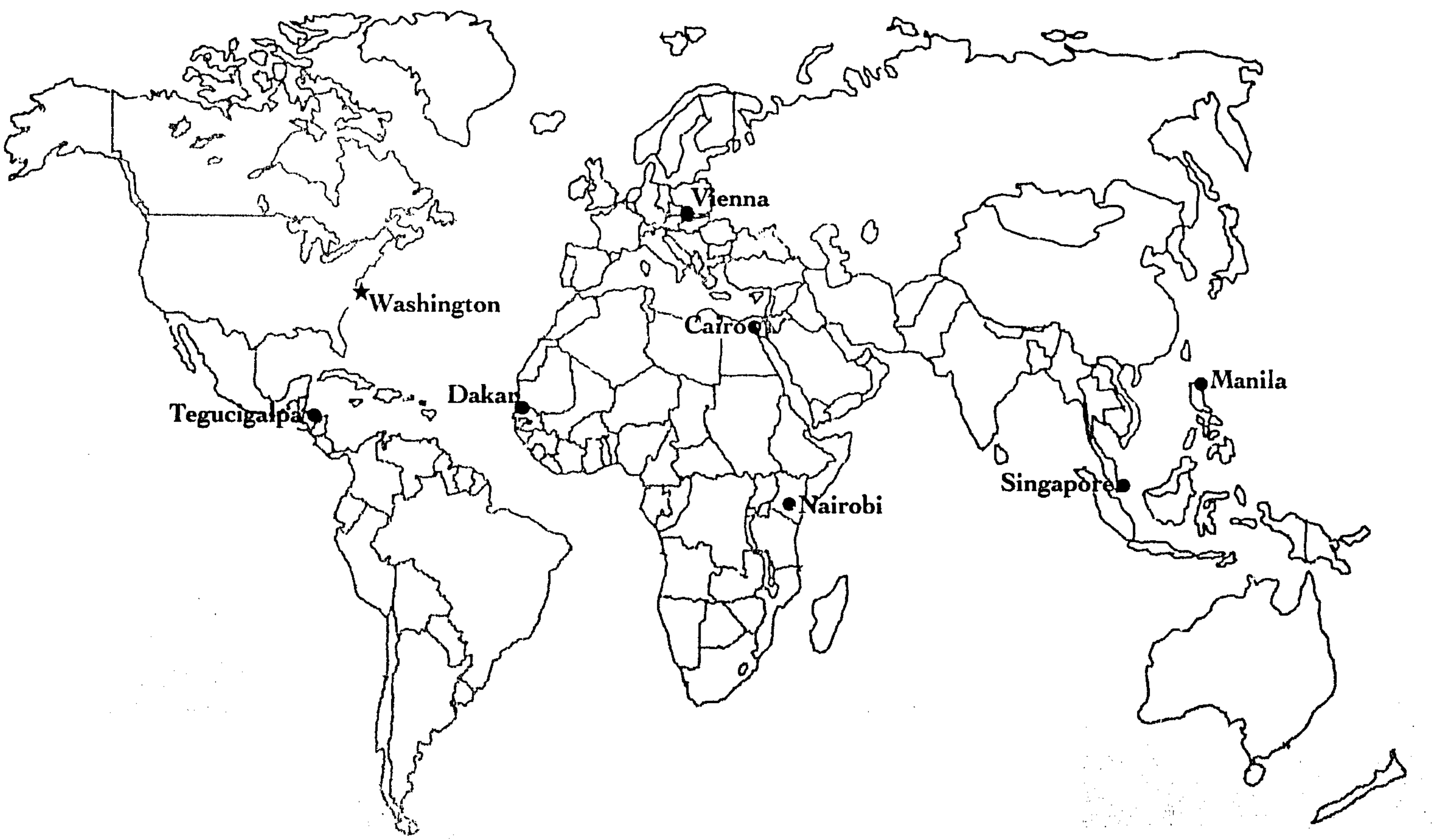
Regional Inspector General for Audit
Nairobi, Kenya

Audit of Food Monetization Program In Mozambique

Report No. 3-656-92-02
November 15, 1991



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Audit of Food Monetization Program In Mozambique

Audit Report No. 3-656-92-02
November 15, 1991

The monetization program was an important component in USAID/Mozambique's overall strategy of supporting economic policy reforms in Mozambique. Also, the Government of the Peoples' Republic of Mozambique was making progress in meeting the measures specified in program agreements. However,

- $2.8 million in local currency was not deposited to the special accounts because of errors in calculating the correct amounts due; and

- program accounting systems need to be formalized to ensure future consistency and to prevent undetected errors.

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

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

November 15, 1991

MEMORANDUM

TO : Julius P. Schlotthauer, Director, USAID/Mozambique

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

SUBJECT: Audit of Food Monetization in Mozambique

Enclosed are five copies of the subject report. We reviewed your comments on the draft report and included them as an appendix to this report. Recommendation No. 1.1 will result in efficiency savings of $2,757,107 (see Appendix III and IV). USAID/Mozambique officials agreed with, and collected, the additional amounts that the Government was required to deposit into the special accounts as identified by the audit. Based on the actions taken on the audit recommendations by USAID/Mozambique, Recommendation Nos. 1.1 and 1.2 are closed.

We appreciate the cooperation and courtesies extended to our staff during the audit.

EXECUTIVE SUMMARY

The U.S. Government provides aid to Mozambique partially through commercial food programs that are financed by P.L. 480 Title II Section 206 and, depending on availability of commodities, Section 416 of the Agricultural Act of 1949. This commercial food program, commonly referred to as monetization, is one component in the USAID/Mozambique's overall strategy of ensuring that all Mozambicans have sufficient food for a healthy and productive life.

