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Audit of
Commodity Import Programs Follow-up
USAID/Zimbabwe

Audit Report No. 3-613-91-11
August 21, 1991

USAID/Zimbabwe followed A.I.D. policies and procedures in accounting for the arrival of commodities and to ensure that local currency was deposited, programmed and withdrawn for agreed upon purposes. However, since AID/W did not provide USAID/Zimbabwe with an itemized list of disbursements by supplier, a discrepancy of $101,997 exists between total amounts shown as disbursed by AID/W vis-a-vis USAID/Zimbabwe's records.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
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NAIROBI, KENYA

August 21, 1991

MEMORANDUM

TO : Ted D. Morse, Mission Director, USAID/Zimbabwe

FROM : Toby L. Jarman, RIG/A/Nairobi

SUBJECT: Audit of Commodity Import Programs Follow-up, USAID/Zimbabwe
Audit Report No. 3-613-91-11

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to this report. Based on the results of our audit, the report contains no recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

Between 1981 and 1990, A.I.D. programmed about $168 million for commodity imports in Zimbabwe under (1) two Commodity Import Programs and (2) the Zimbabwe Agricultural Sector Assistance Program (ZASA), and the Zimbabwe Basic Education and Skills Training Program (BEST) -- two programs with commodity import components. The purpose of these programs was to help the Government of Zimbabwe (the Government) solve its foreign exchange problems and sustain economic activities by financing commodity imports.

Under Commodity Import Programs, private importers and Government ministries in Zimbabwe purchase U.S. goods for which A.I.D. pays the suppliers in U.S. dollars. A.I.D. then requires the importers and Government ministries to pay for the goods by depositing the local currency equivalents into special accounts of each program, in the Reserve Bank

of Zimbabwe. These local currency deposits are made available to (1) the Government to be used for mutually agreed upon development activities and (2) A.I.D. for local administrative costs.

Commodity Import Programs involve considerable monitoring by both AID/W and USAID/Zimbabwe. AID/W is responsible for formulating policies, regulations, and guidelines for these programs. It approves commodities to be imported and assists the host country in procuring and shipping commodities and paying the suppliers. USAID/Zimbabwe monitors the arrival and end-use of the commodities and the deposit and use of the generated local currencies. In this regard, USAID/Zimbabwe had contracted for non-Federal audits covering Grant Agreement Numbers 613-0603, 613-0604, 613-0605 and 613-0606 to determine whether local currency generations were deposited into the special accounts and used for mutually agreed upon purposes. These audit reports are expected to be issued in the near future.

Audit Objectives

We audited Commodity Import Programs in USAID/Zimbabwe to answer the following audit objectives:

1. Did USAID/Zimbabwe follow A.I.D. policies and procedures in accounting for the arrival of commodities?

2. Did USAID/Zimbabwe follow A.I.D. policies and procedures to ensure that local currency was deposited, programmed and withdrawn for agreed upon purposes?

3. Did USAID/Zimbabwe follow A.I.D. policies and procedures in identifying and overcoming internal control weaknesses related to Commodity Import Programs?

In answering these audit objectives, we tested whether USAID/Zimbabwe followed internal control procedures related to Commodity Import Programs as outlined in A.I.D. Regulation 1, A.I.D. Handbook 15 Chapters 8 and 10 and A.I.D. Handbook 19, Chapter 10, Attachment 10Q and whether it complied with certain provisions of regulations and grants applicable to these programs. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect our audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Zimbabwe followed A.I.D. procedures and complied with the legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

