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USAID/ZIMBABWE'S PROJECT MONITORING
COULD BE IMPROVED THROUGH BETTER
GOVERNMENT OF ZIMBABWE REPORTING

AUDIT REPORT NO. 3-613-83-22
SEPTEMBER 15, 1983

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EXECUTIVE SUMMARY

Introduction

The independent state of Zimbabwe was created on April 18, 1980, in the wake of ninety years of settler colonial rule and seven years of rural warfare.

Located in central-south Africa, Zimbabwe comprises an area of 150,333 square miles, about one-third the size of South Africa and bigger than Britain or most of the other countries of Western Europe. It has a population of about 7.6 million growing at an average of about 3.6 percent per year. About five million are included in the rural population.

The United States granted over \$44 million to Zimbabwe in 1980 and 1981. The grants (Nos. 613-K-601 and 613-K-602) were to assist the Government of Zimbabwe to meet budgetary shortfalls and a shortage of foreign exchange requirements needed for its post-war reconstruction and resettlement programs, and are the subjects of this audit.

Purpose And Scope

The purpose of our review was to verify compliance with laws and regulations and report on significant problem areas. We reviewed program records, held discussions with program personnel, and visited selected facilities which were provided with grant funds.

Findings, Conclusions And Recommendations

The major program deficiency noted concerned poor reporting by the Government of Zimbabwe (GOZ). Reports submitted by the GOZ were not timely, did not contain the required information, and were not accurate. The AID grants were not fully expended due to the reporting of commitments as expenditures and the inclusion of Zimbabwe sales tax in expenditures for some projects (pages 3 to 7).

The other matter which needed to be addressed by USAID/Zimbabwe was that the Reserve Bank of Zimbabwe used a lower rate of exchange in converting United States dollars to Zimbabwe currency for deposit into the grant account. This could result in the availability of an additional \$27,985 for rehabilitation and reconstruction (pages 7 and 8).

The report includes three recommendations which, when implemented, will assist USAID/Zimbabwe's efforts to effectively manage and monitor its program.

Audit findings were discussed with USAID/Zimbabwe staff and a draft report was provided for their written comments. We have included these comments in the report as considered necessary.

BACKGROUND

Introduction

The independent state of Zimbabwe was created on April 18, 1980, in the wake of ninety years of settler colonial rule and seven years of rural warfare.

Located in central-south Africa, Zimbabwe comprises an area of 150,333 square miles, about one-third the size of South Africa and bigger than Britain or most of the other countries of Western Europe. It has a population of about 7.6 million growing at an average of about 3.6 percent per year. About five million are included in the rural population.

The major agricultural crops in Zimbabwe are tobacco, cotton, maize, sugar, wheat, beef and dairy products, groundnuts, tea and coffee. The mining industry produces a number of products including gold, asbestos, nickel, copper, and chrome. The main manufacturing industries are iron, steel, and metal fabrication, chemicals and petrochemicals, food processing, beverages and tobacco, and textiles.

Immediately after the present government came to power it stated on several occasions that one of its first priorities would be the restoration of the damaged infrastructure and re-establishment of the country's social service and education. A three year reconstruction and development program was launched on July 1, 1980, the beginning of Zimbabwe's first financial year.

The Government of Zimbabwe undertook a very difficult program of revitalizing a modern economy while at the same time restructuring that economy so as to achieve greater equity. Among the urgent needs which were met, was a demobilizing of those parts of the liberation armies not incorporated into the regular Zimbabwe armed forces, reconstruction of infrastructure destroyed during the fighting, extension of transport, marketing, and extension services to the communal lands, settlement of large numbers of small holders in the former commercial areas, rapid expansion of health and education services, and substantial increases in private sector investment in order to replace the capital stock which grew obsolete during the sanctions period. Along with requiring a great deal of ingenuity, these programs required considerable money. The total estimated cost of the reconstruction program alone amounted to Z\$161.6 million (US\$167.6 million).^{1/}

^{1/} A current rate of exchange (US\$1.00 = Z\$0.9642) has been used throughout the report, except in the section entitled "The Government of Zimbabwe May Have Deposited Less Than The United States Dollar Equivalent In Local Currency Into The Grant Account".

The United States was unique in having moved quickly and flexibly with a substantial program of cash grants which generated local currency for support of selected GOZ development and reconstruction programs. This form of assistance permitted AID to engage the GOZ in substantive policy dialogues both in the negotiation of the cash grants as well as in the programming of the local currencies.

