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AUDIT OF  
MACHINERY AND EQUIPMENT UTILIZATION  
PROVIDED TO ZIMBABWE UNDER  
THE COMMODITY IMPORT PROGRAM AND  
THE CHILD SPACING AND FERTILITY  
PROJECT NO. 613-0219  
AUDIT REPORT NO. 3-613-86-8  
MAY 30, 1986

MEMORANDUM

DATE: May 30, 1986  
FROM: Richard C. Thabet, RIG/A/Nairobi  
SUBJECT: Audit of Machinery and Equipment Utilization Provided to Zimbabwe Under the Commodity Import Program and the Child Spacing and Fertility Project  
TO: Mr. Roy A. Stacy, Director/Zimbabwe

This report presents the results of the audit of Machinery and Equipment Utilization provided to Zimbabwe under the Commodity Import Program and the Child Spacing and Fertility Project. The objectives of this economy and efficiency audit were to determine if (a) machinery and equipment were received in country, cleared customs within 90 days, and were placed in use within one year as required by the agreements; (b) USAID had taken appropriate action on items not fully utilized, and (c) machinery and equipment were used for authorized purpose.

The Office of the Regional Inspector General for Audit/Nairobi concluded that, in general, USAID/Zimbabwe managed the program satisfactorily. The audit found that AID machinery and equipment had arrived in country and cleared customs within 90 days as required in the agreements. But, the audit disclosed that \$2.2 million of crawler tractors were not being used over 50 percent of the time. We also found that \$127,000 of equipment imported to produce drivers' license identification cards had never been used although it had cleared customs two years earlier.

RIG/A/N recommended that USAID/Zimbabwe make a physical inspection of (1) the 27 crawler tractors and (2) the drivers' license identification equipment to determine if all equipment is being fully utilized. If not, action should be taken to place the equipment in operation on another Government of Zimbabwe project, transfer the equipment to a USAID project where there is a need, or sell it.

Please provide me with your comments on the actions planned or taken to implement the recommendation within 30 days.

The assistance and cooperation which you and your staff provided the audit team is greatly appreciated.

## EXECUTIVE SUMMARY

Since April 1982, the Agency for International Development has entered into four Commodity Import Program grant agreements with the Government of Zimbabwe. The grants totalled \$153 million of which \$83.7 million was allocated to machinery and equipment. The primary purpose of these grants was to provide economic and development support to the Government of Zimbabwe in such areas as agriculture and education.

The objectives of this economy and efficiency audit were to determine if (a) machinery and equipment were received in country, cleared customs within 90 days, and placed in use within one year as required by the agreements; (b) USAID had taken appropriate action on items not fully utilized, and (c) machinery and equipment were used for the authorized purposes.

In general, USAID/Zimbabwe managed the program satisfactorily. The audit found that Agency for International Development financed commodities had arrived in country and cleared customs within 90 days as required in the agreements.

But, the audit showed that \$2.2 million of machinery and equipment were being utilized only 50 percent of the time. The audit also showed that \$127,000 of equipment, imported to produce drivers' license identification cards, had never been used although it had cleared customs two years earlier. Although the audit focused on items that were not fully utilized, nothing came to attention that would indicate that Agency for International Development financed commodities were being used for unauthorized purposes. The audit did note, however, that the majority of end-use checks were made at the importer level instead of at the end-user. Had the checks been made at the user level, the low utilization could have been detected.

To improve equipment utilization the report contains a recommendation that USAID/Zimbabwe make a physical inspection of (1) the 27 crawler tractors and (2) the drivers' license identification equipment to determine if all the equipment is being fully utilized. If not, action should be taken to place these items in operation on another Government of Zimbabwe project, transfer the equipment to a USAID project, or sell it.