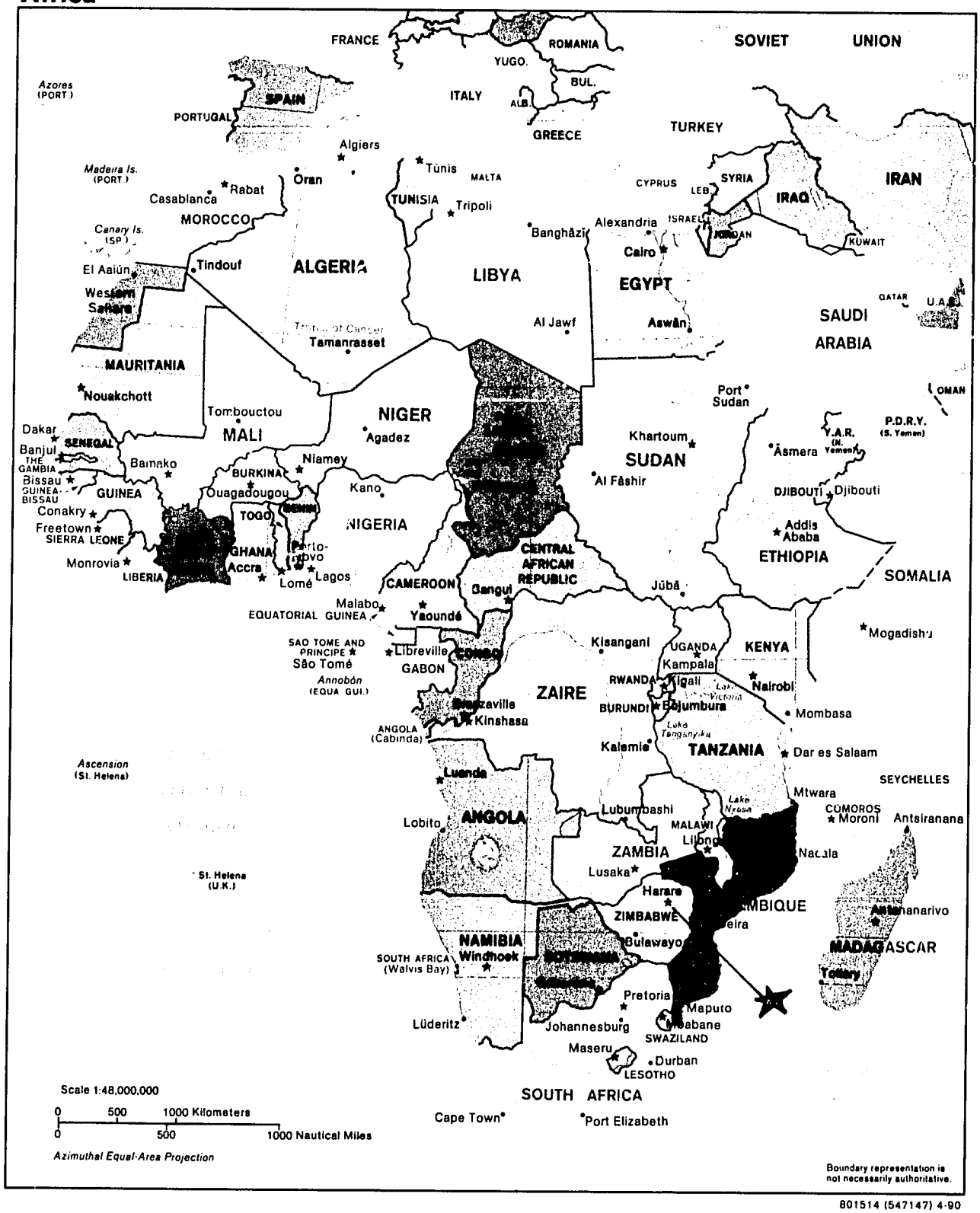
- conclusively determine that USAID/Zimbabwe was not following a procedure or not complying with a legal requirement,

- identify the cause and effect of the problems, and

- make recommendations to correct conditions and causes of the problems.

Our discussion of the scope and methodology for this audit is in Appendix I and our reports on internal control and compliance are in Appendices III and IV respectively.

Africa



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Audit Findings

Did USAID/Zimbabwe follow A.I.D. policies and procedures in accounting for the arrival of commodities?

For the items tested, USAID/Zimbabwe followed A.I.D. policies and procedures in accounting for the arrival of commodities, except that, for reasons beyond USAID/Zimbabwe's control, commodity arrivals were not reconciled with commodity disbursements. Therefore, there was an unexplained difference between the amount shown as disbursed by AID/W records and USAID/Zimbabwe's commodity arrival records.

