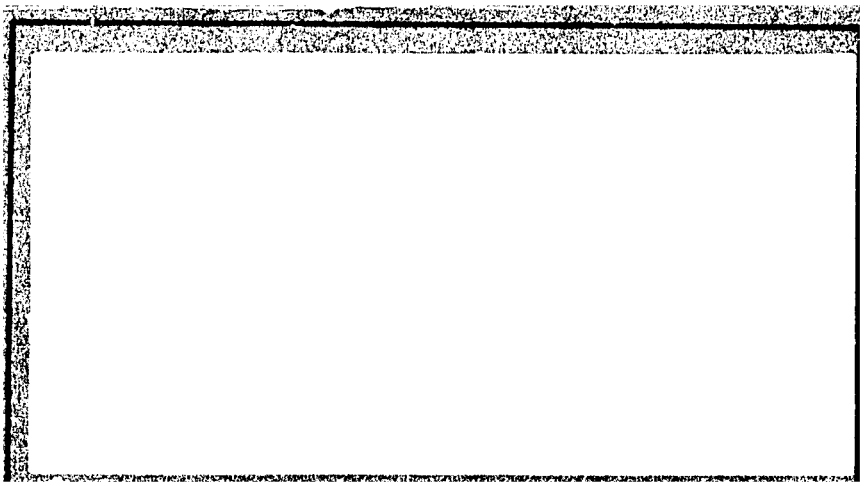
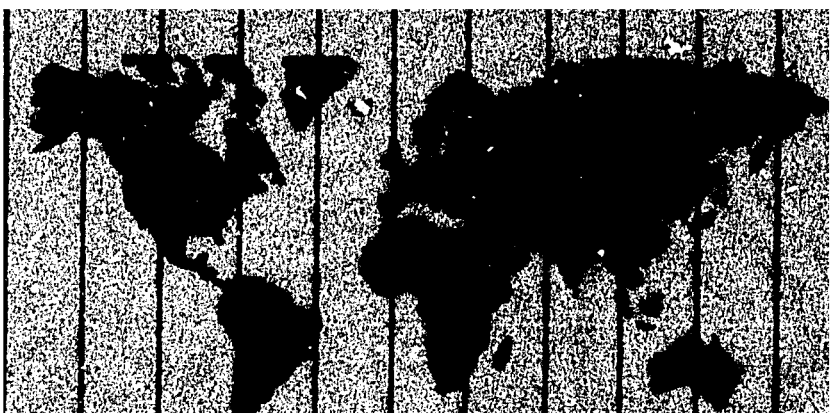
PD-ABD-889

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL





Regional Inspector General for Audit
NAIROBI

PD-ABD-889

AUDIT OF USAID/ZIMBABWE'S CONTRACT NO. 613-0231-C-00-6022-00 WITH ZECO LIMITED

AUDIT REPORT NO. 3-613-91-07-N
April 2, 1991

The auditors questioned or considered unsupported the equivalent of $1,256,252 of $3,498,204 billed by ZECO Limited under a contract to rehabilitate 11 locomotives. In addition, the auditors found that most of the equivalent of $560,763 in a ZECO supplementary claim was either unsupported or questionable. The auditors also reported on significant internal control and compliance issues concerning the ZECO contract. RIG/A/Nairobi concluded that ZECO Limited should not be awarded any future contracts until it establishes appropriate accounting procedures.

CONTRACTOR INFORMATION IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

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

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April 2, 1991

MEMORANDUM

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

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

SUBJECT: Audit of USAID/Zimbabwe's Contract No. 613-0231-C-00-6022-00 With ZECO Limited

This report presents the results of a non-Federal financial audit of USAID/Zimbabwe's Contract No. 613-0231-C-00-6022-00 with ZECO Limited. The accounting firm of Price Waterhouse Associates, Kenya performed the audit.

USAID/Zimbabwe entered into a fixed price contract with ZECO in May 1986 to rehabilitate 11 locomotives and provide associated services. The contract was part of the Regional Transport Development Project No. 690-0231, which was to improve the capacity and efficiency of Mozambique's railroad system.

ZECO completed its services under the contract and billed the equivalent of $3,498,204 (the combined total of U.S. and Zimbabwe dollar payments) for the contracted services plus additional approved work and contract amendments. In December 1989, ZECO also submitted a final claim requesting reimbursement of costs amounting to Zimbabwe Dollars (Z$) 1,497,237 ($560,763) for extra costs it stated it incurred.

The audit objectives were to:

- report on the fairness of the special Fund Accountability Statement totalling the equivalent of $3,498,204 and the supplementary costs claimed by ZECO Limited totalling Z$1,497,237 ($560,763);

- evaluate ZECO's system of internal accounting controls; and

- evaluate ZECO's compliance with terms of its contract and with applicable U.S. laws and regulations.

With respect to costs reflected on the Fund Accountability Statement, the auditors determined that ZECO did not retain accounting records relating to labor hours. Further, certain reports and adequate documentation supporting individual transactions could not be located for a significant portion of the transactions selected for testing. As a result, the auditors were unable to form an opinion as to whether the Fund Accountability Statement, or the special claim, presented fairly the revenues and expenses incurred under its contract.

The auditors did, however, determine that Z$3,354,194 ($1,256,252) of the costs reimbursed under the fixed price contract and approved work orders were either unsupported or questionable, as follows:

	Fixed Price Contract	Approved Work Orders	Total
Amount Unsupported	Z$2,929,236	Z$348,896	Z$3,278,132
Amount Questioned	66,807	9,255	76,062
Total	Z$2,996,043	Z$358,151	Z$3,354,194

Concerning the extra cost claim of Z$1,497,237 ($560,763), the auditors determined that only Z$32,522 of Z$1,152,666 examined was acceptable for payment. The auditors also reported that the claim was primarily for unapproved work. Because the claim primarily concerned unapproved work and because the large sample selected was almost entirely rejected by the auditors, we believe the contracting officer should reject ZECO's claim of Z$1,497,237 ($560,763) for extra work.

