for participating entities for the manufacture of alpaca sweaters. GEI was also required to buy the raw material; however, these costs were covered by USAID/B since GEI could not provide the funds. Finally, the contract states that GEI would buy all of the project production and export it. However, the contractor lacked the financial resources for doing so. The lack of adequate accounting and internal control systems led to GEI non-compliance with applicable laws, regulations, and agreement terms as discussed in Finding No. 1.

To avoid this type of situation with future contractors, USAID/Bolivia should request the appropriate IG office to perform pre-award surveys of selected contractors prior to the execution of contracts, whether the contracts are directly controlled by the Mission or by the host country.

Management Comments

The Mission fully concurred with the finding and recommendation (see Appendix 1).

3. USAID/Bolivia Had Duplicated Payment of Outstanding In-Country Bills of Global Exchange Inc.

The Association of Handicraft and Fashion-Global Exchange Inc. contract was terminated for convenience on November 14, 1986. However, at that point in time, GEI had a series of outstanding in-country bills which were not paid when GEI closed its Bolivian office. These were costs which USAID/Bolivia had reimbursed under direct project costs, such as per diem and housing allowance costs. Therefore, under normal business practices GEI was responsible for payment. As a result, USAID/Bolivia had to use \$16,700 in project resources to cover GEI outstanding debts.

Recommendation No. 3

We recommend that the responsible contracting official(s) for USAID/Bolivia deduct a total of \$16,700 from its final payment to Global Exchange Inc:

- \$7,000 to cover direct Asociacion de Artesania y Moda/USAID/Bolivia payments of Global Exchange Inc. indirect expenses (hotel bills);
- \$7,857 to cover raw material imported from Peru for the production of 220 sweaters for export and samples ordered by Global Exchange Inc.; and
- \$1,843 to cover miscellaneous Global Exchange Incorporated indirect costs paid by USAID/Bolivia.

Discussion

Effective November 14, 1986, the grantee (ADAM) terminated the contract with GEI. At this time, the contractor closed its Bolivian office and its only long-term adviser returned to his home office. However, there were a series of expenses to cover the closing down of the Bolivian office; in addition, there were other GEI indirect costs such as hotel bills for its long-term adviser (who received housing allowance) and its home office personnel (who were paid per diem). Before leaving Bolivia, GEI's Vice President issued a check for \$7,000 to cover these expenses, but the check was returned for insufficient funds and the debt had to be paid by ADAM-USAID/Bolivia.

In addition, according to the agreement, the contractor was committed to purchase the total production of knitwear of the project at a price which included the costs of labor, raw material, administration, ADAM's surcharge, profit, etc. USAID/Bolivia paid ADAM a total cost of \$9,642 for importing 550 kilograms of alpaca wool for garment production. ADAM gave 500 kilograms to the GEI Bolivian office for the production of samples and the 220 garments which were exported by ADAM in late 1986. Because GEI did not return any of the raw material given them or provide a list of artisan organizations which had the material, GEI should pay the cost of the imported material given to them (\$7,857).

Finally, there were miscellaneous GEI outstanding expenses which had to be paid by ADAM-USAID/Bolivia: bank charges for bounced checks, labor costs to artisan organizations for the production of samples and other GEI debts at Hotel Cochabamba (in total \$1,843).

As noted above, all these were GEI expenses for which USAID/Bolivia had reimbursed them under line items allowable under the contract, or were genuine costs that GEI recovered when the exported merchandise was sold (as in the case of the raw material). However, all these GEI expenses were paid by USAID/Bolivia using project funds. These resources should be deducted from the final payment due GEI and made available for project implementation (see page 4 of Exhibit 1).

Management Comments

The Mission fully concurred with the finding and recommendation (see Appendix 1).

