

Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
The Regional Rail Systems Support  
Mozambique Component  
Project No. 690-0247

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Report No. 3-656-92-05  
February 28, 1992



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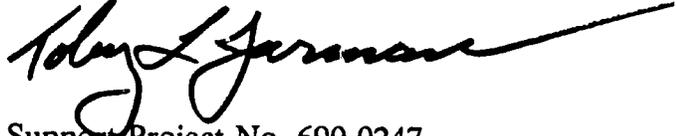
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February 28, 1992

**MEMORANDUM**

**TO** : Julius P. Schlotthauer, Director, USAID/Mozambique  
**FROM** : Toby L. Jarman, RIG/A/Nairobi   
**SUBJECT:** Audit of the Regional Rail Systems Support Project No. 690-0247

Enclosed are five copies of our audit report on the Regional Rail Systems Support Project, Report No. 3-656-92-05.

We reviewed your comments on the draft report and summarized them at the end of the report as a complete section by itself and included the entire text as an appendix to this report. Based on the actions taken by the Mission, Recommendations Nos. 1.2, 1.3, 2.1 and 2.2 are closed upon issuance of this report. Recommendations Nos. 1.1, 2.3, 2.4, 3.1 and 3.2 are resolved but not closed. These recommendations will be closed when agreed to actions are completed. Recommendation No. 3.3 is unresolved pending concurrence from the Mission on the dollar amount cited in the report. Please respond to this report within 30 days and provide the information cited on pages 21 through 24 of this report as a basis for closing Recommendations 1.1, 2.3, 2.4, 3.1 and 3.2 and for resolving Recommendation No. 3.3.

Recommendation No. 1.1 will result in a recovery of \$61,246 if the costs are determined to be unsupported. Recommendation No. 1.3 has resulted in efficiency savings of \$75,320 which includes \$36,094 identified in the report. USAID/Mozambique has concurred with these amounts in the response to the draft report.

I appreciate the cooperation and courtesy extended to my staff during the audit. Also, I appreciate the timely manner in which the Mission has implemented the recommendations contained in this report. I believe the response reflects the Mission's positive attitude towards strengthening systems, policies, and procedures.

Attachments: a/s

## EXECUTIVE SUMMARY

The Regional Rail Systems Support (RRSS) Project began on August 23, 1988 and is scheduled to end on December 31, 1994. The purpose of the project was to strengthen and expand the carrying capacity and operational efficiency of the railway systems within the Southern African countries of Mozambique, Swaziland, and Malawi. The overall goal of the project was to support the development of a stronger economic foundation for growth in Southern Africa (see page 1).

Under the Mozambique component, which was the subject of this audit, A.I.D. funds were provided to improve the carrying capacity and operational efficiency of the Mozambique Railways (CFM), focusing primarily on its two largest rail lines in the central and southern regions of the country (see page 1).

To achieve these objectives, A.I.D. authorized approximately \$55.5 million in life-of-project funding for the Mozambique component, of which about \$8.2 million had been expended as of May 31, 1991, from Development Assistance Program appropriations. The Government of the Republic of Mozambique agreed to provide resources equivalent to \$3 million (see page 1).

Between June 24 and September 12, 1991, we audited the project in accordance with generally accepted government auditing standards (see page 2 for audit objectives and Appendix I for audit scope and methodology) and found that USAID/Mozambique:

- followed A.I.D. policies and procedures in monitoring and reporting project expenditures - however, the audit identified (1) several vouchers totalling \$61,246 that were not adequately supported or properly reviewed by Project and Controller Office personnel and (2) \$36,094 in project funds that should have been decommitted (see pages 5 and 7);
- followed A.I.D. procedures in ensuring that only eligible commodities were obtained (see page 8);

- did not ensure that shipments of project goods were properly tracked to their point of delivery - as a result, several shipments consisting of spares and tools valued at \$60,985 were missing and possibly stolen (see page 9);
- did not ensure that shipments of project goods were being cleared from the ports in a timely manner - at two ports, goods worth \$1.9 million waited for clearance for periods ranging from 60 to 240 days (see page 9);
- needed to improve its procedures for monitoring the storage of project commodities to ensure that goods were properly accounted for and adequately safeguarded - at one storage facility, an estimated \$213,650 worth of stock items, some financed by A.I.D., were unaccounted for and possibly stolen (see page 12); and
- did not identify \$97,355 in excess goods that were mistakenly procured far in excess of the quantity originally desired (see page 13).

The report contains three recommendations for the Director, USAID/Mozambique to improve the Mission's management and oversight of the project. The report also presents our assessment of internal controls (see page 16) and includes a summary of our conclusions on the Mission's compliance with applicable laws, regulations and agreements (see page 19).

The Mission reviewed the draft audit report and agreed with the findings and recommendations. USAID/Mozambique has taken actions to close or resolve all but one recommendation in this report. These actions include (1) requesting a supplier to provide documentation to support its claim for freight and insurance in the amount of \$70,317, which includes \$61,246 questioned by the auditors (if appropriate documentation is not received, the Mission stated it would request a refund from the supplier); (2) de-committing \$75,320 from expired Letters of Commitment which included \$36,094 identified by the auditors; and (3) implementing actions so that commodity shipments are cleared from the ports and delivered to the storage facilities within 45 days after arrival.

Management comments, which can be found in their entirety as Appendix II, were considered in preparing the final report.

*Office of the Inspector General*

Office of the Inspector General  
February 28, 1992

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# INTRODUCTION

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## Background

Started in 1988, the Regional Rail Systems Support (RRSS) Project has provided assistance, funded under the Southern Africa Regional Program, to strengthen and expand the carrying capacity and operational efficiency of the railway systems within the southern African countries of Mozambique, Swaziland, and Malawi. The overall goal of the project is to support the development of a stronger economic foundation for growth in Southern Africa.

The project consists of three country-specific components in Mozambique, Swaziland, and Malawi. Under the Mozambique component, which was the subject of this audit, A.I.D. funds were provided to improve the carrying capacity and operational efficiency of the Mozambique Railways (CFM), focusing primarily on its two largest rail lines in the central and southern regions of the country.

The Mozambique project component was initiated on August 23, 1988 and is expected to be completed by December 31, 1994. Under the terms of the project agreement between USAID/Mozambique and the Government of the Republic of Mozambique, CFM had responsibility for carrying out the rehabilitation and maintenance of its locomotives. The project's long-term technical assistance contractor was to provide technical advisors and trainers. Project commodities, excluding training materials provided by the technical assistance contractor, were to be procured by USAID/Mozambique and the Government of the Republic of Mozambique under either an A.I.D. direct contract or a host country contract. USAID/Mozambique had primary responsibility for management of the project as well as monitoring its implementation. Project inputs under this component include the purchase of ten main-line diesel locomotives, spare parts to rehabilitate and maintain CFM's fleet of diesel locomotives, the renovation of several locomotive workshops, and tools and equipment. In addition, A.I.D. funds were provided to finance short-term and long-term technical assistance and training in locomotive maintenance, inventory control, financial management, and accounting.

Total planned inputs under the Mozambique component are \$58.5 million, with A.I.D. providing \$55.5 million in life-of-project funding and the Government of the Republic of Mozambique providing the remaining \$3 million. As of May 31, 1991, the Mozambique component of the project had cumulative obligations and disbursements totaling \$55.5 million and \$8.2 million, respectively.

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## Audit Objectives

The Office of the Regional Inspector General for Audit/Nairobi audited the Regional Rail Systems Support Project to answer the following audit objectives:

1. Did USAID/Mozambique follow A.I.D. policies and procedures in monitoring and reporting expenditures under the Regional Rail Systems Support Project?
2. Did USAID/Mozambique follow A.I.D. procedures in ensuring that (a) eligible commodities were obtained, and (b) proper control was exercised over the arrival, receipt, and storage of project-financed commodities?