In their report on internal accounting controls, the auditors noted reportable conditions in the areas of: lack of commitment to contract compliance, not having written policies and procedures, frequent overrides of its established accounting controls, poor cost accounting procedures, and leaving a poor audit trail for accounting transactions. The auditors made recommendations to ZECO to address these areas. Since these internal control deficiencies are so significant, we believe the Regional Contracting Officer, REDSO should initiate appropriate action to preclude ZECO being awarded any further A.I.D.-funded contracts until it makes appropriate improvements.

The auditor's report on compliance with contract terms and U.S. laws and regulations noted material non-compliance in that ZECO did not bill for progress payments in accordance with contract provisions, use labor rates set out in the contract for approved work orders, retain records and separately account for a significant portion of costs incurred, or comply with contract provisions regarding overhead allocations. As a result, (1) USAID/Zimbabwe often paid well in advance of when payments were actually due, thereby resulting in excess interest costs totalling about Z$77,000 ($28,839) to the U.S. Government, (2) ZECO billed for labor at rates that exceeded the amount authorized for its contract, (3) ZECO had not implemented an accounting system sufficient to identify the costs incurred against each contract component and approved work order, and (4) ZECO incorrectly charged overhead costs.

Another instance of non-compliance reported by the auditors was that ZECO did not obtain prior written approval from USAID/Zimbabwe before incurring costs on extra work under the contract. Many of the work orders were approved by USAID/Zimbabwe after the work had been completed.

The auditors made recommendations to ZECO Limited to address these areas of noncompliance. As with the case of poor internal controls, we believe institutional improvements are needed before A.I.D. agrees to fund any future contracts with ZECO Limited.

The draft audit report was submitted to USAID/Zimbabwe and the Regional Contracting Officer, Regional Economic Development Services Office for East and Southern Africa (RCO/REDSO/ESA) for comment and their comments (Appendix I) were incorporated in the final report. Both USAID/Zimbabwe and RCO/REDSO/ESA agreed with the facts presented in the report.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend that the Regional Contracting Officer, Regional Economic Development Services Office for East and Southern Africa, determine the allowability and recover, as appropriate:

1.1 Z$2,929,236 ($1,097,092) in unsupported costs relating to the fixed price portion of the ZECO Limited contract;

1.2 Z$66,807 ($25,021) in questioned costs relating to the fixed price portion of the ZECO Limited contract;

1.3 Z$348,896 ($130,673) in unsupported costs relating to approved work orders under the ZECO Limited contract;

1.4 Z$9,255 ($3,466) in questioned costs relating to approved work orders, but erroneously recorded to the fixed price portion of the ZECO Limited contract; and

1.5 Z$77,000 ($28,839) from ZECO Limited for the value of additional interest costs incurred by the U.S Government.

Recommendation No. 2: We recommend that the Regional Contracting Officer, Regional Economic Development Services Office for East and Southern Africa reject ZECO Limited's claim of Z$ 1,497,237 ($560,763) for extra costs it stated it incurred under the contract.

Recommendation No. 3: We recommend that the Regional Contracting Officer, Regional Economic Development Services Office for East and Southern Africa take appropriate action to prevent ZECO Limited from being awarded any additional contracts for services or products funded by the United States Government pending specific confirmation through a pre-award survey that it has appropriate procedures to properly account for costs incurred under any such contract.

We consider Recommendations Nos. 1, 2, and 3 unresolved pending receipt of a plan for corrective action. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendations.

Thank you for the cooperation and courtesy extended to Price Waterhouse and Regional Inspector General for Audit representatives during the audit.

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Price Waterhouse

25 March 1991

Mr Jack Ottke
Assistant Regional Inspector General
USAID
NAIROBI

Dear Mr Ottke

NON-FEDERAL AUDIT OF ZECO LTD, ZIMBABWE

Enclosed please find three copies of the final audit report performed under our Indefinite Quantity Contract Number OTR 00001-1-0009-00, Delivery Orders 8 and 10. This audit was performed in accordance with generally accepted auditing standards and the financial and compliance elements of the Comptroller General's Government Auditing Standards.

The report contains signed audit opinions and our audit findings and recommendations on:

- the Special USAID Statement of Revenue and Expenses
- the Statement of Unapproved extra costs claimed
- ZECO's compliance with US laws, regulations and contract provisions
- ZECO's system of internal accounting controls.

This has been a challenging assignment. We would like to express our appreciation to USAID/Zimbabwe and ZECO Ltd for the cooperation and assistance provided to the Price Waterhouse team during this audit.

Yours sincerely

Andrew Hollas
Partner

A list of partners is available from the above address

USAID/ZIMBABWE - NON-FEDERAL AUDIT OF ZECO LTD

FINAL REPORT

MARCH 1991

USAID/ZIMBABWE - ZECO AUDIT

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FINANCIAL AND COMPLIANCE AUDIT OF ZECO LIMITED

1 INTRODUCTION

1.1 BACKGROUND

ZECO Limited (ZECO) is a public company incorporated in Zimbabwe with a majority of its shareholders from that country. It is a highly diversified engineering/manufacturing company that specializes in railway products. It has been located in Bulawayo, Zimbabwe since 1948 and has approximately 1,000 employees. Its revenue for the year ended 28 February 1988 amounted to Z$ 20 million with net income before exceptional items of Z$ 1 million.

The U.S. Agency for International Development (USAID/Zimbabwe) entered into a fixed price contract with ZECO in May 1986 to provide services in the rehabilitation of locomotives (Contract Number 613-0231-C-00-6022-00). This contract formed part of the Regional Transport Development (Mozambique Railways) Project (Project number 690-0231.56), whose aim was to improve the capacity and efficiency of the Beira-Machipanda railroad system.