4. Global Exchange is Responsible for Foreign Exchange Liquidation Costs

Global Exchange Inc. did not pay liquidation costs after exporting a total of 220 alpaca garments produced by artisan organizations working under the project. Under Bolivian law, companies exporting Bolivian products have to pay the Central Bank of Bolivia certain costs for the liquidation of foreign exchange, which is a small percentage of the value of commodities exported. Because GEI's Bolivian office was closed upon contract termination (November 14, 1986), GEI did not liquidate costs claimed by the Central Bank. As a result, the Central Bank of Bolivia is charging the project (ADAM) the amount due for the liquidation of foreign exchange plus fines for non-payment. This claim is hampering the current export activities of the project.

Recommendation No. 4

We recommend that the responsible Contracting Official(s) for USAID Bolivia request Global Exchange Incorporated to liquidate foreign exchange charges claimed by the Central Bank of Bolivia for the export of 220 alpaca sweaters.

Discussion

In July of 1986, GEI placed an order for alpaca garments which were to be produced by the artisan organizations working under the project. The organizations had to produce around 500 garments, which were to be exported by GEI. However, the organizations only produced 220 garments on time for export. These garments were exported by GEI and sold to a customer in the U.S.A. Proceeds for the exported goods were used to pay GEI consultants and the rest went directly to GEI.

Under GEI's commitment to purchase the knitwear, all insurances and other export related costs would have to be absorbed by the exporter, in this case GEI. Furthermore, according to Bolivian law, exporters of Bolivian products have to pay the Central Bank for the liquidation of foreign exchange received.

Upon contract termination, GEI closed its Bolivian office leaving a series of outstanding payments due (see Finding No. 3). One of these payments was the Central Bank's outstanding charges for foreign exchange liquidation.

As a result, the Central Bank of Bolivia is charging the project (ADAM) the amount due for the liquidation of foreign exchange plus fines for late payment. Even though the amount being charged by the Central Bank may be immaterial, this non-payment is hampering current export activities of the project since ADAM appears in the Central Bank records as delinquent in its payments. Because the products were exported by GEI, and payment for exported goods was received by them, we recommend that USAID/Bolivia, as a condition for settling the termination clause,

request GEI to liquidate pending claims at the Central Bank. No amount was calculated for payment due the Central Bank, since charges for late payment would have to be calculated at the time payment is made.

Management Comments

The Mission fully concurred with the finding and recommendation (see Appendix 1).

B. Compliance and Internal Control

1. Compliance

Examination for compliance revealed charges or transactions that were not in compliance with applicable laws and regulations as discussed in this report and supported by report exhibits. The examination was limited to the contract costs discussed in the report.

Excessive salary costs were billed under the contract. The contractor billed airfare and health costs which were not reimbursable under the contract. Excessive transfer allowance costs for a long-term adviser were claimed by GEI.

Salary and benefit costs were sometimes claimed twice for home office personnel and for short-term consultants. Entertainment expenses were claimed under the contract. A.I.D. regulations were not always followed in computing per diem claimed under the contract.

A short-term consultant was hired without ADAM's approval and costs were billed to the contract. Charges for housing and other allowances for long-term adviser were not in compliance with A.I.D. regulations. The contractor did not maintain supporting documentation for some of the costs claimed under the contract. See Finding No. 1 of this report.

Based on the above conditions and the lack of adequate internal and financial controls, we do not express an opinion on the compliance with applicable laws, regulations, and agreement terms for untested items.

2. Internal Control

A RIG/A/W study of applicable internal controls and our review of GEI books and records disclosed that the contractor's books and records were generally inadequate. The records maintained by Global Exchange Inc. consisted of miscellaneous forms, journals, and worksheets that summarized financial information from various sources which together were deemed inadequate, causing a lack of adequate internal and financial controls to account for A.I.D. funds (Finding No. 2).

C. Other Pertinent Matter

On July 31, 1986, Global Exchange Inc., represented by its long term adviser, entered into a subcontract with Richard Noth, who was to advise GEI on how to obtain financing for the export of alpaca garments and how to channel dollar income from this business. On October 15, 1986, the subcontractor presented his final report and an invoice for \$1,257 in costs incurred. However, GEI did not pay the subcontractor for services provided, and GEI did not bill A.I.D. Questionable practices such as this should be considered by A.I.D. in future dealings with the contractor because potential conflicts could reflect negatively on the Agency.