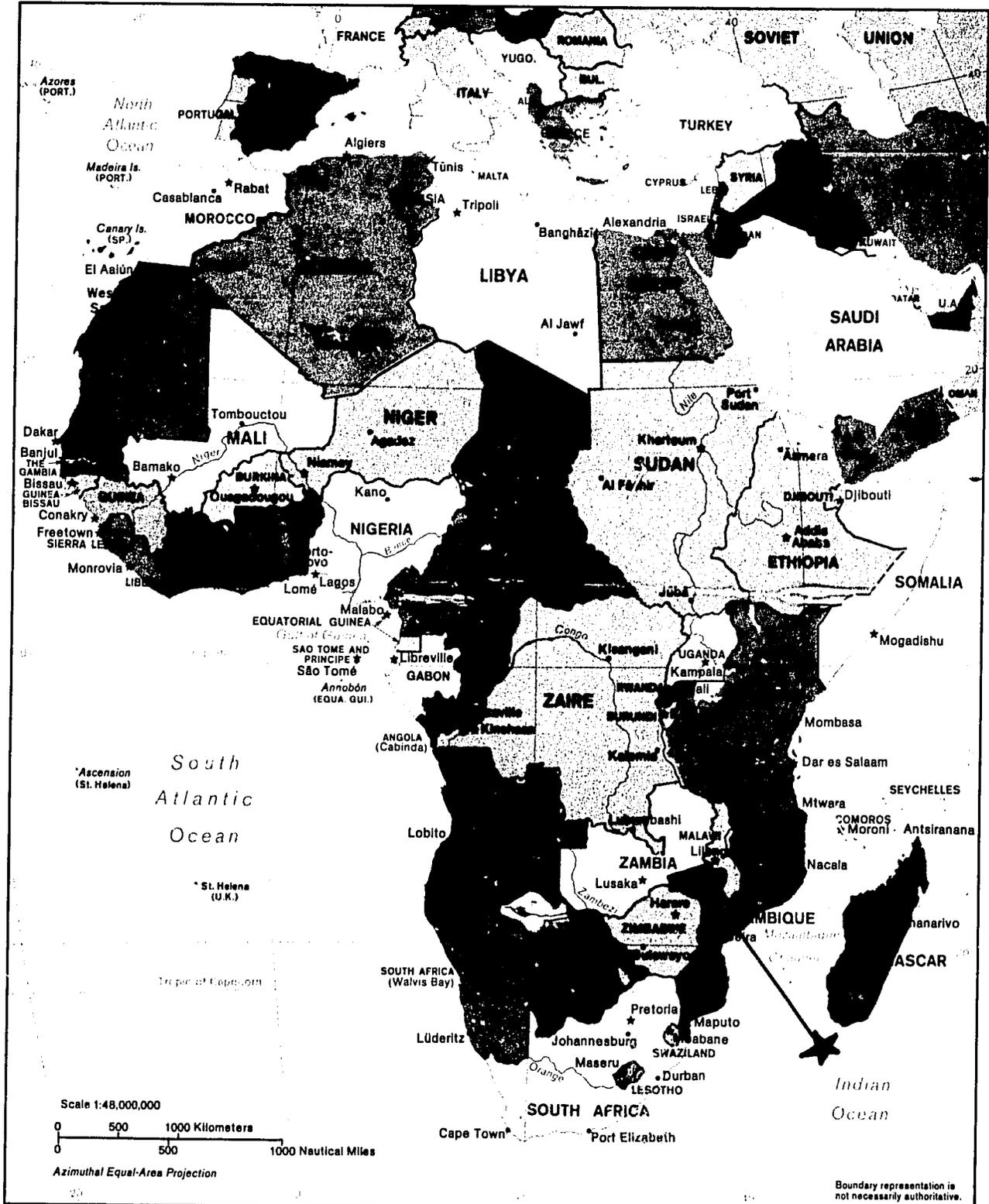
In answering these audit objectives, we tested whether USAID/Mozambique (1) followed applicable internal control procedures and (2) complied with certain provisions of laws. Our tests were sufficient to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. We did not continue testing when we found that, for the 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 that USAID/Mozambique was not following a procedure or not complying with a legal requirement,
- to identify the causes and effects of the problems, and
- to 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.

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# Africa



## REPORT OF AUDIT FINDINGS

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### **Did USAID/Mozambique follow A.I.D. policies and procedures in monitoring and reporting expenditures under the Regional Rail Systems Support Project?**

For the items tested, USAID/Mozambique followed A.I.D. policies and procedures in monitoring and reporting expenditures under the Regional Rail Systems Support Project. However, the audit identified several vouchers that were not adequately reviewed by Project and Controller personnel. Also, reviews to de-commit project funds from expired commitment documents were not being routinely performed.

Regarding the monitoring of project expenditures, we reviewed USAID/Mozambique's voucher processing procedures and determined that they were adequate to ensure that project expenditures were in accordance with A.I.D. policies. A.I.D. Handbook 1B, Chapter 15 states that it is A.I.D.'s policy to pay contractors and suppliers on the basis of goods delivered, services performed, or to cover costs already incurred. A.I.D. Handbook 19, Chapter 3 requires project officers to administratively approve all vouchers submitted to the Mission under A.I.D. direct contracts, grants, cooperative agreements, and host country contracts. Tests performed on a sample of 16 payment vouchers, valued at \$4.5 million, revealed that all of the expenditures claimed, except for several freight charges, were supported and administratively approved by the project officer. Further, a review of expenditures incurred under 12 of 22 Letters of Commitment showed that in all 12 of the cases reviewed the payments to the vendor did not exceed the amount authorized by the commitment document.

A.I.D. Handbook 19, Chapter 1, Appendix 1C states that it is A.I.D.'s policy to schedule and issue checks as close as administratively possible to but no later than the due date, as specified in the contract, invoice or agreement. When the payment office is located abroad and no due date is specified, the due date is considered to be on the 45th day from receipt of the invoice. We noted that the Mission maintained a voucher log, for control purposes, to monitor the status of invoices received for payment and ensure that they are promptly paid. Of the 12 sampled expense vouchers examined, we noted that the Mission had processed 11 of these vouchers for payment in 30 days or less.

Although USAID/Mozambique followed A.I.D. policies and procedures in monitoring and reporting project expenditures, controls over the payment and commitment of project funds needed to be strengthened to ensure that (1) expenditures paid by the Mission were

adequately supported, (2) contractors and vendors are not paid for commodities provided or services rendered after the commitment documents have expired, and (3) commitment documents are routinely reviewed and unused funds are de-committed upon the expiration of these documents.

These deficiencies are discussed in detail below.

**Procedures for the Payment and  
De-commitment of Funds Need to be Improved**

A.I.D. Handbook 19, Chapter 3 and the Controller's Guidebook, Chapter 5, Section III places responsibility on the project officer and Controller's Office for the proper review of bills submitted to A.I.D. for payment and overall control over project funds. As part of USAID/Mozambique's controls, the project officer determines, each quarter, the amount of funds that should be accrued or de-committed for each commitment document. Finally, each Letter of Commitment contains expiration dates for the supplier to submit documents for payment and these documents must evidence that shipment of commodities occurred on or before a specified date. Although USAID/Mozambique followed A.I.D. procedures for monitoring and reporting project expenditures, we identified several unsupported expense vouchers, paid by the Mission, which were not adequately reviewed by Project and Controller Office personnel. In addition, the Mission was not de-committing project funds from Letters of Commitment soon after the expiration of these commitment documents. These deficiencies relating to unsupported expense vouchers occurred because voucher processing procedures were not always followed by the newly hired staff within the Mission's Controller Office. Further, USAID/Mozambique did not have a procedure for monitoring the expiration dates of its commitment documents. As a result, one contractor received payment for unsupported freight costs totalling \$61,246, one supplier was paid \$18,648 for commodities that it shipped after its Letter of Commitment had expired, and \$36,094 in unspent project funds were unnecessarily tied up in the commitment pipeline.

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

- 1.1 determine the allowability, and recover as appropriate, \$61,246 in unsupported freight claims;**
- 1.2 establish procedures for monitoring expiration dates contained in Letters of Commitment to ensure that contractors are not paid for goods provided or services rendered after the expiration dates; and**
- 1.3 de-commit and reprogram \$36,094 in unspent funds from expired Letters of Commitment authorized under the Regional Rail Systems Support Project.**

A.I.D. Handbook 19, Chapter 3 requires project officers to administratively approve all vouchers submitted to the Mission under A.I.D. direct contracts, grants, cooperative agreements, and host country contracts. In addition, the Controller's Guidebook, Chapter 5, Section III states that the voucher examiner is responsible for the proper review of bills submitted to A.I.D. for payment. This review should include (a) ascertaining that the voucher is adequately supported by appropriate authorizations, documentation, and certifications (b) observing established internal controls designed to prevent any improper or duplicate payment and (c) determining that disbursements are in accordance with laws and regulations.