The monetization program is specifically designed to provide food aid while at the same time presenting the Government of the Peoples' Republic of Mozambique (GPRM) with an incentive to make policy reforms that will contribute to the goal of increasing domestic food production to levels that meet consumption requirements. The monetization program includes three self-help measures that will assist the GPRM in improving food security, promoting long-term productivity, and improving management of commercial food programs.

Local currencies generated through commercial food sales are used for general budget support instead of individual development projects. For the three fiscal years 1988 through 1990, A.I.D. donated food commodities valued at $150 million. Of these amounts, $48.9 million were monetized (sold commercially).

Our audit of this program, conducted between March 25, 1991 and June 14, 1991, was performed in accordance with generally accepted auditing standards. Appendix I on page 17 contains the scope and methodology for the audit and the audit objectives are presented on page 3. The audit found that:

- USAID/Mozambique took appropriate steps to ensure that the program was making satisfactory progress (page 4);

- USAID/Mozambique had established a system to ensure that monetization proceeds were accounted for and used in accordance with the agreements, but the system was not formalized and was prone to errors. Consequently, the host government did not deposit $2.8 million in local currencies to the special accounts because of calculation errors (page 7).

The report contains recommendations that USAID/Mozambique (1) require the GPRM to deposit $2,757,107 to the special accounts, and (2) formalize its accounting and review procedures for the monetization program (page 8).

A draft report was presented to USAID/Mozambique officials for their review and comment. In their response to the audit report (Appendix II), USAID/Mozambique officials agreed with the audit findings and the recommendations. They stated that they had asked the GPRM to deposit the local currency equivalent of $2,757,107 to the special accounts and that this amount had already been deposited. In addition, USAID/Mozambique also formalized the accounting and review procedures for the monetization program. Consequently, the audit recommendations were closed on the issuance of this report.

Office of the Inspector General

Office of the Inspector General
November 15, 1991

TABLE OF CONTENTS

INTRODUCTION

Background

The U.S. Government provides agricultural commodities to meet famine or extraordinary relief requirements, to combat malnutrition, and to promote economic and community development. Food assistance is often donated under the authority of Title II of the Agricultural Trade and Development Assistance Act (Public Law 480) and the Agricultural Act of 1949. Assistance is generally emergency (free distribution) but commodities can also be used to generate funds through commercial sales (monetization).

P.L. 480 Title II Section 206 and Section 416(b) of the Agricultural Act (simply referred to as Section 416) allows the U.S. Government to enter into agreements with host governments or with private voluntary organizations (PVOs) to generate local currency which is to be used for developmental purposes in the recipient country. The funds generated through this monetization process can also be used to help PVOs meet administrative and distribution costs associated with dispensing food. Under Section 206, Title II commodities are sold through government-to-government agreements while under Section 416 commodities can be sold by either the host government or through PVOs. Section 416 commodities are provided to the recipients only if the U.S. Government has surplus or excess stocks and is not considered as consistent or predictable as the Title II programs.

The programs described above are implemented through a memorandum of agreement between the host government and A.I.D., transfer authorizations for P.L. 480 commodities, and grant agreements in the case of the Section 416 commodities. These documents specify the commodities to be delivered and the self-help measures to be undertaken by the host government.

The Mission is responsible for monitoring the implementation of the Food Monetization Program and taking those actions deemed necessary to ensure that the program operates effectively and efficiently. A major emphasis of A.I.D. policy dealing with food programs is the need for close and continuing attention to program management. A.I.D. Handbook 9 states, "since Title II deals with the utilization of expensive and perishable resources, effective program management and control is essential."

A major emphasis of A.I.D. policy dealing with food programs is the need for close and continuing attention to program management.

In this particular instance, the U.S. Government has entered into agreements to provide Title II and Section 416 commodities to the Government of the People's Republic of Mozambique (GPRM) for both relief and monetization. P.L. 480 Title II and Section 416 commodities authorized for distribution in Mozambique for fiscal years 1988 to 1990 total over $150 million. Of this amount, about $101.1 million was for free distribution, while $48.9 million was monetized as shown by the table below.

Commodities Monetized in Mozambique
(in millions)

	Section 206	Section 416	Total
1988	$ 8.2	$16.2	$24.4
1989	5.1	11.3	16.4
1990	8.1	-	8.1
Total	$21.4	$27.5	$48.9

The GPRM and its parastatal import agent, Importador De Bens De Consumo (IMBEC), were responsible for distribution and sales of all but a very small portion of the food commodities monetized during this period. PVO involvement in food distribution was generally limited to emergency relief efforts, and such food was not monetized (commercially sold).

Audit Objectives

The Office of the Regional Inspector General for Audit/Nairobi conducted an audit of the Mozambique Food Monetization Program. The objectives of this audit were designed to answer the following questions:

1. What was the progress of the program?

2. Did USAID/Mozambique follow A.I.D. procedures in (a) accounting for arrival and sale of food commodities and (b) ensuring that monetization proceeds are used in accordance with program agreements and A.I.D. guidelines?