UNIT OF GLOBAL EXCHANGE INCORPORATED
USAID BOLIVIA CONTRACT 511-0583-130-HCC
HANDICRAFT EXPORT DEVELOPMENT PROJECT

PART III - EXHIBITS AND APPENDICES

Global Exchange Incorporated (GEI)
 LEAID/Bolivia Contract No. 511-0587-100-HCC
 Handcraft Export Development Project
 Contract Cost Accountability Statement
 for the Period of March 7 to November 14, 1986

Budgetary Line Item	Budgeted Amounts 1/	Amount Claimed by GEI 2/	Upward Adjustments 4/	Costs Questioned 4/		Allowed 4/	Exhibit
				Ineligible	Lack of Support		
Long Term Technical Assistance							
1 Salaries and Benefits	\$ 188,757	\$ 38,579	\$	\$ 406	\$ 710	\$ 37,463	2 & 5
2 Overhead	35,863	7,331		77	527	6,727	2 & 5
3 Allowances	61,305	26,974	77	15,864	2,300	8,867	2 & 5
Home Office Technical Assistance							
4 Salaries and Benefits	294,713	176,696	36	5,849		170,883	3-a
5 Overhead	200,405	120,152	13	3,965		116,200	3-b
6 Travel and Transportation	55,089	30,641	1061	4,081	1,519	26,102	3-c & 6
7 Training and Promotion	180,000	10,901		7,959	215	2,727	3-d & 6
Short Term Technical Assistance							
8 Other Direct Costs	139,093	56,359	924	15,695	3,360	38,228	4-a & 7
9 In-Country Direct Costs	244,712	51,777	1851	23,469	7,328	22,831	4-b & 7
Sub-Total	1,399,937	519,410	3962	77,385	15,959	430,028	
10 General and Administrative (4%)	55,997	20,776	158	3,095	638	17,201	3/
11 Profit (5%)	73,930	27,009					
12 Sub-Contract	441,212	80,558		20,421	29,310	30,827	6
13 Fee on Sub-Contract (5%)	22,061	4,028					
	<u>\$ 1,992,137</u>	<u>\$ 651,781</u>	<u>\$ 4120</u>	<u>\$ 100,901</u>	<u>\$ 45,907</u>	<u>\$ 478,056</u>	<u>3/</u>

- 1/ Budgeted amounts were calculated for the 3-year period of the contract.
- 2/ Amounts claimed by GEI covered the period from March 7, 1986 when the contract was signed to November 14, 1986 when the contract was terminated plus additional close-out costs to January 31, 1987.
- 3/ The final figure for General and Administrative expenses is subject to adjustments for other contract cost allowances.
- 4/ Where amounts are \$1 off is due to rounding.

Notes to the Accountability Statements

Questioned Costs - Ineligible

Costs that were not in compliance with contract laws and regulations, and costs that did not comply with A.I.D. regulations were classified as ineligible.

Global Exchange Inc. had billed \$519,410 for direct costs under the contract, and \$80,558 for subcontract costs. Amounts claimed of \$97,806 (\$77,385 in direct costs and \$20,421 in subcontract costs) represented costs which were classified ineligible under the contract. Ineligible costs included: overpayments in salaries and differences in per diem computations (see Exhibits 2, 3, and 4) and over \$17,283 in excess claims made for the Fashion Institute of Technology subcontract by Global Exchange, Inc. (see Exhibit 8).

Questioned Costs - Lack of Support

The audit identified \$15,959 in direct cost claims that were not properly supported under the contract. Even though there was some evidence that some of these costs were project-related, GEI could not provide supporting documentation. These costs included: the operational cost of the GEI Bolivian Office (see Exhibits 5 and 7), costs related to the long-term adviser's transfer of personnel effects to and from Bolivia (see Exhibit 5), and local and international travel for GEI employees. (See Exhibits 6 and 7.)

Finally, GEI had requested \$28,851 in payments for contract termination costs claimed by the subcontractor (FIT). The subcontractor claimed salary costs for its two assigned employees and for secretarial costs from November 16, 1986, to May 31, 1987. These costs are questioned because the contract had been terminated on November 14, 1986. The termination letter stated: "all aspects of work must be stopped effective this date." (See Schedule 8.)