USAID/Zimbabwe determined that commodities, totalling U.S.$2.5 million for 35 transactions that were paid for by AID/W, were in fact received. USAID/Zimbabwe's arrival accounting system included files that documented the history of each commodity import transaction including Mission and Government approvals from arrival to end-use. Two full-time employees who reported to USAID/Zimbabwe's controller maintained the transaction files and conducted end-use checks. For all 35 transactions, there was adequate evidence that the related commodities were received.

However, since AID/W did not provide USAID/Zimbabwe with an itemized list of disbursements by supplier, the total amount shown as disbursed by AID/W did not reconcile with USAID/Zimbabwe's records under the Zimbabwe Agricultural Sector Assistance Program (ZASA) Agreement Number 613-0607 resulting in an unexplained discrepancy between commodity arrival and commodity disbursement records.

Commodity Arrivals Were Not Reconciled
With Commodity Disbursements

In accordance with A.I.D. policies and procedures, USAID/Zimbabwe had established a commodity arrival accounting system that provided it with reasonable assurance that commodities which had been paid for were received. However, because AID/W records did not provide USAID/Zimbabwe with an itemized list of disbursements by supplier, USAID/Zimbabwe did not reconcile commodity arrivals with commodity disbursements. As a result, a discrepancy of $101,997 exists between the amount shown as disbursed by AID/W's records vis-a-vis USAID/Zimbabwe's commodity arrival records under ZASA Agreement Number 613-0607. RIG/A/N is not making a recommendation to USAID/Zimbabwe because we believe that this is an issue that should be addressed with AID/W. As a result, we have referred this matter to the Inspector General's Office of Programs and Systems Audits for consideration when programming future work.

A.I.D. Regulation 1 Section 201.41 and A.I.D. Handbook 15, Chapter 10 require the recipient country of A.I.D.-financed commodities to maintain a system of records that documents the arrival and disposition of commodities. The records must identify the parties to the transaction, provide evidence to show whether commodities were received in the quantity and condition for which payment was made, and record adjustments from importers (i.e. commodity losses, shortages, and damages). In the event that the recipient country's arrival accounting and disposition system is inadequate, the Mission should establish and maintain its own system until such time as the recipient's system becomes adequate. A.I.D. Handbook 19, Chapter 10, Attachment 10Q requires the Mission's arrival and disposition system to allow A.I.D.-financed commodities to be traced through the following stages: agreement, grantee authorization, payment to suppliers, shipment, in-country arrival and acceptance by the importers.

USAID/Zimbabwe's latest assessment of the Government of Zimbabwe's (the Government) commodity arrival accounting system was made in early 1990 and it found that the Government's system was adequate. The Government's system was implemented by the Import/Export License Department and the Customs Department. The former Department, in concert with USAID, issues import licenses which must be presented to Customs when goods arrive. Upon the arrival of the goods, Customs reviews the shipping documents and physically inspects the goods to satisfy themselves that what is received is what was ordered. Customs then signs the import license and completes a "Bill of Entry" which allows the importer to take delivery of the goods.

However, as an added means of control, USAID/Zimbabwe established its own system to monitor the Government's. USAID/Zimbabwe hired two foreign service nationals in 1989 and 1990 to monitor commodity arrivals and end-use. These individuals maintain files that document each transaction from Ministry of Commerce approval to the time local currency proceeds are deposited into the special accounts.

USAID/Zimbabwe's transaction files contained evidence that commodities were received as required under the agreements. The files contained documentation such as: Ministry of Commerce approvals, import licenses, invoices, bills of lading, entry bills, packing lists, letters of credit, and U.S. bank payment advices. The files also contained communication with importers, the Government, suppliers, local and U.S.banks, and reports on end-use checks which USAID/Zimbabwe officials stated were currently on-going, and will be done for all importers in the program.

However, for ZASA Agreement Number 613-0607, commodity arrivals were not reconciled with commodity disbursements. AID/W's Status of Disbursing Authorizations report showed

U.S.$4,778,646 had been disbursed as of January 31, 1991 while USAID/Zimbabwe's records showed U.S.$4,676,649 had been received -- a difference of U.S.$101,997. The payment method established for ZASA Grant Agreement Number 613-0607 was by Bank Letters of Commitment, whereby USAID/Zimbabwe controls arrivals, but AID/W makes the disbursements. The problem of reconciling commodity arrivals with commodity disbursements did not exist under ZASA Agreement Number 613-0607A which established payment by Direct Letters of Commitment whereby USAID/Zimbabwe controlled both arrivals and disbursements. However, according to a USAID/Zimbabwe official, Bank rather than Direct Letters of Commitment is the payment method normally used and preferred by AID/W for Commodity Import Programs.