A \$13 million grant agreement (No. 613-K-601) between the United States and Zimbabwe was signed on July 10, 1980. Amendment No. 1, dated September 15, 1980, increased the grant by \$7 million to \$20 million. The purpose of the grant was to assist the GOZ to meet budgetary and foreign exchange requirements related to its post-war reconstruction and resettlement programs.

On January 27, 1981 a second \$20 million grant agreement (No. 613-K-602) was signed for the same purpose. The agreement was amended on September 29, 1981, increasing the grant to \$24.3 million.

The AID grants were disbursed to the GOZ, which deposited the local currency equivalent to the United States dollar disbursements into its Rehabilitation and Reconstruction and Development Funds.

The local currency generated under the AID grants was to address the following activities:

- Resettlement
- Reconstruction of Rural Infrastructure and Damaged Facilities
- Training and Manpower Development
- Technical Assistance

Purpose And Scope

Our review covered grant activities from inception through the final dates for disbursement which were June 30, 1982 and January 31, 1983. The purpose of the examination was to determine whether (a) the project met its objectives as stated in project documentation, (b) applicable laws and AID regulations were complied with, (c) AID funds were properly spent, and (d) USAID/Zimbabwe adequately monitored the project.

We reviewed USAID/Zimbabwe and GOZ records, reports, and correspondence and held discussions with selected officials from those organizations. We also visited selected facilities, including a teachers' college and a commodities distribution center, provided with grant proceeds.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The Government Of Zimbabwe Needed To Comply With Grant Reporting Requirements

The Government of Zimbabwe (GOZ) needed to comply with the reporting provisions contained in the grant agreements. Each grant agreement required that financial and activity reports be submitted to USAID/Zimbabwe on a quarterly basis.

The GOZ also agreed to provide USAID/Zimbabwe with a final report, within six months of completion of the program, that described the achievements of the program and an estimate of the number of individuals or families assisted. Specifically, the GOZ was to submit reports which showed:

- Cumulative deposits to and disbursements from the local currency account.
- The budget amount and quarterly and cumulative disbursements for each program or activity funded under the agreement.
- A general description of the activities, services, structures, facilities or commodities financed during the quarter for each program or activity, and an indication of progress toward completion.

The GOZ did not meet these reporting requirements, and the reports that it did submit to USAID/Zimbabwe did not contain the required information and were not timely.

USAID/Zimbabwe was aware of this deficiency, and a November 23, 1981 letter from the USAID Director to the GOZ Deputy Secretary of Treasury stated:

...."I am, however, concerned that there are no reports for a number of activities and very sketchy reports on others. The absence of an inclusive report and limited detail on the progress of many activities makes it very difficult for us to assess accurately what is happening to the local currency..."

The letter went on to suggest that the GOZ and USAID/Zimbabwe work together to establish a more effective reporting system.

The GOZ made some improvements in its reporting system. Prior to the Director's letter of November 23, 1981, the USAID had received no GOZ prepared reports on the grants. Beginning in March 1982, the GOZ organized the information for the required quarterly expenditure reports and some Ministries submitted progress reports.

However, as of our audit (May 1983) the GOZ's reporting system was still not effective. On February 24, 1983 the USAID Controller

notified the GOZ Secretary to the Treasury that USAID/Zimbabwe had not received the final report for Grant 613-K-602, which was due February 15, 1983. USAID/Zimbabwe received the final expenditure report for Grant 613-K-602 in April 1983; but had not yet received the final narrative report for Grant 613-K-601 which was due in December 1982. The final narrative report for Grant 613-K-602 was due in August 1983. We followed up with USAID/Zimbabwe in September 1983 and found that the report still had not been submitted.

In November and December 1982, Price Waterhouse 1/ studied the GOZ's accounting system and reporting procedures for donor funds provided to the GOZ. Although this AID-financed study formed the opinion that the GOZ's overall system of internal control was adequate and that there was an adequate audit trail, it did point out that a reporting problem existed. Specifically, this study found that GOZ ministries did not submit expenditure and narrative reports to the GOZ Treasury and the Ministry of Economic Planning and Development in accordance with GOZ Treasury regulations. There were also unexplained delays in the onward submission of reports from the GOZ Treasury to donors.