General and Administrative Expense

The ADAM-GEI contract stated that the contractor would receive \$55,997 in General and Administrative (G & A) expense. Payment for G & A was to be calculated at four percent of total monthly direct cost claimed. Based on our identification of ineligible costs, we recommend that \$3,095 in G & A claims be disallowed.

The remaining G & A costs (\$638) should be suspended pending receipt of additional supporting documentation.

Fixed Fee

The fixed fee under the contract was established at \$73,930 for contract costs and \$22,061 for costs claimed by the subcontractor. Payment for fixed fee was to be calculated at five percent of the sum of the total monthly direct costs plus G & A. The five percent fee was calculated on the total cost claimed by the subcontractor.

Based on Federal Acquisition Regulation section 49.301-5, the determination of payable fee under a contract terminated for convenience is based on a percentage of completion of the contract or of the terminated portion. We therefore recommend that the responsible contracting official(s) for USAID/Bolivia negotiate a reasonable fixed fee payable to the contract or for work performed under the contract and subcontract.

Summary

In summary, of the \$551,781 in project costs claimed by Global Exchange Inc., \$100,901 in ineligible costs should be disallowed, \$45,907 in costs should be suspended, the fixed fees under the contract and subcontract should be negotiated, and \$16,700 in outstanding debts paid by USAID Bolivia should be recovered.

Total Costs Claimed by GEI		\$651,781
Adjustments for Eligible Expenses Not Claimed		4,120
		<u>\$655,901</u>
Ineligible Costs		
Direct Costs	\$77,385	
G & A	3,095	
FIT Subcontract	20,421	
Sub-Total	<u>100,901</u>	(100,901)
Reimbursable		\$555,000
Suspended Costs - No Support		
Direct	\$15,959	
G & A	638	
Unsupported Subcontract	459	
Subcontract Termination	28,851	
Sub-Total	<u>45,907</u>	(45,907)
		\$509,093
Fixed Fee Claimed on Contract	27,009	
Fixed Fee Claimed on Subcontract	4,028	
	<u>31,037</u>	(31,037)
Total Reimbursable Cost		<u>\$478,056</u>
Amount Reimbursed by USAID Bolivia		<u>(382,958)</u>
Payable to GEI		\$ 95,098
<u>Less:</u>		
Returned check covered by ADAM	\$ 7,000	
Miscellaneous GEI indirect expenses paid by ADAM	1,843	
Raw material for production of 220 sweaters and samples	<u>7,857</u>	
Sub-Total	16,700	<u>(16,700)</u>
		\$ 78,398

Audit of Global Exchange Incorporated
 USAID/Bolivia Contract 511-0583-130-HCC
 Handicraft Export Development Project

Ineligible Contract Costs
 Long-Term Assistance

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
<u>Salaries and Benefits</u>		
511-5 July 1986	\$170	(A)
511-6 August 1986	<u>236</u>	(B)
Total	\$406	
 <u>Overhead</u>		
511-5 July 1986	\$32	(A)
511-6 August 1986	<u>45</u>	(B)
Total	\$77	
 <u>Allowances</u>		
511-3 May 1986	\$ 3,814	(C) and (D)
511-4 June 1986	<u>12,070</u>	(E)
Total	\$15,884	

Note A: Excess claim for Bolivian Office Administrative Assistant salary for June (\$93) plus benefits overestimated by \$77. Total \$170. Overhead @ 19% = \$32.

Note B: Administrative assistant salary of \$788 claimed as \$943. Excess in salary \$155 plus excess in fringe benefits \$81. Total \$236. Overhead @ 19% = \$45.

Note C: Airfare of \$819 for the long-term adviser's mother-in-law travel to Washington-Cochabamba-Washington is ineligible for reimbursement since she never went to Cochabamba.

In addition, long-term adviser's family trip to Cali, Colombia was not part of the project and therefore not eligible - portion not acceptable \$215.