AID/W, which is the official accounting station for USAID/Zimbabwe's Commodity Import Programs did not send USAID/Zimbabwe the necessary information which would allow it to reconcile commodity arrivals with disbursements under ZASA Agreement Number 613-0607. USAID/Zimbabwe receives two reports from AID/W -- the Status of Disbursing Authorizations Report and Listing of Commodities Report. However, neither report includes the supporting details needed to reconcile commodity disbursements to arrivals. In the past, USAID/Zimbabwe had requested from AID/W the information needed to reconcile disbursements to arrivals, but AID/W had not provided it.

We could not determine the reason AID/W had not provided USAID/Zimbabwe with an itemized listing of disbursements by supplier on a periodic basis because the audit work was not performed in AID/W. We advised the Inspector General's Office of Programs and Systems Audits of this matter for consideration when programming future work. It is included in the report on page 10 as an issue requiring further study.

Did USAID/Zimbabwe follow A.I.D. policies and procedures to ensure that local currency was deposited, programmed and withdrawn for agreed upon purposes?

For the items tested, USAID/Zimbabwe followed A.I.D. policies and procedures to ensure that local currency generations were deposited into the special accounts and programmed and withdrawn for agreed upon purposes.

The Inspector General's Office of Programs and Systems Audits selected the original audit sample of 35 commodity import transactions under ZASA. However, there were no withdrawals relating to those 35 transactions in our audit sample. Therefore, in order to fully answer the audit objective, the audit scope was expanded to examine 22 withdrawals made under the Commodity Import Program component of USAID/Zimbabwe's Basic Education and Skills Training Program (BEST).

For ZASA, local currency generations for 35 transactions were deposited into the special account and programmed for agreed upon purposes. Under BEST, funds were programmed, withdrawn from the special account and transferred to the Government's General Treasury Account to be used for mutually agreed upon purposes.

The Foreign Assistance Act, Section 609, and USAID/Zimbabwe's grant agreements for Commodity Import Programs require local currency generations to be deposited into a special account. A.I.D. Handbook 19 Chapter 1 requires that A.I.D.'s accounting and reporting systems provide effective control and accountability of all funds. A.I.D. Policy Determination Paper No. 5 encourages A.I.D. participation in programming local currency to help achieve the host country's development objectives. The grant agreements require USAID/Zimbabwe and the Government to agree on development projects to be funded by the programs and their spending levels. Furthermore, these agreements require USAID/Zimbabwe to concur on all withdrawals from the special accounts.

Based on the items tested, USAID/Zimbabwe had a system to ensure that correct amounts of local currency were deposited into the special account for ZASA commodities received. In this regard, USAID/Zimbabwe obtained information on the U.S. dollar payments made by requiring the U.S. bank to send it copies of all relevant payment information. Under ZASA Agreement Number 613-0607A, USAID/Zimbabwe made payments under Direct Letters of Commitment, and thereby had all relevant data on hand. On a quarterly basis, USAID/Zimbabwe received local currency deposit statements from the Government which it reconciled to the bank statements. The applicable exchange rates were obtained from the local banks.

Our review of 35 transactions under ZASA agreements 613-0607 and 613-0607A disclosed that as of December 31, 1990, Z $6.1 million (U.S. $2.5 million) was deposited into the special account as required and that the correct exchange rates were used. However, as stated under Audit Objective No. 1, AID/W records showed disbursements of U.S. $101,997 which were not reflected in USAID/Zimbabwe's records. We could not determine whether this amount related to commodity payments for which local currency should have been deposited or whether it related to other fees such as bank charges. Further, as discussed under Audit Objective No. 1, this issue was referred to the Inspector General's Office of Programs and Systems Audits for possible future work.

Regarding the programming and withdrawing of local currency, USAID/Zimbabwe and the Government agreed on projects to be financed with local currency and USAID/Zimbabwe concurred with withdrawals from the special account as evidenced by Project Implementation Letters. In addition, USAID/Zimbabwe received financial reports from the Government to confirm that only local currency in the amounts and for purposes agreed upon were

withdrawn from the special account and transferred to the Government's General Treasury account.