In USAID/Zimbabwe's response to the draft audit report they stated that the underutilized and idle equipment was mainly caused by a drought which reduced the Government of Zimbabwe's revenues. USAID/Zimbabwe further stated in their response that they have received information from the Central Mechanical Equipment Department that the crawler tractors have been fully operational so far this fiscal year (July 1985-June 1986). Also, the African Development Bank is providing funding for rural road construction, including operating costs for these units. USAID/Zimbabwe also stated that they have closely followed the situation concerning the installation of the drivers' license equipment and will continue to do so until it is fully operational.

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TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	2
PART II - RESULTS OF AUDIT	3
A. Findings and Recommendations	4
1. Machinery and Equipment Were Not Fully Utilized	4
2. End-Use Checks Needed To Be Concentrated More On The End-User	8
B. Compliance and Internal Control	10
PART III - APPENDICES	
1. USAID/Zimbabwe Comments on Draft Report	
2. List of Report Recipients	

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PART I - INTRODUCTION

A. Background

Since April 1982, AID had entered into four Commodity Import Program (CIP) grant agreements with the Government of Zimbabwe (GOZ). The four grants totalled \$153 million, of which \$83.7 million was allocated for machinery and equipment for such items as tractors, combines, harvesters, computers, forklift trucks, and cotton gin presses. The remaining \$69.3 million was allocated for raw materials and other commodities. Over 80 percent of the allocations were designated for the private sector.

The primary purpose of these grants was to provide economic and development support to the Government in such areas as agriculture and education. Local currency generated from the sales of these commodities was required to be deposited into a special counterpart account and to be used to finance development projects approved by AID and Government of Zimbabwe.

The agreements between AID and Government of Zimbabwe stated that commodities would be effectively used for the purpose for which the assistance was made available. The commodities were to be cleared from customs within 90 days of arrival in country and consumed or used by the importer no later than one year after customs clearance unless a longer period could be justified to the satisfaction of AID.

In addition AID Handbook 15 requires AID missions to continually monitor resources, such as machinery and equipment, to ensure that they are efficiently used. In cases where resources are not efficiently utilized the AID mission should take immediate action to improve utilization by transferring the items to another project or program. If the items are not needed, appropriate disposal action should be taken.

## B. Audit Objectives and Scope

The Regional Office of the Inspector General for Audit/Nairobi assisted the Regional Office for Audit in Washington (RIG/A/W) in making an economy and efficiency audit of the utilization of AID financed machinery and equipment in Zimbabwe. This was part of a worldwide audit made in four of the larger AID recipient countries located in Africa and Asia. In addition to this report, RIG/A/W will issue an audit report covering the activities on a worldwide basis.

The objectives of this economy and efficiency audit were to determine if: (a) machinery and equipment were received in country and cleared customs within 90 days, and were placed in use within one year as required in the agreements; (b) USAID/Zimbabwe took appropriate action when the machinery and equipment were not fully utilized; and, (c) the machinery and equipment were used for authorized purposes.

The audit was made during October and November 1985, at the offices of USAID, the Government of Zimbabwe, and selected private sector importers. We reviewed records relating to the purchase, receipt, and utilization of machinery and equipment. Discussions were held with USAID/Zimbabwe, Government, and private sector officials. The audit covered the period from April 1982 through October 1985.

Of \$83.7 million of machinery and equipment received in country, we tested \$36.7 million. In addition to the CIP commodities cited, the audit also reviewed the usage factor on 33 AID financed vehicles under the Child-Spacing and Fertility Project (No. 613-0219). The estimated cost of these vehicles was \$377,000. This audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

In general, USAID/Zimbabwe managed this program satisfactorily. The audit found that AID machinery and equipment had arrived in country and cleared customs within 90 days as required in the agreements. But the audit showed that \$2.2 million of tractors were underutilized. The audit also showed that although the USAID had been making adequate inspections at the importer level little effort had been made to visit the end-user to determine if the machinery and equipment had actually been utilized. Thus, USAID did not know the tractors were underutilized and therefore were unable to transfer the equipment to other projects or programs or dispose of the equipment in some other manner.