Note D: Global claimed \$3,480 for transfer allowance for long-term adviser. According to A.I.D. regulations, the traveler was entitled to \$700 for transfer allowance to Bolivia; \$2,780 was ineligible. Standard Regulations - Foreign Transfer allowances, Section 212.1

Note E: Global had claimed \$ 15,400 for long term adviser's moving expenses to Bolivia. Personal effects were never transferred to Bolivia but warehousing expenditures incurred by Global for \$4,330 were considered valid. The remaining \$ 12,070 is considered ineligible.

Audit of Global Exchange Incorporated
USAID/Bolivia Contract 511-0583-130-HCC
Handicraft Export Development Project

Ineligible Contract Costs
Home Office Technical Assistance - Salaries and Benefits

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
511-1 March 1986	\$ 805	(A)
511-3 May 1986	19	(B)
511-4 June 1986	4,989	(C)
511-9 November 14, 1986	<u>36</u>	(B)
Total Questioned	\$5,849	

Note A: In March, Global claimed 18 hours for project coordinator, which were also claimed for the first week in April.

Note B: Excess in salary computation for secretaries.

Note C: In June, Global claimed \$4,720 without any support. In addition, Global claimed 6 hours in excess overtime reported for project coordinator; total deduction (including leave and benefits) \$269.

Audit of Global Exchange Incorporated
USAID Bolivia Contract 511-0583-130-HCC
Handicraft Export Development Project

Ineligible Contract Costs
Home Office Technical Assistance - Overhead

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
511-1 March 1986	\$ 547	(A)
511-3 May 1986	13	(B)
511-4 June 1986	3,381	(C)
511-9 November 14, 1986	<u>24</u>	(D)
Total Questioned	\$3,965	

Note A: Overhead at 68% on salary and benefit questioned. See 3-a(A).

Note B: Overhead at 68% on \$19 questioned in May. See 3-a(B).

Note C: Overhead at 68% on \$4989 questioned in June. See 3-a(C).

Note D: Overhead at 68% on \$36 questioned in November. See 3-a(D).

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Audit of Global Exchange Incorporated
USAID-Bolivia Contract 511-0583-130-HCC
Handicraft Export Development Project

Ineligible Contract Costs
Home Office Technical Assistance - Travel and Transportation

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
511-2 April 1986	\$ 388	(A)
511-3 May 1986	12	(B)
511-5 July 1986	682	(C)
511-6 August 1986	585	(D)
511-7 September 1986	458	(E)
511-9 November 14, 1986	1,843	(F)
511-10 Termination Invoice	<u>113</u>	(B)
Total Questioned	\$4,081	

Note A: Lunch for ADAM's Directors and wives \$250; this should be paid for by GEI, not charged to the contract. In addition, \$138 in per diem computation was for costs such as laundry.

Note B: Excess in per diem computation.

Note C: Global claimed excess in per diem for Global President's trip to Bolivia. Amount claimed \$2,000, actual computation \$1,318.

Note D: Project Coordinator trip to Bolivia. Airfare overestimated by \$585.

Note E: Local travel claimed for short-term consultant not approved by ADAM.

Note F: Excess of \$165 in per diem plus \$1,680 for Project Coordinator's costs claimed twice (October and November). Airfare Wash-La Paz-Wash.

Audit of Global Exchange Incorporated
USAID/Bolivia Contract 511-0583-130-HCC
Handicraft Export Development Project

Ineligible Contract Costs
Home Office Technical Assistance - Training and Promotion

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
511-4 June 1986	\$ 102	(A)
511-6 August 1986	<u>7,857</u>	(B)
Total Questioned	\$7,959	

Note A: Excess of \$102 in per diem computation. Trip to California trade show.

Note B: Import cost of raw material from Peru. Of the total, \$9,642, Global paid customs fees, which were \$1,785. The remainder of \$7,857 for raw materials was paid by ADAM. However, USAID/Bolivia reimbursed the total \$9,642 to ADAM instead of only reimbursing ADAM for the \$7,857 of raw materials.