The services to be supplied by ZECO involved the following major components:

- Rehabilitation of nine steam locomotives
- Rehabilitation of two diesel locomotives
- Procurement services for commodities listed in the contract
- Training of Mozambique Railway technicians
- Provision of technical assistance at Mozambique Railways Biera workshops.

The initial contract price was Z$ 3,000,380 (US$ 1,824,231) plus a further sum of US$ 850,246 for spares to be purchased directly by USAID/Zimbabwe from General Electric. A firm fixed price was specified for the rehabilitation of each locomotive and the other project components shown above. Subsequent work orders for approved extra work under the contract and contract amendments increased the contract price payable to ZECO to Z$ 4,192,652 (US$ 2,549,132 at the original exchange rate) plus US$ 949,072 for directly purchased spare parts.

The work specified in the contract was completed by ZECO. All eleven locomotives were delivered and accepted by USAID/Zimbabwe by early 1988. The procurement, training and technical services have also been completed.

A project evaluation was done in February 1989. No financial audits of the project had been carried out prior to the current one.

On February 15, 1988 ZECO submitted a claim of Z$ 439,000 for extra work on five steam locomotives. USAID/Zimbabwe rejected this claim. The reasons for rejection included:

- the work had not been authorized by a work order prior to the work being carried out
- lack of supporting documentation
- lack of breakdown of labor wage rates
- concerns over the accuracy of the list of materials.

Although there has been significant continuing correspondence since February 15, 1988 this claim has not been resolved.

1.2 AUDIT OBJECTIVES

Price Waterhouse was contracted under its Indefinite Quantity Contract (OTR-0000-I-00-0009-00) to perform a Non-Federal audit of the ZECO project in accordance with GAAS and the US Comptroller General's "Government Auditing Standards" (Yellow Book). Price Waterhouse was requested to provide:

- a written opinion on the Special USAID Statement of Revenue and Expenses for Costs Claimed by ZECO Limited
- a report on ZECO's systems of internal accounting controls
- a report on ZECO's compliance with U.S. laws, regulations and contract provisions.

Analyses of the problem areas and recommendations to USAID/Zimbabwe for closing out the contract were also to be provided in the report.

1.3 SCOPE OF AUDIT

The scope of the audit as established in the Price Waterhouse delivery order included a review of the Special USAID Statement of Revenues and Expenses, compliance with the provisions of the contract and the internal control structure in place at ZECO.

The Special USAID Statement of Revenue and Expenses included within the delivery order related to claims for extra work submitted by ZECO but not yet approved by USAID/Zimbabwe (see Appendix A-2). The purpose of this audit was to determine the validity and propriety of the claimed amounts and internal control or procedural weaknesses within ZECO as they relate to extra costs. Questioned and unsupported costs were to be documented in the report.

At the commencement of fieldwork, a new Special USAID Statement of Revenue and Expenses (see Appendix A-1) was provided by USAID/Zimbabwe. This statement summarizes all vouchers and detailed cost transactions submitted to, and accepted by, USAID/Zimbabwe during the period from May 16, 1986 to March 31, 1990. It does not include any amounts claimed but not approved by USAID/Zimbabwe. We were asked to render our opinion on this statement.

Therefore, the scope of the audit was expanded to include an audit of claims accepted and paid by USAID/Zimbabwe in addition to a review of claims submitted but not yet approved.

1.4 LIMITATIONS

Price Waterhouse experienced significant limitations in the performance of audit fieldwork devoted to the USAID Special Statement of Revenues and Expenses. Upon commencing audit procedures at ZECO we noted that:

ZECO had destroyed all daily labor time cards relating to the period covered by the contract.

ZECO only retains detailed daily labor time cards for a period of eighteen months. After this time they are destroyed in accordance with established ZECO practices. No time cards were available for the period from May 1986 to March 1988, when the majority of the work was done under the contract.

As a result we were unable to identify the individual employees who worked on the USAID contract. We cannot therefore obtain assurance that the labor costs claimed by ZECO represent valid labor hours and rates properly identified to the USAID contract. However, we performed certain tests to obtain limited assurance on the reasonableness of labor costs claimed (See Section 2.4.3).

ZECO allocates overhead costs to contracts based on labor costs. Since we cannot verify the base on which the allocations are done, we cannot obtain assurance that the overhead costs claimed are valid and properly allocated to the USAID contract. However, we performed certain tests to obtain limited assurance the reasonableness of overhead costs claimed. (See Section 2.4.4)

Certain detailed transaction reports were missing at ZECO. We were therefore unable to identify the individual transactions making up the amounts claimed by ZECO for verification.

ZECO prints out monthly transaction reports for each job cost account relating to the contracts. Reports for certain months, and in one instance for an entire job cost account, could not be located. Reconstruction of the transaction details from other available records was not possible within the level of effort of this audit.

We were therefore unable to identify for audit verification expenditures of Z$ 71,234 claimed against the fixed price contract. Similarly, we could not verify a further Z$ 101,903 being claimed as unapproved extra costs.

ZECO's accounting records do not separately identify the costs relating to extra work done under approved work orders.

ZECO did not maintain separate job cost accounts for most of the approved work orders. The costs were instead commingled with costs relating to work under the fixed price contract. It was therefore not possible to identify a large proportion of costs relating to approved work orders for audit verification.

Frequent turnover in staff made it difficult to assess controls in place during the period of the contract.

Many of the key staff in place during the period from May 1986 to February 1988, when the majority of the work was done on the contract, subsequently left the organization. This made it difficult for us to ascertain the nature and effectiveness of the internal controls in place during that period. This was compounded by the lack of written policies and procedures.