The audit also showed that \$127,000 of license identification equipment, imported in August and September, 1983, had not been used because the Government of Zimbabwe had not constructed a building to house the equipment.

USAID/Zimbabwe was aware of this situation and had sent a number of letters to the Ministry of Roads and Road Traffic inquiring as to the status of the equipment. At the time of the audit they were informed that this equipment had been installed but while relocating one of the component parts was damaged. The Ministry was awaiting the necessary replacement parts. Although the audit showed that machinery and equipment were not being fully utilized, nothing indicated that AID financed machinery and equipment were used for unauthorized purposes.

To improve utilization, the report recommends that USAID/Zimbabwe make a physical inspection of (1) the 27 crawler tractors and (2) the drivers' license identification equipment to determine if all the equipment is being fully utilized. If not, action should be taken to place the equipment in operation on another Government of Zimbabwe project, transfer the equipment to a USAID project when there is a need, or sell it.

## A. Findings and Recommendations

### 1. Machinery and Equipment Were Not Fully Utilized

Agency for International Development (AID) Handbook 15 requires overseas installations to continually monitor resources, such as machinery and equipment, to ensure that they are efficiently used. In cases where resources are not efficiently utilized the USAID should take immediate action to improve utilization by transferring the items to another project or program. If the items are not needed, appropriate disposal action should be taken.

The audit showed that USAID/Zimbabwe was not adequately following these monitoring practices. As a result \$2.2 million of tractors, financed by AID under the Commodity Import Program, were used only 48 percent of the standard time established by the Government of Zimbabwe's Central Mechanical Equipment Department. Government officials stated that the low utilization percentage was due to insufficient funds to operate the equipment. If the problem had been identified earlier, the tractors could have been used on other projects or programs.

The audit also showed that \$127,000 of equipment had never been used. This equipment was imported in August and September 1983 to produce drivers' identification cards. USAID officials stated that at the time the equipment was imported no structure was available to install the equipment and since there was a moratorium on construction the equipment was stored in a warehouse. As a result the Government of Zimbabwe had been unable to produce the drivers' identification cards.

#### RECOMMENDATION NO. 1

We recommend that USAID/Zimbabwe make a physical inspection of (1) the 27 crawler tractors and (2) the drivers' license identification equipment to determine if all equipment is being fully utilized. If not, action should be taken to place the equipment in operation on another Government of Zimbabwe project, transfer the equipment to a USAID project where there is a need, or sell it.

#### DISCUSSION

AID policy requires that machinery and equipment financed by AID be efficiently utilized. According to AID Handbook 15 it states that in situations where items are not effectively utilized, action should be taken to transfer the items to other projects or dispose of them.

Underutilized Equipment - In July and September 1983, 27 tractors, costing \$2.2 million, were imported by the Zimbabwe Earthmoving Machinery Co. Ltd. (ZEMCO) on behalf of the Central Mechanical Equipment Department (CMED) of the Government of Zimbabwe. CMED is the Government of Zimbabwe agency responsible for purchasing all government equipment except for the military and the parastatals. CMED, in turn, leases the equipment to other government agencies on a fee basis. The 27 pieces of equipment consisted of 13 model D4, 7 model D6, and 7 model D7 tractors. This equipment was leased by CMED to the Government Ministry of Transport for use on its road construction program. As of September 30, 1985, after two years in country, the equipment, had been used only 48 percent of the standard time established by CMED and in the private sector the utilization rate translates to only 29 percent for similar equipment. Insufficient operating funds was cited as the reason the equipment was not being used.

There was no indication that the USAID was aware of the low utilization. The reason underutilization went undetected by USAID was because end-use checks were limited to determining if the equipment had arrived in country, cleared customs within 90 days, and had been sold or used by the importer within one year of arrival as required by AID Handbook 15. Although the end-use checker did make a visit to the importer and found the machinery had been sold, he did not attempt to determine if the equipment was being utilized by the end-user, in this case the CMED and the Ministry of Transport.