Although USAID/Mozambique followed A.I.D. procedures in monitoring and reporting project expenditures, our audit identified several unsupported vouchers, paid by the Mission, which were not adequately reviewed by the Project and Controller Offices. In addition, the Mission was not routinely reviewing expiration dates for its Letters of Commitment to ensure that (1) payments were not made under commitment documents which had already expired, and (2) unspent funds were de-committed upon expiration so that they could be made available for other project activities.

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*...resulted in a contractor receiving payments valued at \$61,246 for unsupported freight charges.*

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These deficiencies are discussed further below.

**Unsupported Freight Charges** - Reimbursement claims submitted, by the supplier, to the Mission for payment following the procurement of project commodities are required by each Letter of Commitment to be supported by a clean on-board ocean bill of lading, air way bill or road or rail consignment note, marked non-negotiable, as evidence that the freight charges were paid and that the goods have been consigned directly to the consignee. Our audit identified four payment vouchers which were not supported by documentation showing that the freight charges, included in the supplier's reimbursement claim, had been paid. The Mission paid the supplier for these freight charges without requiring appropriate supporting documentation because staff within the Mission's Controller Office were newly hired and were not fully familiar with the voucher examining procedures at the time these vouchers were paid in 1990. As a result, 4 out of the 16 vouchers examined had not been adequately reviewed by the Controller Office which resulted in a contractor receiving payments valued at \$61,246 for unsupported freight charges. However, we determined that the Controller staff were correctly reviewing payment vouchers as of the period of our field work and that this deficiency had been corrected. We noted that the four unsupported vouchers identified by our audit were processed between May and August 1990 which coincided with the period

during which the Controller Office was hiring new staff. All sampled vouchers processed after this period were verified to have been correctly reviewed and supported.

**Letters of Commitment** - Contractors paid under a Letter of Commitment are not authorized to receive payment for goods provided or services rendered after the expiration date of the commitment document. In the case of project commodities, the supplier is required by each Letter of Commitment to submit documents for payment which show that shipment of commodities occurred on or before the expiration date. During our review, we identified one Letter of Commitment where a payment was made, by the Controller Office, after the commitment document had expired. This error occurred because the Mission did not have a procedure for monitoring the expiration dates contained in Letters of Commitment. As a result, the supplier received a payment of \$18,648 for commodities that it shipped after its Letter of Commitment had expired. We are not making a recommendation to recover \$18,648 because Mission officials stated that the Letter of Commitment would be amended to extend the expiration date on the date of shipment.

**De-commitments** - USAID/Mozambique's Controller Office provides the Project Office an accrual worksheet each quarter for review and to determine the amount of funds that should be accrued or de-committed for each commitment document. The worksheet is returned to the Controller Office which, in turn, forwards the worksheet to its accounting station for input to the Mission Accounting and Control System (MACS). USAID/Mozambique must complete and forward coding sheets in order for the accounting station to de-commit project funds. For the past two quarters, the Controller Office did not complete the coding sheets to de-commit project funds. Controller officials attributed an expanding workload and only one staff person to perform all accounting and voucher examination functions for the project, commodity import program, and local currency as the reasons for not completing the coding sheets. As a result, project funds amounting to \$36,094 were unnecessarily tied up in the commitment pipeline and unavailable for project implementation.

At the time we completed our audit, USAID/Mozambique was planning to increase the number of staff working in its Controller Office. Therefore, we are not making a recommendation to address the expanding workload problem at the Mission. However, no action had been taken to de-commit \$36,094 in project funds.

We believe USAID/Mozambique needs to strengthen its payment process by (1) determining the allowability of the unsupported freight claims, paid earlier by the Mission, and recover the amount paid, if necessary, (2) establishing a procedure for monitoring the expiration dates of its Letters of Commitment to ensure that payments are not made for shipment of commodities following the expiration date, and (3) de-committing unused funds from expired Letters of Commitment authorized under the Regional Rail Systems Support Project.

**Did USAID/Mozambique follow A.I.D. procedures in ensuring that (a) eligible commodities were obtained, and (b) proper control was exercised over the arrival, receipt, and storage of project-financed commodities ?**

For the items tested, USAID/Mozambique followed A.I.D. procedures in ensuring that (a) eligible commodities were obtained and (b) proper control was exercised over the receipt of project commodities. However, the Mission did not (1) effectively resolve several control problems within the commodity arrival process, and (2) ensure that stored commodities were properly accounted for and adequately safeguarded.

In managing the procurement of project commodities, USAID/Mozambique followed A.I.D. policies and procedures to ensure that these commodities were eligible. As of May 31, 1991, USAID/Mozambique had expended over \$5.5 million for the procurement of project commodities. Goods purchased as of that date included locomotive spare parts, tools, equipment, vehicles, and computers. We reviewed the procurement files for 21 sampled commodity transactions, totalling \$5.3 million, to ascertain whether the goods purchased under each of these transactions met applicable source, origin, and nationality requirements. The results of this review showed that the commodities procured under all 21 transactions either fully met the applicable eligibility criteria or were procured under an appropriate waiver, authorizing the required eligibility criteria to be waived. We did not identify any ineligible or prohibited commodities financed under the project. In a separate review, we examined the Mission's records for 46 sampled commodity procurement transactions and found all of these transactions to be adequately supported and accurately recorded. Further, the audit also found that the Mission was implementing proper procedures to ensure that commodities that were paid for were in fact received, as evidenced by the results of an examination of the Mission's procurement records for three commodity contracts valued at approximately \$4.8 million.

However, USAID/Mozambique had not taken effective steps to correct several deficiencies within Mozambique Railway's (CFM) commodity arrival process which prevented shipments of incoming goods from being properly tracked and cleared from the ports in a timely manner. In addition, the Mission's procedures for monitoring the storage of commodities needed to be improved to ensure that stored goods were properly accounted for and adequately safeguarded.

These commodity management issues are discussed in detail below.

**USAID/Mozambique Needs to Resolve Problems in the Commodity Arrival Process**

A.I.D. Handbooks 3 and 15 require USAID missions to establish procedures for monitoring

the arrival of project commodities and places responsibility on the missions for assisting the grantee in resolving any problems found during their monitoring. However, the audit identified several problems within CFM's commodity arrival process which USAID/Mozambique was aware of, but did not effectively resolve. These problems continued to exist because the Mission did not aggressively follow-up with CFM on correcting the identified deficiencies and ensure that CFM's system for controlling the arrival of commodities (1) provided for the timely movement of goods through the ports and (2) included proper procedures for tracking the status on commodity arrivals. As a result, shipments of project commodities, valued at \$1.9 million, were not cleared from the ports for up to 240 days. Further, goods were not always tracked to the point of delivery, leading to the disappearance, and possibly theft, of several shipments of goods valued at \$60,985.

**Recommendation No. 2: We recommend that the Director, USAID/Mozambique:**

**2.1 formally communicate the problem relating to the port delays and missing shipments to CFM and the Government of the Republic of Mozambique and provide viable options to address the problem;**

**2.2 assist CFM in identifying and addressing the specific areas within its port clearance process which are causing the port delays. Appropriate actions should be taken to assure that shipments are cleared from the ports and delivered to the storage facilities within 45 days after arrival;**

**2.3 establish procedures for monitoring the port clearance process to ensure that goods are moved through the port in a safe and expeditious manner and that proposed actions to address problem areas within the process have been carried out. These procedures should include the receipt of a monthly report, from CFM, summarizing the status on the arrival of all commodity shipments consigned to CFM; and**

**2.4 take appropriate steps to ensure that CFM establishes proper procedures to adequately track and control the arrival of project commodities. If a proper system for tracking commodity arrivals and assuring their safe arrival can not be established for any one of CFM's railway systems, the Mission should suspend further procurement of commodities to that system until such control is assured.**

A.I.D. Handbook 3, Chapter 11 requires USAID missions to establish monitoring procedures which ensure that A.I.D.-financed commodities are received in a timely manner and effectively used. In the event these monitoring procedures identify problems that the grantee is unlikely to resolve by itself, the Handbook further states that it is not enough to simply "observe and record" such problems and requires missions to assist in the resolution of these problems whenever possible. If the problem involves the grantee's failure to comply with

specific A.I.D. statutory or policy requirements, missions should, as a first step, communicate the deficiency with the grantee and review options for resolving the problem. Where the grantee fails to satisfactorily rectify the situation, A.I.D. may invoke available remedies or sanctions which may include informally holding-up or formally suspending further assistance for the activity until the situation is corrected.