1.5 METHODOLOGY

Price Waterhouse conducted the initial survey of the accounting records in September 1990, subsequently prepared its audit work plan for approval by RIG/A/N, secured approval and performed the fieldwork from October 15 to November 7, 1990.

The principal audit steps performed included:

- a review of the terms and conditions of the USAID/ZECO agreement, subsequent amendments and work orders and applicable standard provisions

- a review of project evaluations, project reviews and other related documents

- a study and evaluation of the internal accounting controls and accounting practices of ZECO to the extent necessary to render an opinion on the USAID Special Statement of Revenues and Expenses

- a detailed analysis and follow-up of the vouchers and cost transactions shown in the Special Statement of USAID Revenues and Expenses to search for duplications in the amounts claimed

- selection and follow-up of amounts claimed by ZECO to ensure that they could be reconciled to, and were supported by, ZECO's accounting records

- selection and testing of cost transactions from ZECO's accounting records to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls

- obtaining written confirmation of representations made by ZECO's management during the course of the audit.

Report preparation was performed at our office in Nairobi.

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Price Waterhouse

2 SPECIAL USAID STATEMENT OF REVENUE AND EXPENSES

2.1 OPINION

Independent Auditor's Report

We have audited the Special USAID Statement of Revenue and Expenses for Costs Claimed by ZECO Limited (ZECO) under the USAID/Zimbabwe Contract Number 613-0231-C-00-6022-00 for the period May 16, 1986 through March 31, 1990. This statement is prepared directly from information concerning ZECO's claimed costs prepared and submitted by ZECO to USAID and is therefore the responsibility of ZECO. Our responsibility is to express an opinion on the statement based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards and in accordance with Government Auditing Standards (1988 revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue and expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the statement of revenue and expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 on Appendix A-1, the Special USAID Statement of Revenue and Expenses for Costs claimed by ZECO Limited was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As discussed in Section 2.2 through 2.5 of this report, ZECO did not retain accounting records relating to labor hours. Furthermore, certain accounting reports detailing individual cost transactions could not be located. Adequate supporting documentation could not be located for a significant proportion of the cost transactions that were selected for testing.

The principle effect of this is that, for a significant proportion of expenses recorded by ZECO, we were unable to obtain reasonable assurance that the expenses recorded were free from material misstatement.

A list of partners is available from the above address

Because of the significance of the matters discussed in the preceding paragraphs, we are unable to form an opinion as to whether the Special USAID Statement of Revenue and Expenses presents fairly, in conformity with the basis of accounting described in Note 1 on Appendix A-1, the revenues and expenses of the ZECO Limited and USAID Zimbabwe contract number 613-0231-C-00-6022-00 for the period May 16, 1986 through March 31, 1990.

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of ZECO's management or USAID, and should not be used for any other purpose.

Price Waterhouse

November 7, 1990.

2.2 INTRODUCTION

The objective of this financial audit was to evaluate the Special USAID Statement of Revenue and Expenses for costs claimed by ZECO Limited and to issue an opinion thereon.

The statement of USAID revenue and expenditures was prepared by USAID/Zimbabwe. It is a summary of all the payment vouchers submitted by ZECO Limited and approved by USAID/Zimbabwe. The payments made are reconciled to:

- the initial fixed price contract sum of Z$ 3,000,380, and

- the approved Work Orders for out of scope work amounting to Z$ 1,192,272.

The work we carried out and our opinion thereon relates to these two categories of expenditure claimed by ZECO Limited. It does not include:

- purchases paid directly to General Electric by USAID/Zimbabwe.

- cost of items procured as set out in attachments J2 to J7 of the contract. These items were intended to be procured by ZECO and the suppliers reimbursed directly by The USAID/Zimbabwe. The fixed price contract only includes an element of fees payable to ZECO for providing these services.

The Special USAID Statement of Revenue and Expenses and the underlying records at ZECO are denominated in Zimbabwean dollars. This is because the USAID/ZECO contract is denominated in that currency. As a result, our summaries of audit findings are shown in Zimbabwean dollars. However, for presentation purposes, we have also shown the equivalent US Dollar amount of our findings. For this purpose, we have used the exchange rate of Z$ 2.56 per US$ at the time of audit, as requested by RIG-Nairobi.

2.3 AUDIT APPROACH

Our review of the Special USAID Statement of Revenue and Expenses contained the following major components:

2.3.1 Audit Approach - Revenues

Comparison of total amounts billed by ZECO to the fixed price contract and approved work orders.

We reconciled the billings from ZECO and the payments made by USAID as recorded in the USAID statement to the initial fixed price contract sum and the total of approved work orders.

Comparison of billings recorded by USAID to revenues recorded in ZECO's accounting records

We compared the total of billings recorded in the USAID Statement to the revenues recorded in ZECO's accounting records.

Detailed review of amounts billed by ZECO

We prepared an analysis of the invoices submitted by ZECO and reviewed the invoices to ensure that they related to work authorized under the contract and to detect possible double billings.

2.3.2 Audit Approach - Fixed Price Contract Expenses

Comparison of total expenses recorded in ZECO's accounting records with the contract price

We compared the total costs recorded and supported by ZECO's accounting records to the fixed price contract by locomotive and other project line items.

Audit of selected expenses recorded by ZECO

The job cost accounts in ZECO's accounting records relating to the USAID/Zimbabwe project served as the basis for selecting transactions for detailed testing.

There are three main categories of expenditures:

- materials and purchases
- labor costs
- allocated overheads.

Each of these categories was tested separately. The detailed audit steps and selection methods are explained for each in Section 2.4.

2.3.3 Audit Approach - Approved Work Order Expenses

Comparison of total expenses recorded and supported by ZECO's accounting records to the value of approved work orders.

We compared the total of expenses recorded in ZECO's accounting records with the amount of each individual work order and performed additional procedures on major differences noted.