Audit of Global Exchange Incorporated
 USAID/Bolivia Contract 511-0583-130-HCC
 Handicraft Export Development Project

Ineligible Contract Costs
 Short-Term Technical Assistance - Other Direct Costs

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
511-1 March 1986	\$ 76	(A)
511-2 April 1986	584	(B)
511-3 May 1986	1,206	(C)
511-4 June 1986	316	(D)
511-5 July 1986	9,032	(E)
511-7 September 1986	4,251	(F)
511-10 Termination Invoice	<u>230</u>	(G)
Total Questioned	\$15,695	

Note A: Excess in per diem computation.

Note B: Long-term adviser's mother-in-law health costs were not eligible, \$179. Excess in per-diem computation for Global's Vice President and V.P. Finance for \$130. In addition Global accountant's trip to Washington (\$275) was not a Project direct cost, and therefore was ineligible.

Note C: Excess in per diem computation for project associate, Coordinator and Long-Term Adviser of \$1,041. Also, \$165 airfare for short-term adviser not approved by ADAM.

Note D: Excess in per diem computation of \$151 plus \$165 airfare for short-term adviser not approved by ADAM.

Note E: There was \$8,000 in salary claimed for short-term adviser not approved by ADAM. Additionally, \$730 in excess computation of fees for short-term adviser, and \$302 for her trip to San Francisco which was not approved by ADAM.

Note F: Short-term adviser's fees for May and July for \$3,005 were claimed twice (July and September). Additionally, \$1,142 in expenses for short-term adviser's trips to Argentina and Uruguay was not authorized by ADAM. Finally, short-term adviser claimed \$104 for laundry, tips and excess in per diem computation.

Note G: Costs not directly related to the project (legal fees).

Audit of Global Exchange Incorporated
USAID/Bolivia Contract 511-0583-130-IICC
Handicraft Export Development Project

Ineligible Contract Costs
In-Country Direct Costs

<u>Invoice Number</u>	<u>Ineligible</u>	<u>Note</u>
511-4 June 1986	\$ 2,029	(A)
511-5 July 1986	4,399	(B)
511-6 August 1986	769	(E)
511-7 September 1986	1,889	(C)
511-8 November 14, 1986	<u>14,383</u>	(D)
Total Questioned	\$23,469	

Note A: Excess in housing allowance computation for long-term adviser.

Note B: Excess in housing allowance computation of \$2,825 for long-term adviser. Additionally, \$1565 in international travel for consultant not approved by ADAM, and \$9 in entertainment expenses.

Note C: Excess in housing allowance computation of \$620 for long-term adviser. In addition, \$1,269 in airfare for short-term adviser's trips to California and Argentina which were not approved.

Note D: Costs paid directly by ADAM and reimbursed by USAID/Bolivia.

Note E: ADAM approved long term Adviser's trip to Montevideo to hire quality control expert; however, trip included 8 additional days in Asuncion and Buenos Aires which were not approved by ADAM. Excess per diem claimed, \$769.

Audit of Global Exchange Incorporated
USAID Bolivia Contract 511-0583-130-HCC
Handicraft Export Development Project

Contract Costs Suspended for Lack of Support
Long-Term Technical Assistance

<u>Invoice Number</u>	<u>Lack of Support</u>	<u>Note</u>
<u>Salaries and Benefits</u>		
511-1 March 1986	<u>\$710</u>	(A)
Total Questioned	\$710	
<u>Overhead</u>		
511-1 March 1986	<u>\$135</u>	(A)
511-10 Termination	<u>392</u>	(B)
Total Questioned	\$ 527	
<u>Allowances</u>		
511-9 November 14, 1986	<u>2,300</u>	(C)
Total Allowances	\$2,300	

Note A: Long-term adviser's contract was not signed until 4/1/86. There was no justification on file for salary payment in March, overhead was 19% of \$710, or \$135.

Note B: GEI Bolivian office was closed November 14, 1986. There was no justification on file for claiming overhead for the Bolivian office after this date.

Note C: No justification or supporting documentation for long-term adviser's effects shipped from Bolivia back to U.S.A.