In answering these objectives, we tested whether USAID/Mozambique followed applicable internal control procedures and complied with the laws, regulations, and agreements that pertain to the audit objectives. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, we did not continue testing when we found that, for items tested, USAID/Mozambique followed A.I.D. procedures and complied with 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:

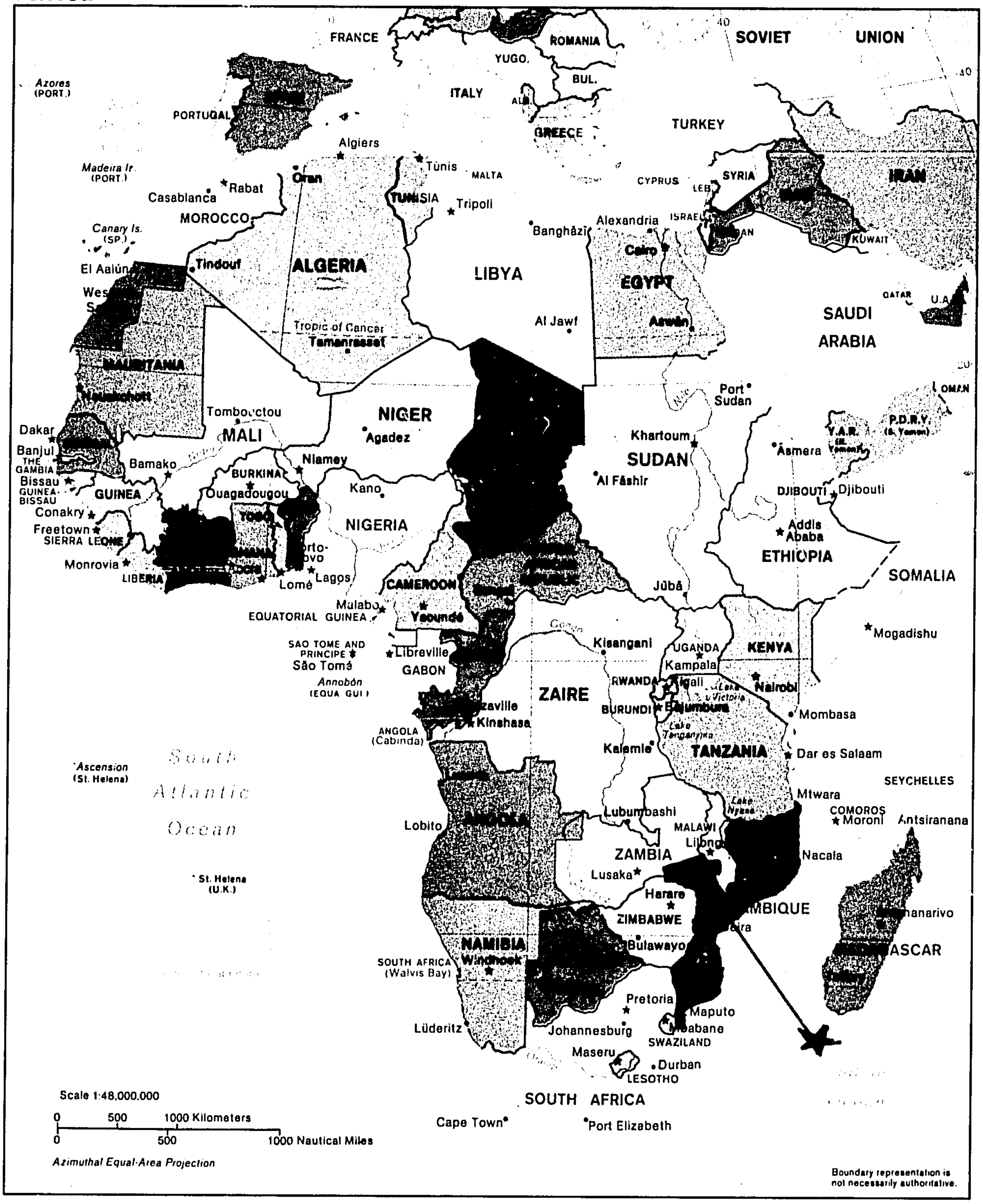
- conclusively determine whether USAID/Mozambique or the GPRM were following procedures or complying with legal requirements,

- identify the cause and effect of the problems, and

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

Appendix I contains a complete discussion of the scope and methodology for this audit.

Africa



801514 (547147) 4-90

3a

REPORT OF AUDIT FINDINGS

What was the progress of the program?

The program was making satisfactory progress toward meeting program goals and objectives. USAID/Mozambique had conducted regular follow-ups with the Government of the Peoples' Republic of Mozambique (GPRM) to ensure that the benchmarks for the self-help measures specified in the transfer authorizations were completed.

When USAID/Mozambique structured its P.L.480 Title II Monetization Program, it determined that the most pressing issues in Mozambique related to the need for economic reforms rather than specific development projects. Based on that determination, USAID/Mozambique established a strategy that linked self-help measures and benchmarks specified in the agreements to overall GPRM policy reforms and allowed the GPRM to use the local currencies generated through the program for general budget support. Local currencies from the USAID program and from similar programs of other donor nations comprised one third of the GPRM budget. Although this approach was somewhat non-traditional it has been useful in moving the GPRM toward reforms that are helping to achieve basic food security. To put these decisions in context, the economic and political situation in Mozambique needs to be clearly understood.

The economy of Mozambique has been in nearly continual decline since its independence in 1975. It now ranks as one of the poorest countries in the world, with an estimated two-thirds of its population living in absolute poverty. Armed insurgency has displaced much of the rural population to urban centers and forced the country to become dependent on food aid for basic subsistence.

The GPRM has begun to institute reforms which USAID/Mozambique believes will help achieve basic food security. The GPRM has been undertaking a comprehensive, multi-year Economic Rehabilitation Program (PRE) with support from many donors. The U.S. food aid was intended to help facilitate the PRE policy adjustments over several years. The policy measures the GPRM intended to implement in conjunction with the food supplies which the United States made available to support the PRE were presented as self-help measures. The self-help measures were developed in order to increase incentives for domestic food production and target food subsidies more effectively than would be possible with short term programs. For each self-help measure, general targets or objectives were specified, and implementation benchmarks were established under each annual agreement. The benchmarks would be used to measure achievements. The self-help measures were divided into three groups.