Audit of expenses recorded by ZECO

The job cost accounts in ZECO's accounting records relating to approved work orders under the USAID/Zimbabwe project served as the basis for selecting transactions for detailed testing.

We selected a high Zimbabwean dollar value threshold and reviewed all individual transactions above this threshold for audit verification.

Below we present our findings and recommendations regarding the fixed price contract (Section 2.4) and approved extra costs (Section 2.5).

2.4 OBSERVATIONS, FINDINGS AND RECOMMENDATIONS - FIXED PRICE CONTRACT

2.4.1 Records Retention

ZECO's accounting records show that it incurred adjusted total cumulative costs of Z$ 3,690,603 against the fixed price contract. These costs are made up as follows:

Costs per accounting records	Z$	3,523,370
Adjustment for erroneous credits		167,233
Adjusted cumulative costs	Z$	3,690,603

The adjustment relates to credit entries that our audit tests revealed were made in error by ZECO. Further details are given in Section 2.4.2 and Appendix B-6.

The recorded costs exceed the fixed price contract sum of Z$ 3,000,380. A comparison of recorded costs with the fixed price contract by locomotive and other contract components is shown in Appendix B-1.

Finding - Labor costs and allocated overheads are unsupported

ZECO did not retain labor time cards and we were therefore unable to satisfy the audit objectives on labor and overhead costs amounting to Z$ 2,629,571. This represents 71% of the total costs under review.

We have performed certain limited audit tests as set out in sections 2.4.3 and 2.4.4 but were unable to obtain the necessary level of audit assurance. We therefore consider these costs to be unsupported.

Finding - Missing accounting reports

ZECO was unable to locate a number of pages of their status reports (job cost subsidiary ledger). As a result, we were unable to identify individual transactions, comprising materials, labor and overhead costs, for detailed audit verification. The missing pages accounted for Z$ 71,234 of the recorded cumulative costs ie 2% of the total recorded costs.

The result of the above findings is that costs of Z$ 2,700,805 (73% of the recorded contract costs) are not fully auditable, and are classified as unsupported. The balance of Z$ 989,798 which is auditable consists of materials and purchases. These findings are shown in Figure 1 and Table 1.

Figure 1

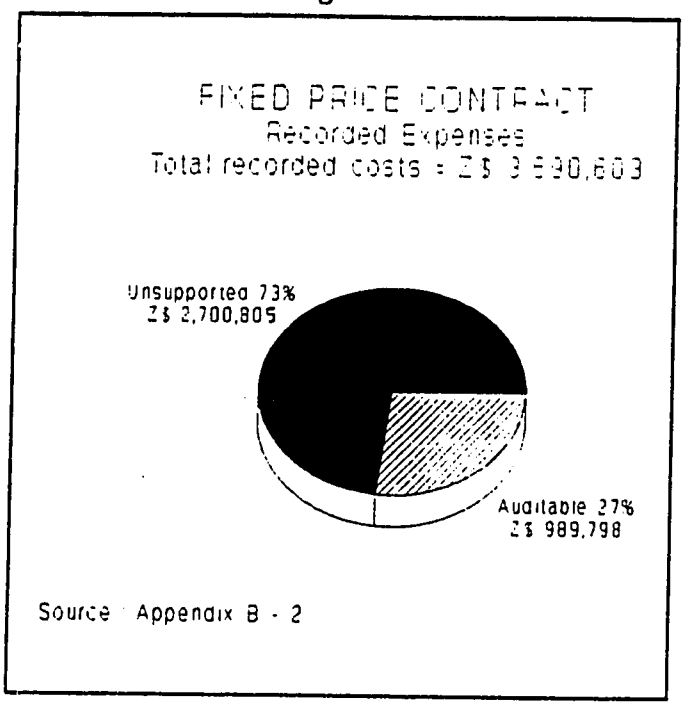


Table 1: Fixed Contract Expenses

Recorded Costs Z$	Total Unsupported Z$	Auditable Z$
3,690,603	2,700,805	989,798
	73%	27%
Equivalent to:		
US$ 1,441,642	**US$ 1,055,002**	**US$ 386,640**

Recommendation

The Regional Contracting Officer (RCO) should accept the audit finding that Z$ 2,700,805 (US$ 1,055,002) are unsupported costs due to lack of documentation. The RCO should determine the impact, if any, of unsupported costs in the context of a fixed price contract and our observations and findings arising from the limited audit procedures performed on labor and overhead costs (See Sections 2.4.3 and 2.4.4).

2.4.2 Materials and Purchases

The costs of materials and purchases that were identifiable from the accounting records amounted to Z$ 989,798.

Audit approach

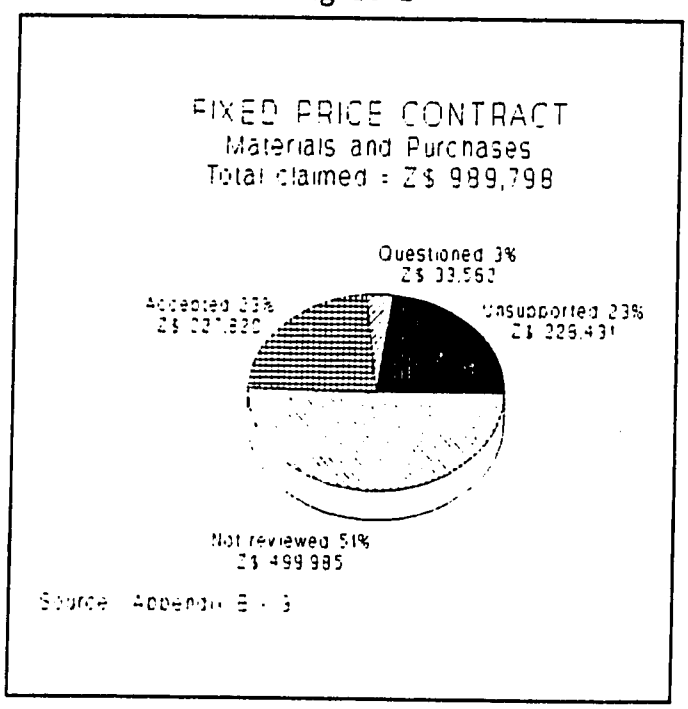
We identified a Zimbabwean dollar value threshold and selected all items above that threshold. In addition, we judgementally selected a sample of items that fell below the threshold.