Under BEST Agreement Number 613-0606, and ZASA Agreements Numbers 613-0607 and 613-0607A, USAID/Zimbabwe and the Government programmed Z $44.3 million (U.S. $16.9 million) and Z $8.4 million (U.S. $3.2 million using an exchange rate of Z $2.62 to U.S. $1.00), respectively, for individual projects as of December 31, 1990.[1] The amounts programmed were supported by Project Implementation Letters. In addition, of the Z $44.3 million (U.S. $16.9 million) programmed under BEST, Z $33.5 million (U.S. $13.4 million) was withdrawn from the special account as of December 31, 1990 to be used for agreed upon purposes. As of December 31, 1990 no funds had been withdrawn from the ZASA special account.

Based on the above, we concluded that USAID/Zimbabwe followed A.I.D. policies and procedures to ensure that local currency was deposited, programmed and withdrawn for agreed upon purposes.

Did USAID/Zimbabwe follow A.I.D. policies and procedures in identifying and overcoming internal control weaknesses related to Commodity Import Programs?

For the items tested, USAID/Zimbabwe followed A.I.D. policies and procedures in identifying and overcoming internal control weaknesses related to Commodity Import Programs.

The Federal Manager's Financial Integrity Act (the Integrity Act) requires Federal Agencies to conduct assessments of their systems of internal control and to report annually to the President and the Congress on the results of these assessments, including management plans to correct any weaknesses which are identified. The Office of Management and Budget Circular A-123, which implements the Integrity Act, requires Federal Agencies to establish a system for reviewing their internal controls.

Our review of section 10 of USAID/Zimbabwe's 1989 Internal Control Assessment disclosed

[1]Throughout the report, the BEST Program U.S. dollar equivalents of the local currency amounts were converted at the exchange rate in effect as of December 31, 1990 (Z $2.62 to $1.00). For ZASA, except where otherwise noted in the report, actual exchange rates were used.

that USAID/Zimbabwe identified and reported weaknesses regarding its monitoring of Commodity Import Programs. The weaknesses identified and reported in the 1989 assessment pertained to problems with commodity arrivals, end-use and counterpart funds. In its 1990 assessment, USAID/Zimbabwe reported that these weaknesses had been addressed. For example, they hired two foreign service nationals to monitor commodity arrivals and end-use, and contracted for non-Federal audits[2] to address problems with local currency.

In carrying out the 1989 and 1990 assessments, USAID/Zimbabwe established a committee chaired by the Controller to (1) coordinate the assessments, (2) ensure inputs were received from the relevant Mission officials, (3) ensure documentation existed to support the results and conclusions reached, and (4) advise on any material internal control weaknesses.

Our audit did not identify any internal control weakness which USAID/Zimbabwe failed to identify in its 1989 and 1990 assessments. Further, since USAID/Zimbabwe had taken action to correct the weaknesses identified in those assessments, we concluded that it followed A.I.D. policies and procedures to identify and overcome internal control weaknesses related to its Commodity Import Programs.

Management Comments and Our Evaluation

In responding to the draft report, USAID/Zimbabwe stated that the audit findings were well-documented and accurate. In addition, USAID/Zimbabwe officials stated that after the audit field work they unsuccessfully tried to obtain the information needed to reconcile commodity arrivals with commodity disbursements.

As discussed below, RIG/A/N believes that the problem of reconciling commodity arrivals with commodity disbursements can be resolved only if AID/W provides USAID/Zimbabwe with information on commodity disbursements.

Issues Needing Further Study

During the audit, we found that commodity arrivals are not reconciled with commodity disbursements. USAID/Zimbabwe had, in the past, requested information from AID/W

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[2] Preliminary results from these non-Federal audits indicate that correct amounts were not deposited into special accounts for four prior local currency generating programs. Our audit results under the more recent ZASA program indicated that USAID/Zimbabwe had a system to ensure that correct amounts of local currency were deposited into the special account.

which would enable it to reconcile disbursements to arrivals, but AID/W had not provided it.