- Self-help Measure 1 -- Improving food security of the vulnerable groups. The long-term targets and objectives for this measure included the maintenance, expansion and improvement of the GPRM's program of household surveys and nutritional impact studies to provide relevant time series data on the impact of macroeconomic policies and targeted subsidy programs on the general population. The GPRM was expected to put into operation simpler and more effective methods of delivering basic foods to low income consumers to shield the vulnerable groups from hunger during the PRE transitional period.

- Self-help Measure 2 -- Developing the potential for long term increases in agricultural productivity and strengthening competitive markets. The long term objective under this measure was for the GPRM to adopt pricing and marketing policies for domestic maize, domestically produced beans, and rice that result in increased domestic production approaching self-sufficiency as soon as possible.

- Self-help Measure 3 -- Improving public sector management of the food assistance program. Under this measure the GPRM was to put in place a comprehensive system for monitoring and accounting for monetized food aid provided by the United States Government so that costs of each operation are well defined, efficiency is improved, and counter value funds are regularly and promptly deposited in the special accounts.

Progress made in achieving these self-help measures is shown by review of achievements made in meeting the agreement benchmarks. For example, under one agreement signed in fiscal year 1988, the GPRM was required to submit a scope of work to USAID/Mozambique for conducting a study of the pricing and allocation of basic food commodities. The scope was provided by the GPRM after follow-up by USAID/Mozambique. This scope of work was the basis for a follow-on household economic/nutritional impact survey done in 1989.

As another example, the agreement signed in fiscal year 1989 required the GPRM to announce by September 30, 1989, the producer prices of maize and provide a general description of how macroeconomic variables and other parameters would be used to determine the level of ration system prices for the following year. The GPRM announced the producer prices for maize before September 30, 1989 as called for in the agreements. Review of other benchmarks under self-help measure 1 showed that the GPRM had made progress in achieving the specified benchmarks.

As called for under self-help measure 2, pricing is being liberalized and subsidies removed to encourage local production. Almost all agricultural commodities have been heavily subsidized by the GPRM and most commodity prices have been fixed. This has provided disincentives to local production. Without local production, the country will always be dependent on donor aid and will not be able to sustain economic growth. The self-help measures have been a key factor in getting the GPRM to make reforms in removing subsidies and liberalizing prices.

One final example, although not related directly to self-help measures, does show the extent of USAID/Mozambique's oversight of the program. The parastatal organization Importador De Bens De Consumo (IMBEC) has been put on notice that GPRM will no longer use it as their import agent because of poor internal controls and cash management practices. This is a particularly important issue since the local currency generations from the monetization program are significantly affected by IMBEC operations. The controls over accounts receivables were so poor that in 1989 IMBEC was able to collect only about 13 percent of the funds from sales of the Title II commodities that were to be deposited to the special accounts, forcing the Government to make additional deposits. Pressure from USAID/Mozambique to make timely deposits forced the GPRM to remove IMBEC from the import/distribution operations because the GPRM could not generate the cash to make the deposits without better controls. The Ministry of Finance has required that commercial sales be controlled by consignees other than IMBEC. In addition, the Ministry of Finance required IMBEC to improve its accounting systems or be liquidated.

We believe that many of these reforms are directly attributable to the self-help measures specified in the agreements and the persistence of USAID/Mozambique in getting the GPRM to complete those measures. Based on the progress made in achieving the program benchmarks we have concluded that the program has made progress towards meeting its objectives.

Did USAID/Mozambique follow A.I.D. procedures in (a) accounting for arrival and sale of food commodities and (b) ensuring that monetization proceeds are used in accordance with program agreements and A.I.D. guidelines?

In our opinion, USAID/Mozambique followed A.I.D. procedures in accounting for arrival and sale of food commodities shipped from the U.S., and ensuring that monetization proceeds were used in accordance with program agreements and A.I.D. guidelines. However, USAID/Mozambique had not established procedures to ensure that adequate reviews were conducted so that any errors would be detected and corrected.

USAID/Mozambique officials had determined that the GPRM did not have internal controls that could be relied on to account for the food aid. As a result, USAID/Mozambique was performing the task of accounting for the food commodities and local currencies to be deposited to the special accounts. To accomplish this task, USAID/Mozambique established procedures to ensure that food commodities shipped were accounted for and that monetization proceeds were used in accordance with the agreements. The Food For Peace Office (FFPO) prepared schedules showing (a) quantities of food shipped from the U.S., (b) quantities delivered, (c) the Free Alongside Ship (FAS) value of quantities delivered, (d) the exchange rates ruling at time of ship berthing, and (e) the amounts due from the government in local currency.

Further, USAID/Mozambique (a) kept copies of bills of lading of commodities shipped, (b) kept details of shippers and the ports to which the food was destined, (c) facilitated surveys at the ports of entry to record the nature and quantities of food commodities delivered, and (d) through implementation letters, advised the government of the areas in which the generated local currencies would be used. USAID/Mozambique did not establish procedures for follow-up of losses because: (i) the United States Department of Agriculture, through the Commodity Credit Corporation (CCC), would be responsible for losses by the shippers (shipping contracts were awarded by CCC), and (ii) the GPRM was required to deposit the necessary local currency into the special accounts based on the delivered quantities per the surveyors' reports. Therefore, USAID/Mozambique did not need to account for any losses.

However, as discussed below, USAID/Mozambique had not established procedures to ensure that local currency deposit errors would be detected and corrected.