Our sample of recorded expenditures amounted to Z$ 489,882 which is 49% of the population universe (Z$ 989,798).

Finding - Costs Accepted, Questioned and Unsupported

ZECO was unable to establish the allowability of a significant amount of recorded expenditures (See Figure 2 and Table 2).

Figure 2



Costs amounting to Z$ 228,431 (23% of recorded costs) are considered unsupported. In specific, no documents could be located for costs amounting to Z$ 173,840 while documentation was insufficient for costs amounting to Z$ 54,591 (see Appendix B-4).

Costs of Z$ 33,562 (3% of recorded expenditures) have been questioned (see Appendix B-5 for details). This includes costs of Z$ 9,255 which relate to expenditure on approved work orders.

Because of the significance of the matters noted above, Price Waterhouse does not express an opinion on the costs that were not reviewed.

Table 2: Fixed Contract - Materials and Purchases

Costs Recorded	Not Reviewed	Unsupported	Questioned	Accepted
Z$	Z$	Z$	Z$	Z$
989,798	499,985	228,431	33,562	227,820
	51%	23%	3%	23%
Equivalent to:				
US$	US$	US$	US$	US$
386,640	195,305	89,231	13,110	88,990

Recommendation

The Regional Contracting Officer (RCO) should accept the audit findings that Z$ 228,431 (US$ 89,231) are unsupported costs and Z$ 33,562 (US$ 13,110) are questioned costs. The RCO should determine the impact, if any, of unsupported and questioned costs in the context of a fixed price contract.

Finding - Negative questioned costs

Our audit procedures revealed two credit transactions amounting to Z$ 167,303 which appear to have been raised in error and duplicated earlier valid credit entries (see Appendix B-6). These credit entries therefore reduce the level of recorded cumulative costs relating to the two diesel locomotives.

These credit entries have been added back to the net costs per the accounting records costs (see Section 2.3.2) in computing the adjusted cumulative costs.

Recommendation

ZECO should correct the above errors in their accounting records. However, ZECO cannot claim additional amounts from USAID/Zimbabwe because they have already billed up to the fixed price contract sum on the two diesel locomotives.

2.4.3 Labor Costs

Total labor costs identifiable from ZECO's financial statements amounted to Z$ 978,640. As explained in Sections 1.4 and 2.4.1, our audit work in this area was severely limited as we could not check that labor hours have been correctly allocated and that correct labor rates have been used.

Audit approach adopted

We carried out the following additional audit steps in an attempt to provide some limited assurance as to the validity of the labor costs recorded.

To provide assurance that labor hours recorded in the accounting records arise from the normal accounting systems and procedures.

For judgementally selected locomotives, we selected a number of months for analysis. We agreed the total labor hours and costs recorded in the accounting records to the wage distribution journals. These journals are prepared weekly by division from the daily time cards.

We tested labor costs amounting to Z$ 134,939 (14% of population) in this manner.

Observations

No questioned or unsupported costs were revealed by this step.

To obtain assurance that labor rates used are credible.

For judgementally selected locomotives, we calculated the average labor rates by division and skill category and compared these with the average rates as per the payrolls for those divisions.

Labor costs amounting to Z$ 523,992 (54% of population) were reviewed in this manner.

Observations

The average rates used appeared reasonable.

To obtain assurance that labor costs are not misstated by postings from unusual sources

We set a Zimbabwean dollar threshold level and selected all items above this threshold that arose from sources other than the normal wage distribution journals.

Observation - Numerous journal postings

In our initial sample, we selected numerous journal entries affecting labor costs (and allocated overheads). The journal vouchers were properly authorized but had little in the way of supporting explanations or documentation.

In each case the entries debit the USAID contracts and credit another USAID contract job cost account created for the same locomotive. These latter job cost accounts have a credit balance at all times. In the final analysis the balances on each pair of job cost accounts are netted to arrive at the cumulative costs incurred. There is thus no net increase in recorded cumulative labor costs (or allocated overhead costs) through these journal vouchers.

The cumulative costs of Z$ 3,690,673 in ZECO's records, which exceed the fixed price contract sum of Z$ 3,000,380, are net of these journal entries.

However, further follow-up revealed that when preparing progress payment invoices, ZECO did not deduct the credit balances. Thus the cumulative costs advised to USAID/Zimbabwe were inflated by the inclusion of the above journal entries, and did not agree to the accounting records. This matter is further discussed in Section 4.3.1 and Appendix E-3.

We did additional work to identify the full extent of such journal entries. In total, the journal entries to labor costs amounted to Z$ 501,404. The same journal entries debited and credited allocated overhead costs by Z$ 1,221,101. ZECO confirmed that these postings were made for the purpose of increasing the cumulative costs reported to USAID/Zimbabwe.

To obtain assurance that the total labor costs allocated to all contracts (not just USAID contracts) by ZECO are reasonable when compared with actual payroll costs incurred.

For the years ended February 1987 and February 1988, we reviewed the differences between allocated wages and actual wages incurred for reasonableness.

Observations

No material differences were noted.

2.4.4 Allocated Overhead Costs

ZECO allocates overhead costs to contracts on the basis of direct labor costs incurred by each contract. Total identifiable overhead costs allocated to USAID/Zimbabwe amount to Z$ 1,650,931.