Handbook 3 also states that USAID missions are responsible for ensuring that project goods are cleared through the ports in accordance with plans. According to the project agreement, shipments of project commodities consigned to CFM were expected to be cleared from the port within one month after arrival.

Although USAID/Mozambique was aware that CFM was not properly tracking the arrival of project commodities and clearing them from the port in a timely manner, the Mission did not effectively resolve these problems. Through its monitoring of commodity arrivals, the Mission learned that project-financed goods were often experiencing extensive delays at the ports and were not being cleared in a timely manner. Although discussions were held with CFM officials on several occasions in an attempt to expedite the clearance of several specific shipments, insufficient work was done to assess and address the underlying causes of the port delays in order to prevent this problem from continuing. For example, the Mission did not perform any detailed analysis to review CFM's port clearance process and identify the problem areas causing the delays that needed to be addressed.

In addition to the delays at the ports, CFM was not adequately tracking the arrival of project commodities. This deficiency was considered to be particularly serious at CFM's central railway system (CFM-C) where the Mission's project team found the railway was not tracking the arrival of incoming commodity shipments and was often unaware of the status on these shipments until the goods actually arrived at the port. Even after arrival, CFM-C was not routinely following up on the status of each shipment as it went through the customs clearance process. The project team also found that records documenting the arrival and receipt of project-financed commodity shipments were often disorganized and not properly maintained. In an effort to improve the tracking of arrivals at this location, the project team attempted to work with staff at CFM-C, providing constructive suggestions on tracking procedures to be performed. In addition, the matter was discussed with CFM management officials who provided assurances that they would take a more aggressive role in this area in the future. However, during a subsequent site visit, it was determined that the problem continued to exist and that the level of tracking performed still provided inadequate control over arrivals.

The port delays continued to occur because the Mission was more concerned with verifying that the project commodities actually arrived in country than ensuring that the goods were cleared from the ports in a timely manner. While the Mission discussed the issue with CFM staff, it often did not follow up on actions taken to correct the problem. In addition, the

Mission did not feel it was in a position to address one of the primary underlying causes of the delays, CFM's inability to pay the Government of Mozambique's stamp fee ("emolumentos"). This fee, which was required to be paid prior to the release of any goods from the port, was imposed on all goods imported into the country and, in the case of the USAID locomotive spares, was valued at 7.5 per cent of the cost of the goods. Due to cash flow problems, CFM experienced difficulty in paying this fee which led to delays in clearing the goods from the ports. However, in February 1991, the Mozambican Minister of Finance granted CFM authorization to remove its goods from the ports prior to payment of this fee. Despite this authorization, it was noted during the audit fieldwork in September 1991 that immediate action had not been taken and that CFM-C was still experiencing port delays because it continued to leave shipments at the port until payment of the stamp fee was made.

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*Three shipments..were found to have missing crates whose contents were valued at \$60,985.*

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The poor tracking of commodity arrivals at CFM-C continued due, in part, to CFM's failure to act on the matter when it was brought to its attention by the Mission. Despite the Mission's repeated meetings with CFM management to discuss this matter and attempts to work with the CFM Procurement Officer responsible for tracking commodity arrivals, CFM-C did not take steps to satisfactorily correct this procedural deficiency. To date, the CFM Procurement Officer has not demonstrated an adequate understanding and ability to implement the responsibilities required to properly control the arrival of project commodities. Mission staff pointed out that the project originally planned for the CFM Procurement Officer to have an on-site technical assistant, a stock controller financed under a World Bank project, to assist him in these responsibilities. However, the delayed arrival of this technical assistant forced the Mission to rely on the CFM Procurement Officer to perform all of the commodity tracking responsibilities.

As a result of the Mission's difficulty in effectively resolving these problems, shipments of A.I.D.-financed commodities continued to be inadequately tracked to their point of destination and experienced extensive delays in their clearance from the ports, leading to the disappearance, and possibly theft, of several of these shipments. The audit disclosed the following:

- Three shipments of spare parts and tools consigned to CFM-C, two of which were at the port for over four months, were found to have missing crates whose contents were valued at \$60,985;

- 41 per cent of the project shipments delivered to CFM's southern railway system (CFM-S) were left at the port of Maputo for periods ranging from 60 to 100 days. These shipments had a total value of \$700,000;
- 58 per cent of the project shipments delivered to CFM-C were left at the Port of Beira for periods ranging from 83 to 240 days. These shipments had a total value of \$1.2 million; and
- Two shipments of spare parts, valued at \$55,000, remained at the port for over 70 days awaiting payment, by CFM, of \$30 in import license fees.

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*...project shipments delivered to CFM-C were left at the Port of Beira for periods ranging from 83 to 240 days...*

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Unless this situation is corrected, the delays at the ports and poor tracking of commodity arrivals will likely continue, preventing the timely receipt of spares and tools needed for workshop repairs and allowing \$10.1 million in additional materials not yet received to be placed at risk of also being lost or stolen. Further, these problems may also delay the receipt of the ten project locomotives, worth \$15.5 million, expected to arrive in the near future.

#### **Procedures for Monitoring Stored Commodities Need to be Improved**

According to A.I.D. Handbook 3, USAID missions are responsible for monitoring the storage of A.I.D.-financed commodities and ensuring that the grantee has an adequate system to account for these stored goods as well as proper safeguards to protect them from loss or theft. However, the audit disclosed record and security deficiencies at the CFM storage facilities which the Mission was not aware of and had not previously identified in its monitoring activities. This had occurred because the Mission had not established adequate procedures for monitoring the storage of project commodities to ensure that these goods were properly accounted for and adequately safeguarded and that problems relating to the adequacy of specific commodities were promptly identified. As a result, stored project goods were not always being adequately controlled. At one storage facility, an estimated \$213,650 in spare parts and tools, including some financed by A.I.D., were determined to be missing and unaccounted for. At another location, poor security and inadequate safeguards resulted

in repeated break-ins in which various stock items, including A.I.D.-financed tools, were stolen. In addition, the Mission's monitoring procedures did not identify \$97,355 in excess goods that were mistakenly procured far in excess of the quantity originally desired, causing the Mission to miss an opportunity for a refund.

**Recommendation No. 3: We recommend that the Director, USAID/Mozambique:**

**3.1 establish procedures to ensure that tests are performed on CFM's inventory stock control system on a quarterly basis to verify the accuracy of recorded stock levels and identify missing items;**

**3.2 establish procedures to ensure that the project management team, as part of its site visit agenda, performs a review of the security procedures and existing safeguards at the storage facilities where project commodities are stored; and**

**3.3 communicate the problem relating to the over-procurement of \$97,355 in grease with the supplier and request a refund or credit in exchange for the return of this item.**

A.I.D. Handbook 3, Appendix 11E requires USAID missions to establish monitoring procedures which assure that A.I.D.-financed commodities are properly accounted for and adequately safeguarded. For example, the Handbook states that missions, as part of their monitoring responsibilities, should review the grantee's storage methods to ensure the safekeeping of commodities. Further, Handbook 15, Appendix 10A requires missions to perform commodity end-use reviews to evaluate the effectiveness of the grantee's commodity disposition system. In performing these reviews, missions should test the inventory tracking system by checking recorded stock levels against the commodity arrival information and actual quantities on-hand.

However, USAID/Mozambique did not always provide complete coverage in monitoring the storage of project-financed commodities. Although the Mission's project staff performed regular site visits to the CFM storage facilities in Maputo and Beira, the audit identified deficiencies at these sites involving poor record keeping, missing commodities, inadequate safeguards, and excess commodities which the project staff was not previously aware of.

USAID/Mozambique was not aware of these specific problems because it had not established sufficient procedures for monitoring the storage of project commodities and relied on on-site technical assistants, if there were any, to assure that these commodities were properly controlled. Although the Mission's project staff had performed tests on CFM's inventory tracking system, these tests were not performed on a regular basis and not

completely documented. In addition, routine site visits did not include a review of the security procedures and existing safeguards in place at the storage facilities. The Mission was also not reviewing the commodities received to determine their adequacy or interviewing warehouse staff concerning any problems experienced with specific commodities.