USAID/Mozambique Could Strengthen Its System of Ensuring Correct Amounts Are Deposited to the Special Accounts

Transfer authorizations and donation agreements for fiscal years 1988 through 1990 required that the amount of local currency deposited to the special accounts be at least equal to the United States Department of Agriculture FAS value of commodities provided under the agreements. Furthermore, A.I.D. internal control standards require that key duties and responsibilities be separated between individuals. However, the amount of local currency that should have been deposited to the special accounts by the GPRM was not calculated in accordance with the agreements and A.I.D. program guidance. This occurred because USAID/Mozambique officials had not adequately reviewed their own accounting documents prepared for the arrival of commodities and the calculation of required local currency deposits and thus did not detect the calculation errors. As a result, neither A.I.D. nor the host government was aware that local currency deposits to the special accounts were short by 2.1 billion meticais (U.S. $2.8 million).

Recommendation No.1: We recommend that the Director,USAID/Mozambique:

1.1 require the Government of Mozambique to deposit $2,757,107 (about 2.1 billion meticais) into the special accounts as per P.L. 480 and Section 416 agreements; and

1.2 formalize the accounting and review procedures for the Food Monetization Program.

As discussed in the sections that follow, USAID/Mozambique had assumed responsibility for most of the work relating to accounting and control of the P.L.480 Title II commodities and local currency generated from commercial sales. However, essential internal control procedures were not followed by USAID/Mozambique which resulted in problems with the calculation of local currencies owed the special accounts.

USAID/Mozambique Was Performing the Accounting for the Monetization Program

USAID/Mozambique officials had determined that the GPRM did not have internal controls that could be relied on to account for the food aid. As a result, USAID/Mozambique was performing the task of accounting for the food commodities and local currencies to be deposited to the special accounts. This was entirely appropriate since A.I.D Handbook 9 requires the Mission to monitor the program to ensure that it is operating satisfactorily. A.I.D. policy emphasizes the need for close and continuing attention to program management and control.

To accomplish this task, USAID/Mozambique established procedures to ensure commodities shipped were accounted for, and that monetization proceeds were used in accordance with the agreements. For example, it (a) kept copies of bills of lading of commodities shipped, (b) kept details of shippers and the ports to which the food was destined, (c) facilitated surveys at the ports of entry to record the nature and quantities of food commodities delivered, (d) prepared accounts of amounts owed the special accounts, and (e) through implementation letters advised the government of the areas in which the generated local currencies would be used. However, as discussed below, USAID/Mozambique had not established procedures to ensure that adequate reviews were conducted so that any errors would be detected and corrected.

Essential Internal Control
Procedures Were Not Followed

A.I.D. Handbook 19 Appendix 1D specifies internal control standards which require that key duties and responsibilities in authorizing, recording, and reviewing transactions be separated among individuals. The internal control system should include, among other elements, clearly-defined individual responsibility and accountability. The accounting procedures in effect during the audit period did not provide for review of documents that were used to account for food aid and calculate local currency generations.

USAID/Mozambique's Food For Peace Office (FFPO) prepared schedules showing (a) quantities of food shipped from the U.S., (b) quantities delivered, (c) the FAS value of quantities delivered, (d) the exchange rates in existence at the time of ship berthing, and (e) the amounts due from the government in local currency. The FFPO also retained all the source documents. These schedules were prepared by one individual at the FFPO. There was no evidence that the schedules were reviewed for accuracy by an independent person at the FFPO.

After the schedules were prepared at the FFPO, they were then sent to the controller's office. At the controller's office debit advices were prepared that showed total amount due from the government in local currency. The information included in the debit advices was copied from the schedules prepared by the FFPO . No review was done to ensure whether the schedules were correct. The presumption was that the schedules from the FFPO had been reviewed for errors before being sent to the controller's office. Consequently, any errors made at the FFPO would not be identified at the controller level. Furthermore, the source documents were not sent to the controller's office to facilitate review. While that practice has been corrected, the procedures are not formal and could be neglected in the event of staff changes.

As a result of the problems with review procedures, errors in the computation of amounts due from the government went undetected until this audit.

Amounts Due to the Special Local Currency
<u>Accounts Were Not Calculated Correctly</u>

Transfer authorizations and donation agreements for fiscal years 1988 through 1990 required that the amount of local currency deposited to the special accounts be at least equal to the United States Department of Agriculture Free Alongside Ship (FAS) value of commodities provided under the agreements. However, the FFPO used incorrect values and/or quantities in calculating local currency due to the special accounts in 47 percent of calculations done. The audit found that, in 24 of 51 shipments of food delivered during fiscal years 1988 through 1990, USAID/Mozambique used: (i) ocean freight charges instead of FAS value to calculate amounts due, (ii) the bill of lading quantities instead of the actual quantities delivered per the surveyors' reports, and (iii) quantities that were not supported by available documents.

The audit found that ... during fiscal years 1988 through 1990, USAID/Mozambique used ocean freight charges instead of FAS value to calculate amounts due...

The agreements also required conversion of the dollars to the local currency at the highest legal rate of exchange in effect on the date of berthing of each ship. However, in 9 of 15 shipments of food delivered for the fiscal year 1990, USAID/Mozambique calculated the amounts due to the special accounts based on the lower of two legal rates in existence at the time of berthing of each ship. As of the time of audit, errors in the use of the lower rate had not been corrected even though the FFPO agreed that the higher of the two should have been used.

For fiscal years 1988 through 1990 USAID/Mozambique understated the amounts due from the government by $2,590,440 (about 2 billion meticais) due to calculation errors. In addition, incorrect exchange rates were used resulting in an understatement of amounts due to the special accounts by about $166,667 (about 158 million meticais). The total amount of understatement due to calculation errors and use of wrong exchange rates was $2,757,107 (over 2.1 billion meticais). Appendix III and IV contain details of these amounts.

USAID/Mozambique should request the government to deposit the additional amounts identified by the audit. In addition, it should formalize its accounting and review procedures through a Mission order. This would delineate responsibility in authorizing, processing, recording and reviewing of transactions. Implementation of these procedures would reduce the opportunities to make and conceal errors and would reduce situations that permit errors to go undetected.