Because of the limitations explained in Sections 1.4 and 2.4.1, we cannot obtain sufficient assurance as to the validity of recorded direct labor costs. We are therefore also unable to obtain sufficient audit assurance as to the validity of allocated overhead costs.

Approach Adopted

We carried out the work set out below to provide some limited assurance as to the validity of the allocated overheads.

To obtain assurance that the correct overhead allocation rates were used throughout the period.

We judgementally selected four locomotives for analysis. For each locomotive selected, we computed the average overhead allocation rate by division. We compared the average rate with the standard authorized rate and investigated any differences.

We tested allocated overheads amounting to Z$ 1,012,363 (62% of population) in this manner.

For the remaining locomotives and contract components, the overall overhead allocation rate was reviewed for reasonableness.

Finding - Non-standard allocation rates used for USAID contract.

We found that ZECO used an overhead allocation rate of 200% of direct labor to allocate Division 9 overhead to USAID/Zimbabwe contracts in the period from 1 October 1986 to 15 December 1987. ZECO continued to use the standard rate of 150% for all non-USAID contracts in that period.

The approximate effect of this was to overstate the allocated overheads to USAID by Z$ 42,500 (US$ 16,602).

Recommendation

The Regional Contracting Officer (RCO) should accept the audit finding that Z$ 42,500 (US$ 16,602) is a questioned cost. The RCO should consider the impact, if any, of questioned costs in the context of a fixed price contract and the fact that overhead costs as a whole are considered to be unsupported.

To obtain assurance that the standard overhead allocation rates were reasonable.

ZECO does not adjust its standard overhead allocation rates to actual rates for each financial year.

For the years ended February 1987 and February 1988, we estimated the actual overhead rates based on actual overheads incurred. We compared these actual rates with the standard overhead allocation rates used by the ZECO.

Finding - Significant differences between actual and standard allocation rates.

We found that the use of standard allocation rates gave rise to over- and under-recoveries of overheads. For 1987 the overall under-recovery was Z$ 1,178,153 (28% of actual costs). In 1988, it was Z$ 305,920 (5% of actual costs). These figures are for the company as a whole. Divisions 5,7 and 9 did the bulk of the work on the USAID contract. There was a net under-recovery of 7% in these three divisions for 1987 and a net over-recovery of 45% for 1988.

Recommendation

The Regional Contracting Officer (RCO) should consider the impact, if any, of possible questioned overhead costs arising out of the failure of ZECO to adjust overhead allocation rates to year-end actual rates in the context of a fixed price contract. The RCO should determine if an overhead audit to quantify the effect of the above on the USAID/Zimbabwe contract is warranted.

2.5 OBSERVATIONS, FINDINGS AND RECOMMENDATIONS - APPROVED WORK ORDERS

2.5.1 Identification Of Costs

The total value of approved work orders under the contract was Z$ 1,192,272 (See Appendix A-1).

Included in this total is work order number 9 for Z$ 294,000. This relates to a claim for extra costs incurred on four steam locomotives. Although this claim has been approved and paid, it has been audited as part of the unapproved costs now being claimed by ZECO for the remaining five steam locomotives. The reasons for this are:

- the costs for Work Order 9 have been included in the accounting records with the unapproved costs. They are not separately identifiable from the remaining unapproved costs

- ZECO has submitted revised analyses of the costs incurred for Work Order 9. USAID/Zimbabwe has expressed concerns as to the validity of the extra costs incurred.

The total population under review is therefore the remaining work orders amounting to Z$ 898,272.

Finding - A large proportion of approved work order costs could not be traced to accounting records

We selected work orders amounting to Z$ 726,384 (81% of Work Orders under review). Costs estimated at Z$ 339,551 (35% of Work Order value) relating to these selected work orders could not be traced anywhere within the accounting records. These costs are therefore considered to be unsupported.

This situation arises because in general ZECO did not maintain separate job cost accounts for each approved work order. Separate job cost accounts were opened for only three of the fifteen work orders. Also, because daily time cards were not retained, it is not possible to determine where the labor costs and related overhead costs have been posted in the accounting records.

We were able to identify costs amounting to Z$ 383,144 (53% of sample) for audit verification. The balance of Z$ 3,689 represents profit margins on the work orders less known cost overruns.

These findings are summarized in Figure 3 and Table 3.

Recommendation

The Regional Contracting Officer (RCO) should accept the audit finding that Z$ 339,551 is an unsupported cost. The RCO should determine the impact, if any, of unsupported costs in the context of approved work orders.

Figure 3

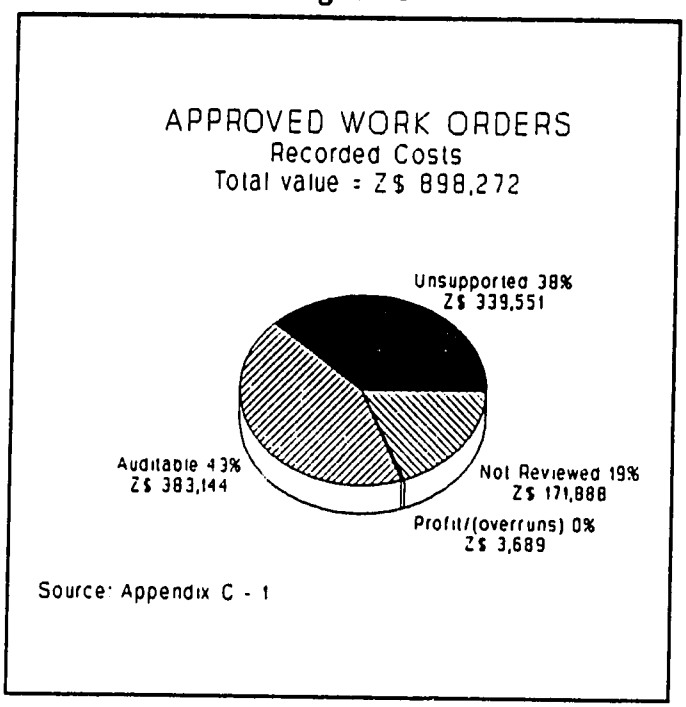


Table 3: Approved Work Order costs

Amount Claimed Z$	Not Tested Z$	Profit/ (overrun) Z$	Costs Identified Z$	Unsupported Z$
898,272	171,888	3,689	383,144	339,551
	19%	1%	43%	38%
Equivalent to:				
US$	US$	US$	US$	US$
350.888	67,144	1,441	132,637	149,666

Observation - Costs relating to approved work orders have been incorrectly posted to Fixed Price contract costs and/or included within the unapproved claim.