RIG/A/Nairobi could not determine the reason AID/W had not provided USAID/Zimbabwe with the disbursement information because we did not perform audit work in AID/W. However, we advised the Inspector General's Office of Programs and Systems Audits of this matter, for consideration when programming future work.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Zimbabwe's Commodity Import Programs in accordance with generally accepted government auditing standards. We conducted the audit from March 12, 1991 to March 28, 1991 in the office of USAID/Zimbabwe located in Harare, Zimbabwe and covered the systems and procedures relating to commodity arrival and the deposit, programming and withdrawal of the local currency generations from August 31, 1988 to December 31, 1990.

Our audit covered the Zimbabwe Agricultural Sector Assistance (ZASA) Program Agreement Numbers 613-0607 and 613-0607A, and the Zimbabwe Basic Education and Skills Training (BEST) Program Agreement Number 613-0606.

For Audit Objective One, we tested 35 transactions under the ZASA Program totalling U.S. $2.5 million, which represented 24 percent of the 148 transactions approved under grants 613-0607 and 613-0607A. We also tested 37 percent of the U.S. $6.8 million for commodity imports disbursed under the two ZASA grants as of December 31, 1990.

For Audit Objective Two, we tested 35 transactions under ZASA Agreement Numbers 613-0607 and 613-0607A for which Z $6.1 million (U.S. $2.5 million) was deposited into the special account as of December 31, 1990. This represented 44.2 percent of the Z $13.8 million (U.S. $4.7 million) that was deposited as of that date. We also reviewed approved allocations totalling Z $44.3 million (U.S. $16.9 million) and Z $8.4 million (U.S. $3.2 million using an exchange rate of Z $2.62 to U.S. $1.00) under BEST and ZASA, respectively, and withdrawals from the BEST special account totalling Z $35 million (U.S. $13.4 million).

Our tests to determine if correct amounts were deposited into the special account were limited to the ZASA program. Our office also supervised non-Federal audits contracted by USAID/Zimbabwe covering four other local currency generating programs. We considered the preliminary results of these audits which will be finalized in the near future.

For Audit Objective Three, we reviewed section 10 of the Mission's 1989 and 1990 Internal Control Assessments.

Methodology

The methodology for each audit objective follows:

Audit Objective One

To accomplish the first objective we used the criteria established in A.I.D. Regulation 1 Section 201.41 and A.I.D. Handbook 15, Chapter 10 to determine whether USAID/Zimbabwe followed A.I.D. policies and procedures in accounting for the arrival of commodities. Specifically, we determined whether (1) USAID/Zimbabwe assessed the Government of Zimbabwe's commodity arrival accounting system; (2) USAID/Zimbabwe's commodity arrival accounting system allowed A.I.D.-financed commodities to be traced from agreement to end-use; (3) transaction files contained adequate evidence that commodities which have been paid for were received; and (4) commodity arrivals were reconciled with commodity disbursements.

To make the above determinations, we tested 35 transactions under ZASA valued at U.S. $2.5 million. These transactions were selected for RIG/A/N by the Inspector General's office of Programs and Systems Audits (IG/A/PSA) which was directing this audit. IG/A/PSA informed us that the 35 transactions were selected on the basis of their potential risk -- transactions for which a post-audit had not been performed which was considered high risk. For all these transactions, we examined documentation within the Mission such as import licenses, invoices, bills of lading, entry bills, airway bills, packing lists, letters of credit, and U.S. bank advices supporting the arrival of commodities under the 35 transactions in our audit sample. We also interviewed responsible USAID/Zimbabwe officials.

Audit Objective Two

To accomplish the second objective, we used the criteria established in the Foreign Assistance Act Section 609, USAID/Zimbabwe's Commodity Import Program grant agreements, A.I.D. Handbook 19 Chapter 1 and A.I.D. Policy Determination Paper No. 5 to determine whether USAID/Zimbabwe followed A.I.D. policies and procedures in depositing, programming and withdrawing local currency generations. Specifically, we determined whether (1) local currency generated under USAID/Zimbabwe's Commodity Import Programs were deposited into a special account and the correct amounts of local currency were deposited; (2) USAID/Zimbabwe had an effective system to control and

account for the generated local currency; (3) USAID/Zimbabwe participated in the programming of the local currency generations; and (4) USAID/Zimbabwe concurred on all withdrawals from the special account.