Management Comments and Our Evaluation

In their response to the draft report, USAID/Mozambique officials stated that they concurred with the report findings and the audit recommendations.

In their response to audit recommendation No. 1.1, USAID/Mozambique officials stated that "the Mission concurs in the dollar amount of $2,757,107 ... included in Recommendation Number 1.1 of the report". In a letter dated June 14, 1991, USAID/Mozambique summarized all the overdue amounts to the special accounts and requested the Government of Mozambique to deposit the amounts to the special accounts. The letter included the amounts identified by the audit. On September 18, 1991 the government advised USAID/Mozambique that the overdue amounts had been deposited to the special accounts. USAID/Mozambique sent the auditors deposit slips as evidence that the funds were deposited into the special accounts. Therefore, in view of the actions taken, Recommendation No. 1.1 is considered closed on the issuance of this report.

In response to Recommendation No. 1.2, USAID/Mozambique issued a memorandum to clarify and document procedures for notifying the Government of Mozambique of local currency counterpart funds deposits required under the terms of the agreements. The memorandum formalized the accounting and review procedures for the monetization program. In light of the action taken, we have closed Recommendation No. 1.2 on the issuance of this report.

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 have audited the Food Monetization Program in Mozambique for the period fiscal year 1988 through fiscal year 1990. A report on the audit was issued on November 15, 1991.

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

- assess the applicable internal controls when necessary to answer the audit objectives and

- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We considered A.I.D.'s internal control structure in order to determine what audit procedures would be necessary to reliably answer the audit objectives. We did not consider the internal control structure for the purpose of expressing an opinion on the auditee's overall internal controls.

For purposes of this report, we have classified the applicable internal controls into the following categories:

- the program planning process

- the program monitoring process

- the program evaluation process

- the commodity arrival accounting process

- the local currency accounting process

For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation. We also assessed the risk that the controls might not prevent the occurrence of errors or irregularities or might not ensure the timely detection of errors and irregularities.

General Background on Internal Controls

The management of A.I.D. is responsible for establishing and maintaining adequate internal controls. Management is required to assess the expected benefits versus the cost of internal control policies and procedures. The objective of internal control policies and procedures is to provide management with reasonable -- but not absolute -- assurance that resource use is consistent with applicable laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that 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, it is difficult to project whether an internal control system will work effectively in the future because (1) changes in conditions may require changes in internal control policies and procedures or (2) compliance with internal control policies and procedures may deteriorate.

In performing this work, we found certain problems that we consider reportable under the standards established by the Comptroller General of the United States. Reportable conditions are those which, in our judgement, could adversely affect A.I.D.'s ability to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and disclosed in reports.

Conclusions for Audit Objective One

Audit objective one sought to establish the progress of the program.

We reviewed USAID/Mozambique's internal controls relating to the program planning process, the program monitoring process and the program evaluation process. Our tests showed us that the Mission controls were designed to ensure that (a) program self-help measures were identified (b) program progress in achieving the self-help measures were monitored, and (c) periodic evaluations of the program were done. We found no reportable conditions for audit objective one.

Conclusions for Audit Objective Two

Audit objective two sought to establish whether USAID/Mozambique followed A.I.D. procedures in accounting for arrival and sale of food commodities and whether monetization proceeds are used in accordance with program agreements and A.I.D. guidelines.

We reviewed USAID/Mozambique's internal controls relating to the program planning process, program monitoring process, commodity arrival accounting process, and local currency accounting process. Our tests showed that the Mission's controls were logically designed to ensure that (a) food commodities were properly planned, (b) food commodities were properly monitored at the arrival points, (c) food commodities were accounted for in a timely manner and (d) deposits made to the special accounts were used in an efficient and timely manner. However, we found the following reportable condition:

- USAID/Mozambique did not have, during the period of this review, procedures to review calculations of local currency generations that were to be deposited to the special accounts. The lack of review procedures caused calculation errors to go undetected resulting in under deposits by the GPRM of $2.8 million.

As part of our consideration of internal controls, we reviewed the December 3, 1990 Annual Internal Control Certification and the March 21, 1991 general assessment conducted by USAID/Mozambique pursuant to the requirements of Office of Management and Budget Circular A-123. The certification and general assessment did not note the condition discussed above. It should be noted, however, that USAID/Mozambique corrected this weakness by implementing review procedures for commodities received subsequent to the audit period.

Our consideration of internal controls would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all weaknesses as defined above. Though the reportable condition concerning the review procedures for calculation of local currency generations is a material weakness, it does not need to be reported in A.I.D.'s next Annual Internal Control Certification since the problem has been corrected.

REPORT ON COMPLIANCE

This section summarizes our conclusions on the auditee's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We have audited the Food Monetization Program in Mozambique for the period fiscal year 1988 through fiscal year 1990. A report on the audit was issued on November 15, 1991.

The audit was conducted in accordance with generally accepted government auditing standards which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to answer 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 the audit.

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 laws, regulations, contracts, and grants is the responsibility of A.I.D. management. To answer our audit objectives, we performed tests of A.I.D.'s and the GPRM's compliance with certain provisions of regulations and contracts. However, our objective was not to express an opinion on overall compliance with these provisions.

The compliance tests covered: Public Law 480 Title II, Section 206; Section 416(b) of the Agricultural Act of 1949; Program and Transfer Agreements for Fiscal Years 1988 through 1990; and Implementation Letters 1 through 11.

Conclusions on Compliance

The results of our tests of compliance disclosed the following instances of noncompliance:

- Audit Objective Two: USAID/Mozambique in some cases (see Appendix III) did not calculate the amounts to be deposited in the special accounts using the Free Alongside Ship (FAS) value of the commodity as required by the program agreements. In addition, USAID/Mozambique converted dollars to local currency using the lower of two legal rates in existence at the time of berthing of each ship (see Appendix IV) contrary to the agreements.