Conclusion, USAID/Zimbabwe Comments And Recommendation

We believe that the USAID could have been more diligent in its monitoring effort to obtain timely reports from the GOZ. It is important to USAID/Zimbabwe that the GOZ develop an effective reporting system for management control. USAID/Zimbabwe has five grant projects planned for fiscal year 1984 all with various reporting requirements. Too, the USAID staff is relatively small and, as such, requires complete and timely reports from the GOZ for USAID/Zimbabwe to properly manage and monitor its program.

USAID/Zimbabwe Comments

In response to our draft report, USAID/Zimbabwe stated:

"USAID/Zimbabwe has been working with the GOZ to improve its reporting and will continue this work. The Price Waterhouse study was a direct result of this joint effort, as are the improvements in reporting which have resulted since March 1982.

Although the auditors have not examined the Commodity Import Program, Grant 613-K-603 yet, we believe it is indicative of the improvements in reporting. The first disbursement from the Special Account was in January 1983. The first quarterly report for the quarter ended March 31, 1983 was issued June 2, 1983, three weeks late. The report for the quarter ended June 30, 1983 was issued August 10, before the due date."

1/ Price Waterhouse & Co., Chartered Accountants (Zimbabwe).

RIG/A/Nairobi Response

We are pleased to hear that the GOZ is making improvements in their reporting. However, we are making the following recommendation to help ensure that this progress continues so that the GOZ is able to comply with all reporting requirements of the grant agreements.

Recommendation No. 1

USAID/Zimbabwe work with the GOZ to establish procedures so that the Government of Zimbabwe is able to comply with the reporting provisions of the grant agreements both in timeliness and content.

The Government of Zimbabwe Overstated Grant Expenditures

Our audit surfaced instances where the GOZ overstated expenditures. The result was that the AID grants were not fully spent. We identified about US\$125,000 which were still available for budgetary assistance to the GOZ.

We attribute the cause of these overstatements to reporting commitments as expenditures and including sales tax as a part of the reported expenditure. Examples of these overstatements are:

- The GOZ reported expenditures of Z\$188,000 (US\$194,980) for the Chibero and Miezhu projects in the Ministry of Agriculture. Our examination of records disclosed that only Z\$134,150 (US\$139,131) had been expended for these projects. Thus expenditures were overstated by Z\$53,850 (US\$55,849).
- Another reported overstatement occurred in the seed packages and extension staff training projects. The GOZ Treasury Reports of Final Expenditures stated that the amount that USAID/Zimbabwe and GOZ agreed to contribute to these projects was fully expended as of June 30, 1982. We found that these projects had an unexpended balance of approximately Z\$255,000 (US\$264,468) as of April 1983.

We were subsequently informed by USAID/Zimbabwe that the GOZ uses a first in-first out method of accounting for disbursements on multi-donor projects. Under this concept, the majority of the unexpended balance of Z\$255,000 was considered to be funding from another donor. Thus, only Z\$4,000 (US\$4,149) of AID funds were involved in this example.

One main reason for the discrepancy between reported and actual expenditures was that the GOZ Treasury reported expenditures included commitments for which a disbursement had not been made. A committed expenditure is subject to adjustment for many reasons;

including cancelled purchases, non-available items, real cost differences from estimates and accounting reconciliations. Good accounting control requires that the GOZ report actual expenditures to USAID/Zimbabwe. Commitments are not expenditures and should be reported separately.

The other area contributing to overstatements of grant expenditures resulted from including sales taxes as a part of the expenditure. The grant agreements stated the following regarding the payment of sales taxes:

"...the amount to be granted hereunder shall be free from any taxation or fees imposed under any laws in effect within Zimbabwe."

The reported expenditures for the Chibero and Mlezu projects included approximately Z\$15,000 (US\$15,557) for sales taxes. The GOZ reported expenditures for the Mission and Mzengezi schools included Z\$47,500 (US\$49,264) for sales taxes.

Conclusion, USAID/Zimbabwe Comments, RIG/A/Nairobi Response And Recommendation

The GOZ Treasury Expenditure Reports were not accurate. The AID grants were not yet fully spent due to the reporting of commitments as expenditures and the inclusion of Zimbabwe sales tax in expenditures for some projects. We believe that the overstatement of expenditures could be significant.