Audit of Global Exchange Incorporated
USAID/Bolivia Contract 511-0583-130-HCC
Handicraft Export Development Project

Contract Costs Suspended for Lack of Support
Home Office Technical Assistance

<u>Invoice Number</u>	<u>Lack of Support</u>	<u>Note</u>
<u>Travel and Transportation</u>		
511-2 April 1986	\$ 221	(A)
511-4 June 1986	275	(B)
511-6 August 1986	350	(C)
511-8 October 1986	<u>673</u>	(D)
Total Travel and Transportation	\$1,519	
<u>Training and Promotion</u>		
511-7 September 1986	<u>215</u>	(E)
Total Training and Promotion	\$215	

Note A: Project Coordinator's expenses claimed for trip to Bolivia. No supporting documentation found.

Note B: No supporting documentation found.

Note C: Project Coordinator's trip Washington-Xenia, Ohio-Washington. No documentation found.

Note D: Airfare costs of \$180 plus related expenses of \$493 for trip of Global's President and V.P. for finance to Washington. No documentation found.

Note E: Shipping of samples to boutique show. No documentation found regarding the show.

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Audit of Global Exchange Incorporated
USAID Bolivia Contract 511-0585-150-HCC
Handicraft Export Development Project

Contract Costs Suspended for Lack of Support
Short-Term Technical Assistance

<u>Invoice Number</u>	<u>Lack of Support</u>	<u>Note</u>
<u>Other Direct Costs</u>		
511-1 March 1986	\$ 234	(A)
511-3 May 1986	461	(B)
511-4 June 1986	956	(C)
511-5 July 1986	570	(D)
511-6 August 1986	134	(E)
511-7 September 1986	241	(E)
511-9 November 14, 1986	514	(E)
511-10 Termination Invoice	<u>250</u>	(E)
Total	\$3,360	

In-Country Direct Costs

511-4 June 1986	\$ 3,067	(F)
511-6 August 1986	786	(G) and (H)
511-8 October 1986	364	(G)
511-9 November 14, 1986	<u>3,111</u>	(G)
Total	\$ 7,328	

Note A: Global's President's local travel and related expenses \$234. No supporting documentation found.

Note B: Airfare for Project Coordinator \$165 and D. Martin \$270 plus miscellaneous office expenses \$26. No documentation found.

Note C: Long-term adviser's health costs \$625 plus short-term adviser per diem expenses \$531. No documentation found.

Note D: J. Ortman's expenses. No documentation found.

Note E: Home office costs. No documentation found.

Note F: Office equipment \$2,898 plus telephone costs for Bolivian office \$169. No supporting documentation found.

Note G: Bolivian Office expenses. No documentation found.

Note H: Long-term adviser's trip to Montevideo included a three-day visit to Asuncion and four days in Argentina which were not approved by ADAM. In addition, documentation provided does not justify visits to Asuncion and Argentina, nor is there any breakdown to determine actual cost of approved portion of trip.

Audit of Global Exchange Incorporated
 USAID Bolivia Contract 511-0583-130-HCC
 Handicraft Export Development Project

Subcontract Cost Accountability Statement
 Fashion Institute of Technology

<u>Line Items</u>	<u>Budgeted Amount</u>	<u>Amount Claimed</u>	<u>Costs Questioned</u>		<u>Allowed</u>
			<u>Ineligible</u>	<u>Lack of Support</u>	
<u>Salaries</u>					
A. Price	\$ 34,507	\$20,604	\$ 1,760(A)	\$14,544(C)	\$ 4,300
E. Stone	28,829	6,732		6,732(C)	
Secretary	60,411	10,881	50(A)	7,575(C)	3,256
Sub-total	\$123,747	\$38,217	\$ 1,810	\$28,851	\$ 7,556
<u>Overhead @ 55%</u>	68,061	5,152(C)	996(A) and (B)		4,156
<u>Other Direct Costs</u>					
Office Supplies	9,000	184			184
Telex, Telephone, Mail	18,000	337			337
Local Travel	6,000	946		459(F)	487
Other	11,989	1,176	135(D)		1,041
Newspapers, Library Support	1,500				
Research Assistant	2,500				
Sub-total	\$48,989	\$2,643	\$ 135	\$ 459	\$ 2,049
<u>Other Direct Costs</u>					
Consultants @ \$261 per Per diem	191,835 8,580	15,742 1,521		197(E)	15,742 1,324
Sub-total	\$200,415	\$17,263	\$ 197	- 0 -	\$17,066
Excess Amounts Claimed for FIT by Global		17,283	17,283(G)		
Grand Total	\$441,212	\$80,558	\$20,421	\$29,310	\$30,827
5% Fee on Subcontract	22,061	4,028	1,021(H)	1,465(I)	1,542