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Mozambique and the Government of the People's Republic of Mozambique (GPRM) complied in all significant respects with the laws, regulations and agreements applicable to the program. With respect to the items not tested, nothing came to our attention that caused us to believe that USAID/Mozambique and the GPRM had not complied in all significant respects with those provisions.

SCOPE AND METHODOLOGY

Scope

This performance audit of USAID/Mozambique's Food Monetization Program was made in accordance with generally accepted government auditing standards. We conducted the audit from March 25 through June 14, 1991, and reviewed the systems and procedures relating to food commodities financed by A.I.D. and sold commercially by the Government of the People's Republic of Mozambique (GPRM) for the three fiscal years 1988, 1989, and 1990. The audit covered $48.9 million of commodities that were offered for monetization in Mozambique for the three fiscal years. We did not review the systems and procedures that relate to food commodities that were intended for emergency relief (free) distribution.

Our field work was done in those offices of USAID/Mozambique and the GPRM which were located in the capital city of Maputo. The scope of our audit did not include visits to parastatal organizations or milling operations. This was in part due to travel restrictions imposed by the U.S. Embassy for security reasons and also because the structure of the monetization program in Mozambique made these visits unnecessary to accomplish the audit objectives. We did not review commercial sales by private voluntary organizations (PVOs) because the amount of commodities monetized was only about one half of one percent of the total program in Mozambique.

As part of this audit, we examined the internal controls and considered prior audit findings related to this area.

Methodology

To achieve the audit objectives discussed in the Introduction section of this report, we employed the methodologies described below:

- Audit Objective One

For the first objective, we held discussions with key USAID/Mozambique and GPRM officials and reviewed program proposals, program plans, implementation letters, evaluation reports, reports to Congress, and documents from the GPRM. The data gathered through these discussions and reviews were analyzed to assess program progress as well as USAID/Mozambique's systems for measuring that progress and ensuring GPRM adherence to the terms and conditions of the agreements. The evidence reviewed to determine program progress was mainly found in GPRM and USAID/Mozambique documents. The evidence was considered reliable because the self-help measures relate mainly to policy changes whose progress could reliably be measured only on review of progress made in meeting the self-help benchmarks. The evaluations made on the program provided collaborative evidence for determining the progress made in achieving the self-help measures.

- Audit Objective Two

For the second objective, we also held discussions with key A.I.D. and GPRM officials and made a 100 percent review of the shipping, survey, and accounting documents associated with the commodities used in the monetization program for fiscal years 1988 through 1990. Our analyses were designed to verify that (1) the quantities of commodities shipped to the GPRM and sold commercially were accounted for, and (2) deposits to the special accounts were made in the amounts and at the times specified in the agreements. Because the local currency funds generated by the monetization program were used by the GPRM for general budget support, our review and analysis of the use of the funds included only verification that the funds were budgeted and disbursed in accordance with the agreements. We did not trace the end use of the local currency funds.

September 24, 1991

To: Mr. J. Farinella, Acting RIG/A/N

From: Julius Schlotthauer, Mission Director

Julius P. Schlotthauer

Subject: Draft Audit Report of Food Monetization Program in Mozambique

The Mission has completed a review of the subject draft audit report and concurs in the report findings.

Specifically, the Mission concurs in the dollar amount of $2,757,107 (approximately 2.7 billion meticais) included in Recommendation Number 1.1 of the report. Based on our discussions with your staff, the Mission sent a letter to the Ministry of Finance, dated June 14, 1991, summarizing all the overdue amounts to the special accounts and requesting the Government to deposit the amounts to the special accounts. This letter included the 2.7 billion meticais identified by the audit. On September 11, 1991, the Mission sent a follow-up letter to the Government requesting these funds be deposited NLT September 15, 1991. On September 18, 1991 we were advised that 5.3 billion meticais were deposited to the special account by the Government. Copies of our letters and the deposit slip received from the Bank of Mozambique in evidence of the deposit are enclosed for your file.

Accordingly, I request Recommendation Number 1.1 be closed upon issuance of the final report.

As noted in the draft report, the Mission has already taken the action required under Recommendation Number 1.2 and accordingly you have agreed to close this recommendation upon issuance of the final report.

I wish to thank you and your staff for their constructive approach during the audit. We especially appreciated the opportunity to discuss the report findings in detail, with your staff, following completion of the audit work. The result is a very constructive report and I am confident that implementation of the report recommendations, has further strengthened our administration of the Food Monetization Program.

MEMORANDUM

DATE: JULY 2, 1991

TO: Controller's Office (CONT)
Food for Peace Office (FFPO)
Commodity Management Office (CMO)

FROM: Mario Rocha MR
Controller

SUBJECT: Procedures for Processing Debit Advices Under the Monetized Food Programs (PL480) and Commodity Import Programs (CIP).

The purpose of this memorandum is to clarify and document procedures for issuance of debit advices. A debit advice, as used here, is the mechanism that USAID/Mozambique uses to notify the Government of the Republic of Mozambique (GRM) of local currency counterpart fund deposits required to be made under the terms of our PL480 and CIP agreements.

1. The FFPO is responsible for preparation of the PL480 counterpart debit advices and the CMO is responsible for preparation of the CIP debit advices.

2. The debit advices will be prepared based on the terms of the related grant and our Memorandum of Agreement with the GRM dated October 18, 1988, as amended. The debit advice is to contain all the pertinent data for calculation of the counterpart deposit due. The format of the debit advice is based on mutual agreement between CONT and FFPO or CMO.

3. Attached to the prepared debit advice will be supporting documentation to be used for the review and clearance process.