As a result of these monitoring deficiencies, project-financed commodities were not always being properly accounted for and adequately safeguarded. In addition, the audit also identified an item that was delivered to CFM, but was procured far in excess of the quantity originally planned. Examples are discussed below.

**Goods Unaccounted For** - Inventory records for the spares, tools, and equipment stored at the CFM storage facility in Maputo were determined to be inaccurate and unreliable. Tests performed on a sample of these commodities disclosed that inventory records for 38 per cent of the items examined were inaccurate. Further, stock items, worth an estimated \$213,650, were unaccounted for and possibly stolen. These missing items included an assortment of spares and tools, including some financed by USAID.

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*...stock items, worth an estimated \$213,650, were unaccounted for and possibly stolen.*

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**Inadequate Safeguards** - An inspection of the CFM storage facilities in Maputo and Beira disclosed that existing safeguards were often inadequate to protect project commodities from loss, damage, and theft. Specifically, the audit noted the following:

- doors to the storerooms, containing the A.I.D.-financed spares and tools, were not adequately secured and often locked with standard padlocks which could be easily sawed off, as was done on at least one prior occasion;
- windows on the ground floor level of the warehouse in Beira did not have steel bars to prevent intruders from gaining entry; and
- a storeroom at the Maputo facility had a hole in the roof and windows with some of the window panes missing, allowing spares and tools stored inside to be exposed to the elements.

These safeguards have already proven to be inadequate as evidenced at the CFM's central railway system (CFM-C) warehouse which experienced three robberies over the course of one month. The most recent break in occurred in June 1991 and involved the theft of an

undetermined amount of tools financed under a prior USAID project.

**Excessive Goods Received** - The audit identified a large shipment of grease, financed under the project, which was determined to be far in excess of CFM's needs. Under the project, CFM-S received a delivery of 480 (114 lb.) drums of grease. However, warehouse staff claimed that the grease was being consumed at a rate of only one drum every six months -- giving the Railway a 240 year supply. After bringing the matter to the attention of USAID staff, it was later determined that the project had procured more grease than was originally intended due to a typographical error which occurred during the preparation of the spare parts listing for the Request-For-Proposal. Further review disclosed that a similar error was made on the order of grease consigned and delivered to CFM-C in Beira. As a result, the CFM storage facilities in Maputo and Beira, together, received a total of 568 drums of excess grease valued at \$97,355.

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*...grease was being consumed at a rate of only one drum every six months -- giving the Railway a 240 year supply.*

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Although USAID/Mozambique was making regular site visits to CFM's storage facilities, we believe the Mission needs to improve the procedures performed during these site visits in order to strengthen its monitoring over the storage of project commodities and ensure that these goods are properly controlled. For example, tests should be performed regularly on the inventory tracking system and should include a sample of stock items that cover a pre-determined scope. In addition, the Mission's site visit agenda should also include a review of the security procedures and existing safeguards at the storage facilities to assess their adequacy in protecting stored project commodities.

Unless the Mission takes appropriate measures to correct these monitoring deficiencies and assists CFM in addressing the commodity control problems identified by this audit, these problems will continue and will allow the estimated \$15.6 million in locomotive spares, tools, and equipment that will be procured under this project to be placed at risk of being lost, stolen, or damaged.

# REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls applicable to 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 (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit. We limited our assessment of internal controls to those controls applicable to the audit's objectives and not to provide assurance on the auditee's overall internal control structure.

We classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have 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 audit objective.

## General Background on Internal Controls

Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (the Integrity Act) in September 1982. Under this Act, the management of A.I.D., including USAID/Mozambique, is responsible for establishing and maintaining adequate internal controls. Also, the U.S. General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

The objectives of internal controls and procedures for Federal foreign assistance 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**

The first audit objective relates to the monitoring and reporting of project expenditures. In planning and performing our audit of project expenditures, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 19 and the Controller's Guidebook. For the purposes of this report, we classified the relevant policies and procedures into the following category: voucher approval, review and certification process.

We reviewed USAID/Mozambique's internal controls relating to the voucher approval, review and certification process. Although we noted several vouchers were not adequately reviewed by the Project Office and Controller Office, we do not consider the deficiencies to be significant internal control weaknesses. Overall, USAID/Mozambique applied the internal controls logically and consistently.

### **Conclusions for Audit Objective Two**

**Objective Two (a):** This sub-objective concerned USAID/Mozambique's controls over A.I.D.'s commodity eligibility requirements. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3, 11, and 15. For the purposes of this report, we have classified policies and procedures into the following category: the commodity eligibility process. We reviewed USAID/Mozambique's internal controls relating to the commodity eligibility process and our tests showed no significant weaknesses in the Mission's controls which were logically and consistently applied.

**Objective Two (b):** The second sub-objective for audit objective two concerned control over the arrival, receipt, and storage of project commodities. In planning and performing our audit of this area, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 15. For the purposes of this report, we have classified the policies and procedures into the following categories: the monitoring process, commodity arrival process, port clearance process, receiving process, storage process, and the commodity accounting process.

We reviewed USAID/Mozambique's internal controls relating to the monitoring, commodity

arrival, port clearance, receiving, storage, and commodity accounting processes. Overall, USAID/Mozambique applied the internal controls logically and consistently. However, we identified the following deficiencies relating to the commodity arrival, port clearance, storage, and commodity accounting processes which were not considered to be material internal control weaknesses:

- USAID/Mozambique did not ensure that commodity arrivals were properly tracked and cleared from the ports in a timely manner;
  - USAID/Mozambique did not review security procedures and existing safeguards at commodity storage facilities during its site visits; and
  - USAID/Mozambique did not ensure that stored commodities were properly accounted for.
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# REPORT ON COMPLIANCE

This section summarizes our conclusions on the USAID/Mozambique'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 (1) 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 and illegal acts that could significantly affect the audit objectives) and (2) 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/Mozambique's compliance with the Prompt Payment Act (P.L. 97-177) and A.I.D. Regulation 1 as they related to our audit objectives. However, our objective was not to provide an opinion on USAID/Mozambique's overall compliance or enforcement of such provisions.

## General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with the Prompt Payment Act of 1982 (P.L. 97-177) and A.I.D. Regulation 1 is the overall responsibility of USAID/Mozambique's management.

Under the Prompt Payment Act, Federal agencies are required to pay their bills on time, to pay interest penalties when payments are made late, and to take discounts only when payments are made within the discount period. Host country contracts are not subject to the Prompt Payment Act; however, while payments under such contracts are not subject to the interest penalties of the Act, the prompt payment standards apply as a matter of A.I.D. policy, when A.I.D. is the disbursing agent (i.e., when Direct Letters of Commitment are used).

A.I.D. Regulation 1 contains the conditions governing the eligibility of procurement transactions for A.I.D. financing. To qualify for A.I.D. financing, a commodity procurement transaction is required to comply with applicable source, origin, and nationality requirements and must be procured from a country authorized in the implementing document by name or by reference to an A.I.D. geographic code. Further, the commodity must conform to the description specified in the implementing document and, unless otherwise authorized by AID/W in writing, must be unused.

### **Conclusions on Compliance**

The results of our tests of compliance indicated that, with respect to the items tested, USAID/Mozambique complied with the Prompt Payment Act and A.I.D. Regulation 1.

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## MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Mozambique agreed with the report's findings and recommendations. The Mission's response on the draft report is included in its entirety in Appendix II of this report. The Mission's response to each recommendation, actions proposed or taken, our comments on those actions, and any additional actions that are required to close the recommendations are discussed below.