- Note A: Overestimation of A. Price salary. Claimed on estimated salary payments of \$2,424 per month, when actual salary payments were \$1,720 per month plus \$50 over actual secretarial costs.
- Note B: 55% of overhead on salaries.
- Note C: On September 16, 1987, FIT presented a final invoice from November 15 to May 31, 1987 covering salaries for employees. Until that time, FIT only claimed \$9,367 in direct salary resolution in \$5,152 in overhead claimed. Total invoice \$28,851. (Contract terminated on 11/14/86.)
- Note D: Costs not related to the project claimed by the Fashion Institute of Technology.
- Note E: Medical costs for A. Price and E. stone claimed. Costs not covered under the contract.
- Note F: No supporting documentation found.
- Note G: Global claimed a total of \$80,558 for the FIT subcontract. Although, FIT claimed only \$63,275, resulting in an overstated cost of \$17,283.
- Note H: Fee at 5% over ineligible costs \$1,021.
- Note I: Fee at 5% over costs suspended for lack of support \$1,465.

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FOR RIG/A/TEGUCIGALPA

SUBJECT: DRAFT AUDIT REPORT OF GLOBAL EXCHANGE INC.,
 - CONTRACT NO. 511-0583-130-HCC

1. USAID HAS REVIEWED SUBJECT DRAFT AND CONCURS WITH RECOMMENDATIONS AND FINDINGS. PLEASE ISSUE FINAL ASAP.
 2. USAID APPRECIATES RIG/A ASSISTANCE IN CONDUCTING THIS AUDIT IN A TIMELY AND OBJECTIVE MANNER.
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List of Report Recommendations

Recommendation No. 1

We recommend that the responsible contracting official(s) for USAID/Bolivia:

- a. adjust the Global Exchange Incorporated claim upwards by \$4,120 in eligible costs incurred but not claimed;
- b. disallow \$100,901 in ineligible costs claimed by Global for costs not reimbursable under the project;
- c. suspend \$45,907 in costs claimed that were not properly supported, and therefore could not be determined to be reasonable, allocable, and allowable under the contract; and,
- d. negotiate general and administrative expense, not to exceed \$17,201.

Recommendation No. 2

We recommend that the responsible contracting official(s) for USAID/Bolivia:

- a. in the future, request the appropriate Inspector General office to perform pre-award surveys of selected contractors prior to the execution of contracts, whether the contracts are directly controlled by the Mission or by the host country; and
- b. not enter into future contracts with Global Exchange Inc. until an independent auditor certifies the adequacy of their financial records and system of internal controls.

Recommendation No. 3

We recommend that the responsible contracting official(s) for USAID/Bolivia deduct a total of \$17,608 from its final payment to Global Exchange Inc:

\$7,000 to cover direct Asociacion de Artesania y Moda/USAID/Bolivia payments of Global Exchange Incorporated indirect expenses (hotel bills);

\$7,857 to cover raw material imported from Peru for the production of 220 sweaters for export and samples ordered by Global Exchange Incorporated; and

\$1,843 to cover miscellaneous Global Exchange Incorporated indirect costs paid by USAID/Bolivia.

Recommendation No. 4

We recommend that the responsible Contracting Official(s) for USAID/Bolivia request Global Exchange Incorporated to liquidate foreign exchange charges claimed by the Central Bank of Bolivia for the export of 220 alpaca sweaters.

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