A responsible Government of Zimbabwe official stated that the tractors were needed in their road building program but acknowledged the tractors were not being fully utilized because the Government lacked sufficient operating revenues in FY 1984 and FY 1985. This problem was particularly severe in FY 1984 because a three-year drought had reduced Government revenues. Government officials were optimistic that the tractors would be fully used in 1986, because the African Development Bank will fund a major road rehabilitation project which the Government will implement.

During our exit conference the USAID supply advisor stated that the additional procurement of tractors was not planned for CMED. He stated that he would be in contact with CMED to request some action to get better use of the equipment even if it meant selling or leasing the equipment to the private sector. The USAID also plans to explore the possibility of having the equipment used on a farm dam project that is just beginning.

The 27 tractors were brought into the country for use on Zimbabwe's road construction program. It was not known at the time of importation that a three-year drought would reduce Government revenues to such a level that funds operate the equipment would not be available on a full time basis.

Nevertheless, USAID should, in conjunction with the Government of Zimbabwe, seek a solution to the underutilized equipment problem. This could be accomplished by obtaining additional operating funds and placing the equipment in use on a planned road construction project, leasing the equipment to the private sector, or selling it.

Unused Equipment - In October 1982, the Ministry of Roads and Road Traffic was allotted CIP funds to import equipment for the production of drivers' identification cards. The equipment was imported by a private firm on behalf of the Ministry of Roads and Road Traffic. The equipment cleared customs in August and September 1983. The value of the equipment was \$127,000.

We found that the equipment had not been used although it cleared customs over two years prior to this audit. A USAID official stated, that at the time the equipment was imported, there was a moratorium on construction and the equipment was stored in a warehouse because of the lack of a building to install it.

USAID/Zimbabwe was aware of the situation and had sent a number of letters to the Ministry inquiring as to the status of the equipment, but the information provided was non-responsive. At the time of the audit the USAID contacted the Ministry again to learn the current status. The Ministry responded that the equipment was still not working but anticipated it would be operational within the following 2-3 weeks. Supposedly a structure had been built, the equipment had been installed but a part was damaged while moving it. They were awaiting the necessary replacement part.

Since the equipment was not in operation the Ministry was unable to produce the drivers' identification cards as planned. Thus the USAID needs to continue to follow-up on this problem until the equipment is operational.

#### Management Comments

USAID/Zimbabwe's response to the draft report references Handbook 15 which states that effective use of non-project assistance is defined as including (1) prompt processing of commodity imports through customs and removal from customs and bonded warehouse by the importer within 90 calendar days,

unless the importer is hindered by force majeure; and (2) consumption or use by the importer or sale or transfer by the importer for consumption or use within one year from date the commodities are removed from customs unless a longer period can be justified to AID by reason of force majeure, special market situations, or other circumstances.

USAID further stated that in regard to the 27 crawler tractors the GOZ met this criteria. The units were promptly cleared through customs and placed in use. USAID also said that approximately one year after the crawler tractors were imported and placed in use, they were taken out of operation for about six months due to reduced GOZ revenues as the result of a severe drought. This action, of course, had an adverse impact on the utilization rate. USAID/Zimbabwe went on to say that the delay in the installation of the drivers' license equipment can be traced to the same problem -- a shortage of revenue as a result of the drought. USAID/Zimbabwe believed that under the circumstances, no one would have pressed for or approved the transfer or sale of the equipment.

USAID/Zimbabwe's response indicated that an implementation letter was issued on January 30, 1986 concerning the utilization of the 27 crawler tractors. After telephone follow-ups on the letter, the GOZ answered on April 1, 1986. Since their response failed to include a utilization plan, as requested by the implementation letter, USAID/Zimbabwe is continuing to follow-up. USAID/Zimbabwe reports that the GOZ's Central Mechanical Equipment Department has confirmed that the units have been fully operational so far this fiscal year (July 85 through June 1986). Also, the African Development Bank is financing rural road construction, including funds for operating these units.