- Recommendation No. 1.1 - to determine the allowability, and recover as appropriate, \$61,246 in unsupported freight claims (see page 5). USAID/Mozambique agreed with the dollar amount reported in this recommendation. USAID/Mozambique contacted the supplier in question on October 7, 1991, November 6, 1991 and again on January 23, 1992 and requested documentation to support the supplier's claim for freight and insurance in the amount of \$70,316.53. This amount includes the \$61,246 for unsupported freight claims as reported by the auditors. Since the supplier had not responded, this recommendation is considered resolved but not closed. We will consider Recommendation 1.1 closed when USAID/Mozambique provides us documentation showing the supplier has appropriate documentation to support its claim. If appropriate documentation is not provided by the supplier, we will close the recommendation on receipt of evidence showing the supplier has submitted a refund to USAID/Mozambique.
- Recommendation No. 1.2 - to establish procedures for monitoring expiration dates contained in Letters of Commitment to ensure that contractors are not paid for goods provided or services rendered after the expiration dates (see page 5). USAID/Mozambique's response stated that the Project Officer has added the expiration date for each Letter of Commitment to a LOTUS spreadsheet which shows all Letters of Commitment funded under the project. With this additional information, the Project Officer will be able to ensure that contractors are not paid for goods provided or services rendered after the expiration dates. We consider Recommendation 1.2 closed.
- Recommendation No. 1.3 - to de-commit and reprogram \$36,094 in unspent funds from expired Letters of Commitment authorized under the Regional Rail Systems Support Project (see page 5). USAID/Mozambique de-committed \$75,319.76 from expired Letters of Commitment on September 27, 1991. This amount included the \$36,094 identified by the auditors. We applaud the Mission's efforts and consider Recommendation No. 1.3 closed.

- Recommendation No. 2.1 - to formally communicate the problem relating to the port delays and missing shipments to CFM and the Government of the Republic of Mozambique and provide viable options to address the problem (see page 9). USAID/Mozambique's Project Officer met with CFM management and technical assistance personnel to discuss the problems raised by the auditors concerning port delays and missing shipments. The Mission Director advised CFM by letter dated November 19, 1991 of suggested actions which needed to be taken in order to adequately address the issue of port delays. CFM, in turn, provided the Mission a letter dated November 20, 1991, which provided assurances that recommended steps were being implemented. We consider Recommendation No. 2.1 closed. We commend the timely action taken by the Mission to formally communicate the problems with the port delays to CFM and subsequent measures taken by CFM to improve the port clearance process.
  
- Recommendation No. 2.2 - to assist CFM in identifying and addressing the specific areas within its port clearance process which are causing the port delays. Appropriate actions should be taken to assure that shipments are cleared from the ports and delivered to the storage facilities within 45 days after arrival (see page 9). In response to this recommendation, USAID/Mozambique provided CFM a letter dated November 19, 1991 which specified actions to be taken by CFM to ensure that commodity shipments are cleared through the port within 45 days. CFM later informed the Mission, in a letter dated November 20, 1991, that it had (i) established petty cash funds for CFM (S) and CFM (C) to assist in expediting the payment of port related fees (e.g. import license fees), (ii) instructed its railways to clear goods from the port prior to payment of the "emolumentos," (iii) started to submit monthly status reports on commodity arrival activity for CFM (S) and CFM (C) to USAID project personnel, and (iv) budgeted sufficient funds in its 1992 budget to pay for custom fees assessed on project commodities expected to be received in 1992. Based on these actions, we consider Recommendation No. 2.2 closed.
  
- Recommendation No. 2.3 - to establish procedures for monitoring the port clearance process to ensure that goods are moved through the port in a safe and expeditious manner and that proposed actions to address problem areas within the process have been carried out. These procedures should include the receipt of a monthly report, from CFM, summarizing the status on the arrival of all commodity shipments consigned to CFM (see page 9). In a letter dated November 23, 1991, to RIG/A/Nairobi, the Mission outlined the procedures it established for monitoring the port clearance process. These procedures included receipt of monthly status reports, from CFM, covering commodity arrival activity for both CFM (S) and CFM (C), quarterly review of the status on goods at the port, review of the CFM annual budget to verify that sufficient funds are budgeted to pay for port related charges, and quarterly site visits to Beira and Nampula which will include discussions with CFM procurement and senior management personnel concerning the status on commodity arrivals. Based on the procedures contained in the Mission's letter,

we consider Recommendation No. 2.3 resolved. It will be closed upon receipt of a mission order formalizing these procedures.

- Recommendation No. 2.4 - to take appropriate steps to ensure that CFM establishes proper procedures to adequately track and control the arrival of project commodities. If a proper system for tracking commodity arrivals and assuring their safe arrival can not be established for any one of CFM's railway systems, the Mission should suspend further procurement of commodities to that system until such control is assured (see page 9). In its response to our draft report, USAID/Mozambique stated that CFM had agreed to provide it with monthly status reports on commodity shipments for both CFM (S) and CFM (C) beginning November 30, 1991. While the submission of this monthly report may improve the Mission's level of monitoring over commodity shipments for CFM (C), it does not fully address the inadequate system in place at this location for controlling commodity arrivals and ensuring they are cleared through the ports in an expeditious manner. Based on documentation received from USAID/Mozambique and referenced in Recommendation Nos. 2.2 and 2.3 above, we consider Recommendation No. 2.4 resolved. It will be closed upon receipt of documentation from the Mission outlining the specific actions it plans to take to establish an adequate system for controlling the arrival and receipt of project commodities at CFM (C) in Beira.
- Recommendation No. 3.1 - to establish procedures to ensure that tests are performed on CFM's inventory stock control system on a quarterly basis to verify the accuracy of recorded stock levels and identify missing items (see page 13). In a memorandum dated November 23, 1991, USAID/Mozambique informed RIG/A/N that it had established procedures which require the project staff to perform on-site inventory checks at least quarterly to test the accuracy of the inventory records and verify the existence of commodities received. During these inventory checks, project staff will judgmentally select a minimum of ten items from the suppliers' invoices and test the inventory tracking system through examination of the inventory records and physical inspection. Based on the procedures contained in the above memorandum, we consider Recommendation No. 3.1 resolved. It will be closed upon receipt of a mission order formalizing the above procedures.
- Recommendation No. 3.2 - to establish procedures to ensure that the project management team, as part of its site visit agenda, performs a review of the security procedures and existing safeguards at the storage facilities where project commodities are stored (see page 13). In the memorandum referenced in Recommendation No. 3.1 above, USAID/Mozambique informed RIG/A/N that it had established procedures which require USAID project personnel to verify that acceptable security procedures and safeguards have been installed at the CFM storage warehouses in Maputo and Beira. This security check requirement will be performed during the Mission's quarterly site visits. Based on this new procedural requirement, we consider Recommendation No. 3.2 resolved. It will

be closed upon receipt of a mission order formalizing the above procedure.

- Recommendation No. 3.3 - to communicate the problem relating to the over-procurement of \$97,355 in grease with the supplier and request a refund or credit in exchange for the return of this item (see page 13). In its response to our draft report, USAID/Mozambique concurred with the amount of excess grease identified by the audit and provided copies of correspondence between the Mission and the supplier of the grease, documenting actions taken to address this issue. In a telex dated July 10, 1991, the Mission informed the supplier of the over-procurement and requested the return of the surplus grease in exchange for a refund or credit. The supplier advised the Mission in a telex dated January 14, 1992 that it agreed to accept the return of up to 580<sup>1</sup> drums of grease which was the total quantity originally shipped. CFM has informed the Mission that it plans to return 568<sup>1</sup> out of the 580 drums of grease that were originally received. However, the Mission stated that it anticipated that the credit for the returned grease would not be forthcoming until the grease was received by the supplier. This recommendation will be resolved upon the Mission's concurrence with the dollar amount cited in the report and will be closed upon receipt of appropriate documented evidence (e.g. shipping documents) supporting the shipment of the grease to the supplier in the U.S.

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<sup>1</sup>In its initial written response to our draft report (See Appendix II), the Mission stated that the supplier would accept the return of only 290 of the 580 drums of grease that were originally shipped. However, in a subsequent FAX to our office, dated January 29, 1992, the Mission informed RIG/A/Nairobi that an agreement had been reached with the supplier for the return of all of the surplus grease up to 580 drums. Of this amount, CFM has informed the Mission that it plans to return 568 drums of grease which it considers to be excess.

## SCOPE AND METHODOLOGY

### Scope

We audited the Regional Rail Systems Support Project in accordance with generally accepted government auditing standards. Our audit was conducted from June 24, 1991 through September 12, 1991 and covered obligations of \$55.5 million, commitments of \$38.25 million and incurred expenditures of about \$8.2 million. The audit covered the systems and procedures relating to project inputs financed by A.I.D. from August 23, 1988, the project inception date, through May 31, 1991. Our audit work was conducted in the offices of USAID/Mozambique, the technical assistance contractor, and Mozambique Railways (CFM), as well as at the CFM storage facilities in Maputo and Beira.