7/2/91 Memo

Page 2

4. A copy of the prepared debit advice will be made to note debit advice preparer's and reviewers' clearances. The respective FFPO or CMO USDH supervisor will clear on the respective debit advice and is responsible for its accuracy.

5. The prepared and reviewed debit advice, with supporting documentation, will be forwarded to CONT for an accountant's review and clearance prior to signature by the Controller.

6. Amendments to debit advices will also follow the above procedures.

7. Debit advices signed by the Controller will be entered into the CONT-maintained local currency monitoring system for follow-up of collection from the GRM.

8. Credit advices will be issued in accordance with the same procedures to allow reductions in the deposits due to offsets and corrections resulting from ocean freight losses or other credits as approved by USAID.

INSUFFICIENT LOCAL CURRENCY DEPOSITS[1] DUE TO INCORRECT COMMODITY VALUES

Vessel	Debit Advice No.	Deposit Calculated By Mission	Deposit Calculated By Audit	$ Difference	Meticais Difference
Fiscal year 1988					
Lake Tahoe	88/01	$1,481,541	$1,513,838	$ 32,297	20,424,629
Lake Tahoe	88/02-07	3,454,241	3,460,929	6,688	4,229,510
Johnny S.	88/11-12	496,375	465,600	(30,775)	(18,187,753)
Johnny S.	88/13	447,310	478,674	31,364	18,535,663
Prince Shaul	88/16	1,501,471	1,502,740	1,269	749,908
D. Oldendorf	88/17	196,783	470,231	273,448	161,771,908
Letitia Lykes	88/20	453,027	831,531	378,504	239,366,334
G. Mizushima	88/21	1,354,793	1,359,664	4,871	3,080,452
Star of Texas	88/26	3,118,893	3,437,181	318,288	201,285,293
Total fiscal year 1988		12,504,434	13,520,388	1,015,954	631,255,944
Fiscal year 1989					
Lake Ontario	89/02	2,064,772	2,201,181	136,409	111,309,116
Lash Atlantic	89/03	1,873,294	1,923,633	50,339	41,076,551
P. Express	89/07	1,156,055	1,157,528	1,473	1,202,143
Sue Lykes	89/08	419,316	795,227	375,911	311,728,321
Sue Lykes	89/10	245,016	464,674	219,658	182,153,858
Sue Lykes	89/11	585,393	1,110,202	524,809	435,202,705
James Lykes	89/12	794,322	1,052,019	257,697	213,698,448
Total fiscal year 1989		7,138,168	8,704,464	1,566,296	1,296,371,142
Fiscal year 1990					
Lori J.	90/01	1,833,532	1,848,448	14,916	14,270,729
Lori J.	90/09	1,310,803	1,304,077	(6,726)	(6,435,031)
Total fiscal year 1990		3,144,335	3,152,525	8,190	7,835,698
Grand Total		22,786,937	25,377,377	2,590,440	1,935,462,784

[1] Actual exchange rates at times of transactions used throughout the analyses.

INSUFFICIENT LOCAL CURRENCY DEPOSITS DUE TO INCORRECT EXCHANGE RATES

Vessel	Debit Advice No.	FAS Value	Rate Used	Meticais Deposited	Correct Rate[1]	Corrected Deposit	Additional Meticais Due	Additional $ Due
Lori J.	90/001	$1,848,448	937.9801	1,719,816,651	956.7397	1,768,483,595	48,666,944	$50,868
Sue Lykes	90/002	$1,123,255	944.1533	1,060,524,632	963.0364	1,081,735,163	21,210,531	$22,025
Marjorie Lykes	90/003	$107,030	930.2441	99,564,203	948.849	101,555,489	1,991,286	$2,099
Jean Lykes	90/004	$526,702	912.6388	480,688,818	930.8916	490,302,607	9,613,789	$10,328
Jean Lykes	90/005	$794,251	912.6388	724,864,590	930.8916	739,361,901	14,497,311	$15,574
Nancy Lykes	90/006	$978,193	914.7137	894,766,328	933.008	912,661,680	17,895,352	$19,180
Jean Lykes	90/007	$359,392	933.3876	335,452,055	952.0553	342,161,077	6,709,022	$7,047
Saronikos	90/008	$1,049,035	912.199	956,928,797	930.443	976,067,393	19,138,597	$20,569
Lori J.	90/009	$1,304,077	937.9801	1,229,506,885	956.7397	1,247,662,707	18,155,822	$18,977
Stella Lykes	90/010	$620,150	937.9044	581,640,992	937.9044	581,640,992	0	$0
Stella Lykes	90/011	$399,499	937.9044	374,692,057	937.9044	374,692,057	0	$0
Altana	90/012	$621,951	1033.518	642,797,708	1033.518	642,797,708	0	$0
Sue Lykes	90/014	$415,819	1046.576	435,186,594	1046.576	435,186,594	0	$0
Stella Lykes	90/016	$1,573,119	1046.576	1,646,388,779	1046.576	1,646,388,779	0	$0
Omi Sacramento	90/017	$588,407	1092.14	642,622,782	1092.14	642,622,782	0	$0
Totals		$12,309,328		11,825,441,871		11,983,320,524	157,878,654	$166,667

[1] Actual Exchange rates at times of transactions used throughout the analyses.

APPENDIX V

REPORT DISTRIBUTION

American Ambassador to Mozambique	1
Mission Director, USAID/Mozambique	5
AA/AFR	1
AFR/SA/SMAN	1
AFR/CONT	1
AA/XA	2
XA/PR	1
AA/LEG	1
GC	1
AA/FA	2
PFM/FM/FS	2
SAA/S&T	1
PPC/CDIE	3
MS/MO	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM	12
AIG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/S	1
RIG/A/T	1
RAO/M	1