Responding to Recommendation No. 1 (b), USAID/Zimbabwe stated that the mission has closely followed the situation concerning the installation of the drivers' license equipment, and will continue to do so until it is fully operational.

#### Office of Inspector General Comments

We appreciate USAID/Zimbabwe's views that the circumstances surrounding the underutilized and idle equipment could be considered a case of force majeure. Since the drought is now over USAID/Zimbabwe should be in a position to take corrective action on the recommendation contained in the report. Thus we will close this recommendation when USAID/Zimbabwe informs us that they have visited both projects sites and found the crawler tractors and drivers' license equipment to be fully utilized.

## 2. End-Use Checks Needed To Be Concentrated More On The End-User

AID Handbook 15 requires USAIDs to monitor AID financed resources such as machinery and equipment. End-Use checks are to be made to determine if the commodity is efficiently used. If the items are not being utilized, action is to be taken to correct the situation.

The audit found that USAID/Zimbabwe was making more than a sufficient number of end-use checks. However, most of the end-use checks were made at the importer and not at the end-user. Thus unused items could go undetected unless inspection are made at the end-user.

We are not making a recommendation at this time because in the world-wide report, the RIG/A/W recommended that the AID Handbook No. 15 be changed to correct this deficiency.

### Discussion

AID Handbook 15 requires AID missions to monitor AID financed resources such as machinery and equipment by making end-use checks of imported items. During the audit we sampled about \$36.7 million of machinery and equipment items imported under the four CIP programs and found that the USAID had made end-use checks on about 90 percent of the items. However, most of the checks did not extend beyond the importer level. Thus unused items went undetected.

USAID officials contended that since over 80 percent of the imported items were designated for the profit oriented private sector, it is unlikely that commodities would remain unused longer than necessary. This could be true as long as the items remain in the private sector but we found unused items in the public sector which had been imported by the private sector. As previously mentioned, this was the case in the \$2.2 million of underutilized tractors. USAID/Zimbabwe had made end-use checks at the importer level but had not followed up with visits to the end-user, a public sector enterprise. Had checks been made at the end-user the underutilized equipment would have been detected and the USAID could have taken corrective action. Instead \$2.2 million of equipment remained idle over 50 percent of the time.

Although USAID/Zimbabwe was making a large number of end-use checks at the importer level we believe that its end-use procedures should be revised to provide for expanding the checks to the end-user. This should be done especially where the end-user is in the public sector. To offset the additional cost and time to perform these additional tests we suggest that USAID/Zimbabwe reduce the number of checks they are now making in the private sector. The private sector is profit oriented and the profit incentive should reduce the chances for large value items remaining idle.

## B. Compliance and Internal Control

### Compliance

It is AID's policy that a substantial portion of Commodity Import Program funds be used to assist in development of the private sector. The amount of funds earmarked for the private sector is determined before the funds are made available. In Zimbabwe, machinery and equipment were brought into the country by a private sector importer and then, at a later time, sold to the public sector for use by the government. For example, the 27 tractors previously discussed were imported by the private sector but were subsequently sold to the public sector. In this case, while the private sector importer benefited from the commissions, no private sector development occurred.

An official from AID's Bureau for Private Enterprise told us that the program was designed to reach the end-user and not the importer. Contrary opinions were provided by an official from the AID's Bureau for Program and Policy Coordination. This official stated that under the Commodity Import Program utilization is secondary to the primary objectives of providing assistance to improve a country's balance of payments.

We believe that AID should establish a clear policy in order for the AID missions to effectively monitor the intent of the program.

### Internal Control

Generally, the internal controls tested were found to be operating in a satisfactory manner. We did note that USAID/Zimbabwe officials needed to improve their monitoring of machinery and equipment by expanding their inspections beyond the importer to the end-user.