To make the above determinations, we tested 35 transactions under ZASA valued at U.S. $2.5 Million for which Z $6.1 million was deposited into the special accounts. The 35 transactions were selected for RIG/A/N by IG/A/PSA on the basis of their potential risk -- transactions for which a post audit had not been performed which was considered high risk. For each of these transactions, we examined documentation within USAID/Zimbabwe such as suppliers invoices, payment advices from the U.S. bank, advice of local currency deposits from the local banks, daily exchange rates, quarterly deposit listings from the Ministry of Finance, and special account reconciliations that supported the deposit of Z $6.1 million (U.S. $2.5 million) under the 35 transactions in our audit sample. Also, we interviewed responsible USAID/Zimbabwe officials.

Audit Objective Three

To accomplish this objective, we used the criteria established in the Federal Manager's Financial Integrity Act and Office of Management and Budget Circular A-123 to determine if USAID/Zimbabwe followed A.I.D. policies and procedures in identifying and overcoming internal control weaknesses related to Commodity Import Programs. Specifically, we determined whether (1) USAID/Zimbabwe documented the basis of its results and conclusions on the 1989 and 1990 assessments, (2) weaknesses regarding USAID/Zimbabwe's monitoring of Commodity Import Programs were identified and reported in the 1989 and 1990 assessments, and (3) corrective actions were taken on the identified weaknesses. To make these determinations, we reviewed section 10 of the 1989 and 1990 internal control assessments. We also interviewed responsible USAID/Zimbabwe officials.

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ADM AID

FOR: JOHN BURNS, A/RIG/A/N

E.O. 12356: N/A
SUBJECT: AUDIT OF COMMODITY IMPORT PROGRAM FOLLOW-UP
USAID/ZIMBABWE -- MANAGEMENT COMMENTS

MANAGEMENT RESPONSE TO THE REFERENCED AUDIT IS AS FOLLOWS:

1. USAID APPRECIATES THE EXCELLENT REPORT RECEIVED ON AUDIT. FINDINGS ARE WELL-DOCUMENTED AND ACCURATE AND USAID CONCURS IN RECOMMENDATION THAT AID/W PROVIDE ADEQUATE INFORMATION TO THE MISSION TO ENABLE THEM TO RECONCILE TOTAL DISBURSEMENTS AND ARRIVALS.

2. FOR YOUR INFORMATION, USAID/ZIMBABWE CONTACTED CHEMICAL BANK TO REQUEST INFORMATION ON BANKING CHARGES IN ORDER TO CLARIFY DISCREPANCY BETWEEN MISSION AND AID/W RECORDS. FOLLOWING IS THE RESPONSE RECEIVED:

QUOTE
REGARDING YOUR TELEX OF MARCH 26, 1991 REGARDING COMMITMENT NUMBER 613-T-607, TOTAL AMOUNT REIMBURSED BY AID/W REGARDING BANK CHARGES IS ABOUT USD 116,754.48 STOP IN VIEW OF THE FACT THAT ABOVE COMMITMENT COVERED A HUGE AMOUNT OF LETTER OF CREDIT'S, REGRET WE CANNOT GIVE YOU THIS INFORMATION FOR EACH AND EVERY INDIVIDUAL L/C STOP WE ARE IN THE PROCESS OF IMPLEMENTING A NEW REPORTING SYSTEM WHICH WILL EVENTUALLY ADDRESS YOUR REQUEST AS INDICATED IN YOUR SECOND PARAGRAPH OF YOUR CABLE HOWEVER THIS WILL APPLY FOR FUTURE COMMITMENTS STOP PLEASE EXCEPT MY APOLOGY FOR THE DELAY IN RESPONDING TO YOUR CABLE REQUEST STOP
UNQUOTE

3. OBVIOUSLY, WE STILL DO NOT HAVE THE ANSWER WE NEED TO RECONCILE AID/W AND MISSION RECORDS. WE WILL CONTINUE TO PURSUE THE ISSUE WITH AID/W.

4. THANKS FOR YOUR HELP. PETTERSON

BT
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REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer the audit objectives and not to provide assurance on USAID/Zimbabwe's overall internal control structure.