For Audit Objective One, we interviewed USAID/Mozambique Project Office personnel responsible for reviewing all invoices and administratively approving invoices as required by A.I.D. Handbook 19. We met with Controller personnel responsible for tracking the receipt and scheduling all invoices for timely payment, reviewing the vouchers and supporting documentation for validity and correctness of the facts stated in the vouchers, and certifying the vouchers for payment.

Since the total universe of vouchers was not readily available and time and resources required to determine this number were more than we could allocate to this audit, we used judgmental sampling. We selected 16 payment vouchers valued at about \$4.5 million, which represented 55 per cent the total value of all disbursements made as of May 31, 1991. The basis for selection was the high dollar value of each disbursement. The amount disbursed on each sampled voucher was verified to the Mission's accounting records. Also, we reviewed 12 Letters of Commitment valued at about \$5.46 million. These Letters of Commitment represented 20 per cent of the \$26.86 million committed for 22 Letters of Commitment as of May 31, 1991.

For Audit Objective Two (a), our review covered project commodities procured as of May 31, 1991. Our audit work for this sub-objective was performed entirely at

USAID/Mozambique and included interviews with Mission project personnel and a review of the commodity procurement documents on-file at the Mission's project office. During our review of the Mission's records, we tested a sample of 21 commodity procurement transactions, totalling \$5.3 million and representing 95 per cent of the goods received, to verify compliance with the applicable eligibility requirements (e.g. source, origin, and nationality).

For Audit Objective Two (b), our review covered project commodities procured and received as of May 31, 1991. During our review, interviews were conducted with Mission and technical assistance personnel in Maputo, as well as CFM personnel working at the warehouse facilities and procurement offices for CFM's southern (CFM-S) and central (CFM-C) railway systems in Maputo and Beira, respectively. We also examined commodity procurement and inventory records maintained at the above locations.

During our review of the Mission's monitoring procedures, we interviewed project staff at USAID/Mozambique who explained the procedures performed. In addition, trip reports relating to prior Mission site visits were examined to ascertain the work performed during these visits and the deficiencies previously identified. Progress reports, issued by CFM and the technical assistance contractor, were also examined to assess whether the commodity procurement information provided in these reports was sufficient for monitoring purposes. Further, tests were performed to verify that the Mission (1) maintained adequate records on all procurement transactions, and (2) was checking to ensure that goods that were ordered and paid for were, in fact, received.

We considered the findings contained in the Office of Inspector General audits of A.I.D./Washington Implementation Of The Prompt Payment Act, Report No. 9-000-88-007, dated April 29, 1988 and Regional Transport Development - Dar es Salaam Corridor Project, Report No. 3-690-91-03, dated November 21, 1990 in planning our audit.

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## **Methodology**

The methodology for each audit objective follows.

### **Audit Objective One**

The first audit objective was to determine whether USAID/Mozambique followed A.I.D. policies and procedures in monitoring and reporting expenditures under the Regional Rail Systems Support Project. To accomplish this objective, we obtained an understanding of the Mission's process for monitoring and reporting project expenditures, reviewed selected

Mission Accounting and Control System reports and performed tests to assess the reliability of the data contained in these reports, reviewed the financing methods used to pay for project commodities, reviewed the voucher payment process, and reviewed the Mission's compliance with the Prompt Payment Act of 1982 requirement for maintaining a logbook to track the receipt and scheduling of all invoices for timely payment.

We judgmentally selected 16 vouchers valued at about \$4.5 million and reviewed the supporting documentation for each voucher. The primary criterion for selecting these vouchers was the high dollar value of each disbursement. These vouchers represented 88 per cent of the total value of disbursements for 4 project elements sampled and 55 per cent of the total value of all disbursements of about \$8.2 million as of May 31, 1991.

Since payment was made for 15 of 16 vouchers using Letters of Commitment (one voucher was a direct payment of a purchase order), we obtained copies of the Letters of Commitment and any amendments thereof and reviewed the vouchers to determine whether the required supporting documents were submitted for payment. A.I.D. required that the supplier provide (1) a Public Voucher For Purchases and Services Other Than Personal (Standard Form 1034), (2) a Supplier's Certificate and Agreement with the Agency for International Development for Project Commodities/Invoice and Contract Abstract (Form A.I.D. 1450-4), (3) an invoice for insurance policy, indicating U.S. dollar cost, (4) a shipping document such as a bill of lading showing that goods have been consigned directly to the consignee and the shipping document must include the carrier's complete statement of charges, and (5) a supplier's detailed invoice. We obtained copies of Standard Form 1034, Form A.I.D. 1450-4, invoices for insurance, and bills of lading and shipping documents indicating freight charges.

We reviewed each voucher package to determine whether a project officer administrative approval form statement and checklist was included with the supporting documentation.

We judgmentally selected 12 of 22 Letters of Commitment to test whether the Mission paid the contractors more than the dollar amount of goods and services specified in each Letter of Commitment and whether the Mission paid any contractor after the expiration dates for providing documents to A.I.D. for payment or making shipment without amending the Letter of Commitment. The primary criterion for selecting these Letters of Commitment was that these were the most likely to be completed as of June 30, 1991. The 12 Letters of Commitment sampled were valued at about \$5.5 million. This represented about 20 per cent of the total amount of funds committed under the 22 Letters of Commitment.

We recorded on a schedule the dollar value of the commodities and commodity-related services that were eligible for financing for each Letter of Commitment. We obtained the voucher files from the Controller Office and recorded on a schedule the cost for the goods and services that the contractor claimed on each Standard Form 1034. The cost for all 1034's

were totalled and subtracted from the amounts of goods and services contained in each Letter of Commitment to arrive at the balance remaining committed. We noted on each schedule whether the cost of goods and services supplied under each Letter of Commitment was exceeded.

We annotated on each 1034 whether the documents were provided to A.I.D. for payment prior to the documents expiration date and whether shipment was made before the expiration date. The date the invoice arrived at the designated payment office was used to determine whether the contractor complied with the documents expiration date. The date on the bill of lading was used to determine whether the contractor complied with the shipment date.

We reviewed each voucher package to determine whether a project officer administrative approval form statement and checklist was included with the supporting documentation.

## **Audit Objective Two**

Audit Objective Two consisted of two sub-objectives. The methodology relating to each of these sub-objectives is discussed below.

**Objective Two (a):** To accomplish this sub-objective of determining whether USAID/Mozambique followed A.I.D. procedures in ensuring that eligible commodities were obtained, we (1) examined the grant agreement and all pertinent procurement waivers to ascertain the authorized geographic code(s) and eligibility criteria applicable to the commodities procured under the project, (2) interviewed the project officer to determine the Mission's procedures and controls for ensuring compliance with the applicable eligibility requirements, and (3) assessed the adequacy of these procedures and controls.

To test the Mission's compliance with the commodity eligibility requirements outlined in A.I.D. Handbooks 11 and 15, we verified that commodities procured under the project (1) were allowable, and (2) met the applicable source, origin, and nationality criteria. In performing this verification, we tested a sample of 21 commodity procurement transactions involving commodities with a total value of approximately \$5.3 million or 95 per cent of the value of all of the goods procured as of May 31, 1991. Pertinent procurement and shipping documents on file at the Mission were reviewed for all sampled transactions. In those cases where sampled commodities were found to have been procured from countries other than those specified by the authorized geographic code, we ascertained whether an appropriate waiver had been obtained. The Mission's record system did not provide a clear breakout showing the total number of separate commodity procurement transactions that occurred under the project. As a result, this data was not readily available and it was decided that it would be more appropriate to select a judgmental sample of transactions which represented

a large proportion of the total dollar value of the items procured.

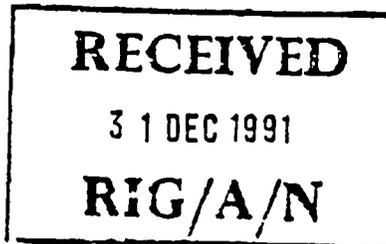
**Audit Objective Two (b):** To accomplish the second sub-objective of determining whether USAID/Mozambique followed A.I.D. procedures in ensuring that proper control was exercised over the arrival, receipt, and storage of project commodities, we (1) reviewed the Mission's procedures for monitoring the arrival, receipt, and storage of project goods, (2) reviewed CFM's system for controlling the arrival, receipt, and storage of commodities, (3) tested CFM's inventory tracking system to verify its accuracy, and (4) analyzed the port clearance process to determine whether shipments of project goods were being cleared from the ports in a timely manner.