USAID/Zimbabwe Comments

The following actions have been taken in response to the recommendation in the draft report:

1) GOZ Treasury has written all Ministries which did not separately account for sales tax and asked them to confirm the amount of any sales tax included in their reports. (If sales tax was separately accounted for, it was excluded by Treasury when expenditure reports were compiled.) Copies of the Ministries replies are attached. Refunds have been obtained for any sales tax included. See 2 below.

2) Treasury has obtained a refund check from the Ministry of Agriculture for the Z\$240 commitment not liquidated. It should be noted that Ministries are not supposed to report commitments as expenditures. This particular case arose because the project was transferred from one Ministry to another while the commitment was outstanding. The system itself is correct; the compliance was not equal to the system in this case.

Treasury also has obtained refund checks for:

Chibero	Z\$ 33,758
Mlezu	35,949
Mission Schools and Msengezi	50,787

bringing the total received by Treasury to Z\$ 120,734"

RIG/A/Nairobi Response

The above action appears to be a good start in satisfying the recommendation in our draft report, particularly with regards to sales taxes. However, we cannot determine if all overstatements have been identified and credited to the appropriate fund.

Accordingly, we have revised the recommendation which appeared in our draft report and are retaining it until USAID/Zimbabwe takes the definitive action contained in the recommendation.

Recommendation No. 2

USAID/Zimbabwe, in conjunction with the GOZ Treasury and appropriate Ministries, (a) determine the magnitude of the overstated expenditures, and (b) ensure that a like amount is credited to either the Rehabilitation and Reconstruction Fund or the Development Fund.

The Government Of Zimbabwe May Have Deposited Less Than The United States Dollar Equivalent In Local Currency Into The Grant Account

On September 19, 1980 the U.S. Government disbursed US\$7 million to the GOZ and the GOZ deposited Z\$4,372,814 to the National Fund for Rehabilitation and Reconstruction. The exchange rate on September 19, 1980 was US\$1.5944=Z\$1.00. Using this exchange rate, the GOZ should have deposited Z\$4,390,366 or an additional Z\$17,552 (U.S. \$27,985) into the Rehabilitation and Reconstruction Fund.

Deposit records showed that the Reserve Bank of Zimbabwe had deposited the larger amount into the fund on September 19 but later cancelled that deposit and deposited a smaller amount (by Z\$17,552) on September 22, 1980. The records did not indicate why the deposit was reduced. GOZ Treasury officials were unable to satisfactorily explain to us the transaction. USAID/Zimbabwe officials were also unable to give us a satisfactory explanation for this short fall and why this discrepancy was not detected through their internal monitoring procedures.

Article 4, Section A of each grant agreement states:

"For the purpose of financing the local currency costs ...the Grantee agrees to establish a Special Account within 60 days from the date of this Agreement and to deposit therein currency of Zimbabwe (local currency) equivalent in amount to the United States Dollar disbursement made under this Agreement. The highest rate of exchange which is not unlawful in Zimbabwe on the date of United States Dollar disbursement shall be used in determining the total amount required to be deposited in the Special Account."

As a result of our audit finding the GOZ Treasury communicated with the Reserve Bank of Zimbabwe to determine what caused the difference in the exchange rates during the conversion of the transfer of US\$7 million to the GOZ, and which exchange rate was the correct one. USAID/Zimbabwe officials told us that they would continue to pursue this matter.

Conclusion, USAID/Zimbabwe Comments And Recommendation

Deposits to the grant account may have been Z\$17,552 (US\$27,985) less than the United States dollar equivalent.

In response to our draft report, USAID/Zimbabwe stated:

"We agree the situation on the exchange rates requires further investigation and we will work to clear the recommendation."

Recommendation No. 3

USAID/Zimbabwe, in conjunction with the GOZ Treasury, (a) determine why the deposit of Zimbabwe currency equivalent to US\$7 million was reduced; and if necessary, (b) follow up with the GOZ to see that the Rehabilitation and Reconstruction fund is credited with the correct amount.

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<u>Recommendation No. 3</u>	8
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APPENDIX B

LIST OF REPORT RECIPIENTS

No. of
copies

Field Office:

USAID/Zimbabwe

5

REDSO/ESA

2

AID/Washington

AA/M

1

AA/AFR

5

AA/PPC

1

LEG/OD

1

GC

1

IG

1

OPA

1

AFR/SA

2

M/FM/ASD

2

PPC/E

1

S&T/DIU

4