For the purpose of this report, we have classified significant internal control policies and procedures applicable to the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation -- and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each objective.

General Background on Internal Controls

The Management of A.I.D., including USAID/Zimbabwe, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the

importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers, as delegated, legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget (OMB) has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures, or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

This objective relates to the procedures used by USAID/Zimbabwe to assure themselves that commodities which had been paid for were received. In planning and performing our audit, we considered the requirements of A.I.D. Regulation 1, A.I.D. Handbook 15, Chapter 10, and A.I.D. Handbook 19, Chapter 10, Attachment 10Q. For the purpose of this report, we classified the relevant policies and procedures into two categories--the commodity arrival process and the disbursement process.

We reviewed USAID/Zimbabwe's internal controls relating to these two processes. Our tests showed that control procedures to ensure that commodities paid for and received, were logically designed and consistently applied, except that, for reasons beyond USAID/Zimbabwe's control, commodity arrivals were not reconciled with commodity disbursements. AID/W, which is the official accounting station for USAID/Zimbabwe's Commodity Import Programs did not send USAID/Zimbabwe the necessary information which would allow it to reconcile commodity arrivals with disbursements under ZASA Agreement Number 613-0607. We advised the Inspector General's Office of Programs and System Audits of this issue consideration when programming future work.

Conclusions for Audit Objective Two

This objective relates to procedures used by USAID/Zimbabwe to assure itself that local currency is deposited and programmed for use as required. In planning and performing our audit, we considered the requirements of the Foreign Assistance Act Section 609, USAID/Zimbabwe's Commodity Import Program grant agreements, A.I.D. Handbook 19, Chapter 1, and A.I.D. Policy Determination Paper No. 5. For the purpose of this report, we classified the relevant policies and procedures into three categories--the local currency deposit process, the local currency programming process, and the local currency withdrawal process.

We reviewed USAID/Zimbabwe's internal controls relating to the three processes and our tests showed that control procedures to ensure that local currency is deposited and programmed for use as required were logically designed and consistently applied. Therefore, we limited our tests to ensuring that, for the transactions included in our audit sample, (1) the local currency equivalent of the U.S dollar disbursements for the commodities was deposited into the special accounts, (2) correct exchange rates were used to convert the U.S. dollar disbursements for the commodities into local currency, (3) programmed local currency amounts were supported by approved Project Implementation Letters, and (4) withdrawals were within the approved allocations.

Conclusions for Audit Objective Three

This objective relates to procedures used by USAID/Zimbabwe to identify and overcome internal control weaknesses relating to the Commodity Import Programs. In planning and performing our audit, we considered the requirements of OMB Circular A-123 which implements the Integrity Act. For the purpose of this report, we classified the relevant policies and procedures into two categories--the internal control assessment process and the internal control reporting process.

We reviewed USAID/Zimbabwe's internal controls relating to the two processes and our tests showed that control procedures to identify and overcome internal control weaknesses relating to Commodity Import Programs were logically designed and consistently applied.

Therefore, we limited our tests to a review of section 10 of the 1989 and 1990 Internal control Assessments and the supporting documents for the conclusions reached.

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REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Zimbabwe's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and

- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during, or in connection with, the audit.

We tested USAID/Zimbabwe's compliance with provisions of (1) A.I.D. Regulation 1 Section 201.41, (2) the Foreign Assistance Act Section 609, (3) OMB Circular A-123, and (4) Article 3 Section 3.3 of the grant agreement as they affect our audit objectives. However, our objective was not to provide an opinion on USAID/Zimbabwe's overall compliance with such provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not

followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with the provisions of A.I.D. Regulation 1 Section 201.41, the Foreign Assistance Act Section 609, OMB Circular A-123, and the grant agreements Article 3 Section 3.3 is the overall responsibility of USAID/Zimbabwe management. However, as part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Zimbabwe's compliance with those provisions.

Conclusions on Compliance

The results of our tests of compliance indicated that, with respect to the items tested, USAID/Zimbabwe complied with the requirements of A.I.D. Regulation 1 Section 201.41, the Foreign Assistance Act Section 609, OMB Circular A-123, and the provisions of the grant agreements.

APPENDIX V

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