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**PART III - APPENDICES**

APPENDIX 1

USAID/Zimbabwe Comments on Draft Report

"1. As indicated in Para 8 of REF (B), the following are additional comments on subject draft audit.

2. First, we would like to comment on recommendation No. 1, specifically with regard to the last paragraph on page 7, which states: Quote AID policy requires that Machinery and Equipment financed by AID be efficiently utilized. According to Handbook 15 it states that in situations where items are not effectively utilized, action should be taken to transfer the items to other projects or dispose of them. End Quote. Handbook 15, Chapter 12, discusses utilization of AID-financed commodities. As you will note, there are different definitions for project and non-project assistance. Para 12B1C of Chapter 12 states: Quote effective use under non-project assistance is defined as including (1) prompt processing of commodity imports through customs and removal from customs and bonded warehouse by the importer within 90 calendar days. Unless the importer is hindered by force majeure; and (2) consumption or use by the importer or sale or transfer by the importer for consumption or use within one year from the date the commodities are removed from customs, unless a longer period can be justified to AID by reason of force majeure special market situations, or other circumstances. End quote. With regard to the 27 crawler tractors, this criteria was, in fact, met by the GOZ; the units were promptly cleared through customs and placed in use. As the audit report indicates on page 9, approximately one year after the crawler tractors were imported and placed in use, they were taken out of operation for about six months due to reduced GOZ revenues as the result of a severe drought. This action, of course, had a tremendous impact on the utilization rate. The delay in the installation of the drivers' license equipment can be traced to the same problem--a shortage of revenue as a result of the drought. As you will note in the above quote from Handbook 15, there is a reference to quote force majeure end quote which normally includes unusually severe weather. A drought is unusually severe weather. Finally, as a practical matter, we believe that under the circumstances, no one would have pressed for or approved the transfer or sale of this equipment. We suggest that you take the above into consideration prior to finalizing the report.

3. With regard to item A of recommendation No. 1, on January 30, 1986, the Mission issued the implementation letter No. 17 under the CIP 613-K-603, concerning the utilization of the 27 crawler tractors. (A copy of this implementation letter was forwarded to RIG/I/N upon issuance.) After telephone

follow-ups on the letter, a response was received on April 1, 1986, from the GOZ. Since the response failed to include a utilization plan, as requested by the implementation letter, we are continuing to follow-up. The Central Mechanical Equipment Department has, however, confirmed that the units have been fully operational so far this financial year (7/85 thru 6/86). Also, the African Development Bank is providing funding for rural road construction, including costs for operating these units.

4. Item B of recommendation 1 is that the Mission screen future GOZ requests for equipment to determine that the equipment is required and that sufficient GOZ funds are available to maintain and operate the equipment. This recommendation implies that the crawler tractors and drivers' license equipment were not required. The Mission believes that the records support the requirement for the equipment. Also, the audit focuses on utilization due to a shortage of revenue created by the drought, rather than whether or not there was a need for the equipment. With regard to determining that sufficient GOZ funds are available to maintain and operate the equipment, it must be emphasized that this is a non-project activity. While such a determination can perhaps be made for the GOZ's fiscal year during which equipment is purchased, neither the Mission nor the GOZ can predict droughts or other calamities that might create revenue shortages for subsequent years.

5. RE item c of the recommendation No. 1, as indicated in the audit report, the Mission has closely followed the situation concerning the installation of the drivers' license equipment and will continue to do so until it is fully operational.

6. Recommendation No. 2 is totally acceptable (sic) to the Mission, since all end-use checks for public sector procurements to date, except for the crawler tractors mentioned in the audit, have been carried out at the end-user level--contrary to what the audit report implies. In this regard, it should be noted that the AID Handbook 15, Chapter 12, does not require end-use checks on all items imported, but rather on a sampling or percentage. The Mission feels that it has complied with this requirement under the CIP.

7. If additional information is required, please advise."

List of Report Recipients

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