When deficiencies were identified within the Mission's monitoring procedures, we performed further analysis by reviewing the respective CFM procedures for controlling the arrival, receipt, and storage of project-financed commodities. In reviewing CFM's systems for controlling project commodities, we interviewed responsible CFM officials and technical assistants working at the CFM procurement offices and storage facilities located in Maputo and Beira. We also (1) reviewed procedures for tracking the arrival of commodities, (2) verified that goods were being inspected upon receipt and that claims were filed with the supplier when shortages were found, (3) examined procurement records documenting the arrival and receipt of commodities, and (4) verified that items received were compared to the contract order to ensure that all stock items that were ordered were received. In addition, field visits were made to the CFM storage facilities in Maputo and Beira to review security procedures and observe existing safeguards at these facilities.

To test the adequacy of CFM's inventory control system, selected stock items were tracked through the inventory records and physically inspected. Testing was performed on commodities stored at two of the three CFM regional rail systems (i.e. CFM-S and CFM-C). These two rail systems were selected because together they received 93 per cent of the total value of all the commodities procured under the project. At CFM-S in Maputo, we tested a sample of 100 stock items consisting of locomotive spare parts, tools, and equipment. These sampled items had a combined value of approximately \$1.6 million, representing 42 per cent of the total value of the goods received by CFM-S as of May 31, 1991. This same test was done at CFM-C in Beira where we tested a sample of 41 stock items valued at \$175,000 or 15 per cent of the total value of the goods received at this location. Due to the extremely high volume of stock items procured, we were unable to determine the total quantity of items procured for each location. However, since we were able to determine the total dollar value of these stock items, a judgmental sample was selected which provided coverage based on this total value and included (i) stock items having a high dollar value and (ii) stock items that were considered to be pilferable items (e.g. tools).

During our review of the port clearance process, we interviewed staff within CFM's procurement office to obtain a detailed description of this process. An analysis was also performed to assess the number of days that project goods, consigned to CFM-S and CFM-C, remained at the ports before being cleared and transported to the storage warehouses. In performing this analysis, we obtained the date of arrival for selected shipments from the local offices of several freight forwarding firms. The arrival dates were then compared with the respective dates the goods were delivered to CFM's storage facilities in order to determine the length of stay at the ports. Field visits were made to the ports of Maputo and Beira, as well as to the cargo terminal at Maputo International Airport to inspect shipments of project goods temporarily stored at these locations waiting to be cleared through customs. For the shipments consigned to CFM-S and unloaded at the Port of Maputo, we reviewed a sample of 17 shipments out of a total of 21 received by CFM-S as of May 31, 1991. A similar analysis was done on all of the 12 shipments consigned to CFM-C and delivered to Beira as of this same cut off date.

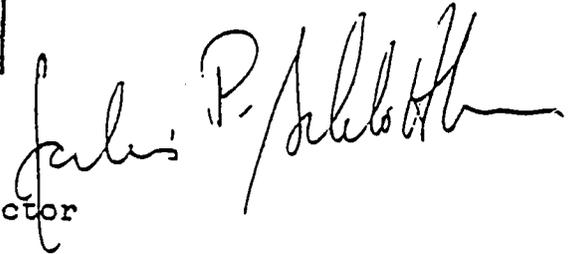
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November 25, 1991

To: Mr. Toby L. Jarman, RIG/A/N

From: Julius Schlotthauer, Mission Director  
USAID/Mozambique



Subject: Draft Audit Report of the Regional Rail Systems  
Support - Mozambique Component

The Mission has completed a review of the subject draft audit report and concurs in the report findings. The Mission has taken the following actions to address the recommendations contained in the report:

Recommendation No. 1.1: The Mission concurs in the dollar amount reported under this recommendation. The Mission contacted the supplier in question by FAX on October 7, 1991 and requested documentation to support the suppliers claim for freight and insurance in the amount of \$70,316.53. This amount includes the \$61,246.00 for unsupported freight claims as reported in the audit. Since no response was received, a follow-up FAX was sent to the supplier on November 6, 1991. The Mission requests RIG/A/N consider Recommendation No. 1.1 as resolved. Closure will be requested following receipt by the Mission of appropriate documentation from the supplier. If appropriate documentation is not received, the Mission will request a refund from the supplier. A copy of our correspondence with the supplier on this issue is being forwarded to RIG/A/N under separate cover.

Recommendation No. 1.2: The Project Officer maintains a Lotus spreadsheet on all Letters of Commitment funded under the project. At the time of the audit, this spreadsheet did not record the expiration dates for each Letter of Commitment. Following discussions with the auditors, the expiration date for each commitment has been added to this spreadsheet. With this additional information, the Project Officer uses this spreadsheet to ensure that (1) contractors are not paid for goods provided or services rendered after the expiration dates, and (2) quarterly, when accruals are being prepared, all unspent fund balances are reviewed and, if appropriate, de-committed. A copy of this spreadsheet is being forwarded to RIG/A/N by a separate memorandum. Based on this action, the Mission requests RIG/A/N close Recommendation No. 1.2 upon issuance of the final report.

Recommendation No. 1.3: On September 27, 1991, the Mission de-committed \$75,319.76 from expired Letters of Commitment under the project. This amount includes the \$36,094.00 identified in the audit report. A copy of the journal vouchers covering the de-commitment of these funds is being forwarded to RIG/A/N under separate cover. Based on this action, the Mission requests RIG/A/N close Recommendation No. 1.3 upon issuance of the final report.

Recommendation No. 2.1: The Project Officer met with CFM Procurement Director and the TA Procurement Specialist to discuss the problems raised by the audit concerning port delays and missing shipments. Following this meeting, CFM advised USAID by letter dated October 14, 1991, of steps CFM plans to take to resolve these issues. After reviewing this response, I advised CFM by letter dated November 19, 1991 of additional actions which need to be taken in order to adequately address the issue of port delays. Subsequently, by letter dated November 20, 1991, CFM provided the Mission with adequate assurance that recommended steps, to improve the port clearance process are being implemented. Copies of this correspondence are being forwarded to RIG/A/N under separate cover. Based on our communication with CFM, the Mission requests Recommendation No. 2.1 be closed upon issuance of the final report.

Recommendation No. 2.2: Based on the communications referenced in Recommendation No. 2.1 above, the Mission requests that Recommendation No. 2.2 be closed upon issuance of the report.

Recommendation Nos. 2.3 and 2.4: A letter from USAID dated November 19, 1991, establishing procedures to be followed by CFM for monitoring the port clearance process, has been forwarded to CFM. A copy of this letter is being forwarded to RIG/A/N under separate cover. Based on the issuance of this letter, which establishes procedures to ensure that goods are moved through the port in a safe and expeditious manner, the Mission requests Recommendations No. 2.3 and 2.4 be closed upon issuance of the final report.

Recommendation Nos. 3.1 and 3.2: Procedures have been established in writing to ensure that tests are performed by USAID on CFM's inventory stock control system on a quarterly basis; and, to ensure that USAID, as a part of its site visit agenda, performs a review of the security procedures and existing safeguards at facilities where project commodities are stored. These procedures are documented in a memorandum from USAID to RIG/A/N dated November 23, 1991. Based on these procedures, the Mission requests that RIG/A/N close Recommendation Nos 3.1 and 3.2 upon issuance of the final report.

Recommendation No. 3.3: USAID contacted General Electric, the supplier of the grease purchased by the RRSS Project, on July 10, 1991 requesting the acceptance for the return, for credit, of 560 surplus drums out of the 580 drums of grease supplied under Letter of Commitment 690-0247.56-01 at a cost of \$171.40 per drum. By telex dated September 4, 1991, General Electric agreed to accept the return of a total of 290 drums of grease. USAID and CFM are now handling the administrative procedures required to effect the return of these 290 drums. USAID and CFM are exploring other possibilities for remainder of 270 surplus drums. Copies of correspondence between USAID and supplier are being forwarded to RIG/A/N. The Mission fully anticipates that credit for the returned drums will not be forthcoming until the grease is received by the supplier. However, the Mission requests this recommendation be closed upon issuance of the final report, based on the agreement reached between USAID and the supplier which confirms that 290 drums of grease will be accepted for credit.

I wish to thank you and your staff for the constructive approach taken during the audit. We especially appreciated the opportunity to discuss the audit 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 Regional Rails Support Systems Project.

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