Of the total approved work order costs (Z$ 383,144) that could be identified for audit, Z$ 316,298 (83%) relates to costs that have been misclassified in ZECO's accounting records. In specific, ZECO had included Z$ 307,043 in the unapproved claim for extra costs and Z$ 9,255 in Fixed Price contract costs. These amounts have been tested and are accepted as valid approved work order costs, but have been treated as questioned costs in our findings in those other audit areas. (See Sections 2.4.2 and 3.4.2).

2.5.2 Costs Identified For Audit

Audit approach

For costs separately recorded and therefore identifiable in the accounting records (Z$ 383,144), we selected all items above a predetermined Zimbabwean dollar value threshold for review.

Finding - Costs accepted and unsupported

Our sample from separately recorded costs amounted to Z$ 21,345 (32% of the separately recorded costs of Z$ 66,846). Of the sample, we found costs of Z$ 9,345 (44%) to be unsupported as the source documentation could not be located. The remaining sampled items amounting to Z$ 12,000 were accepted.

In addition to the above sample, costs amounting to Z$ 316,298 relating to approved work orders but misposted to fixed price contract expenses or to unapproved extras claimed were selected for testing and are considered to be accepted work order costs.

These findings are shown in Figure 4 and Table 4.

Figure 4

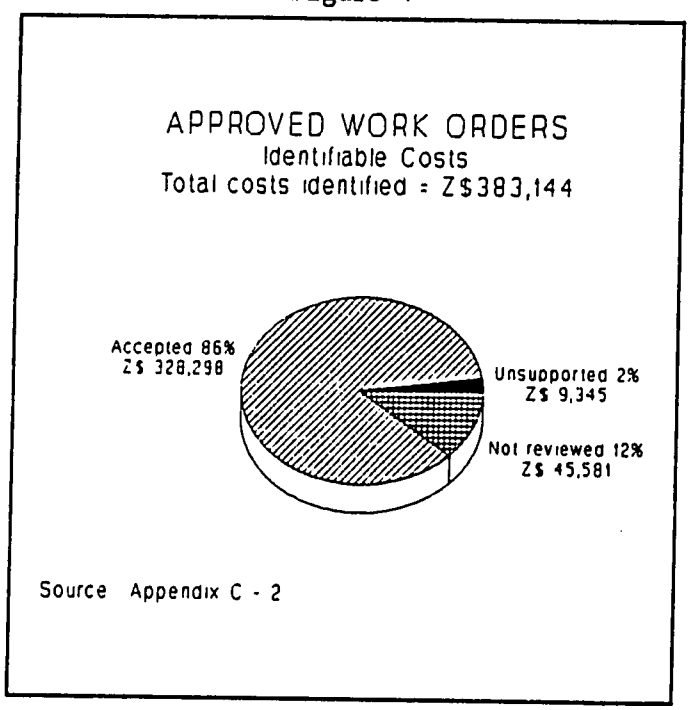


Table 4: Approved Work Order Costs Findings

	Costs Identified	Not Sampled	Unsupported	Accepted
	Z$	Z$	Z$	Z$
Acct records	66,846	45,501	9,345	12,000
Misposted	316,298			316,298
Total	383,144	45,581	9,345	328,298
		12%	2%	86%
Equivalent to:	US$ 149,666	US$ 17,774	US$ 3,650	US$ 128,242

Recommendation

The Regional Contracting Officer (RCO) should accept the audit findings that Z$ 9,345 (US$ 3,650) is unsupported. The RCO should determine the impact, if any, of unsupported costs in the context of approved work orders.

2.6 FINDINGS AND RECOMMENDATIONS - OTHER

2.6.1 Billings

Finding - Underbillings

Our reconciliation of total billings recorded on the USAID Special Statement to the fixed price contract value plus approved work orders revealed net underbillings of Z$ 59,102 (see Appendix A-1).

These underbillings arose primarily because some ZECO invoices were not accepted for payment by USAID/Zimbabwe when they were originally submitted for payment. The reasons were generally that the related Work Order had not been signed at that time. When the Work Order was subsequently signed, ZECO did not resubmit the invoices for payment. Also, ZECO has not invoiced two month's fees under Work Order number 15 and procurement fees under Work Order number 3.

Recommendations

ZECO should invoice USAID/Zimbabwe in the amount of Z$ 59,102 for the remaining amounts under Work Orders numbers 15 and 3 and for previously rejected claims for payment. Upon receipt of these invoices and payment vouchers, USAID/Zimbabwe should process them and update the MACS report and the USAID Special Statement.

USAID/Zimbabwe's own records show that USAID owes ZECO the net sum of Z$ 11,826. This figure is based on the total contract value of Z$ 4,192,652 (ie total billings recorded in MACS plus underbillings of Z$ 59,102) less USAID's calculation of liquidated damages (Z$ 253,980 - see section 6.2) and less the credit note receivable from ZECO (Z$ 81,707 see section 3.2) compared to the actual cash payments.

Processing these underbillings on the MACS report will therefore not affect the amount owed per USAID/Zimbabwe records. However, we have calculated the liquidated damages as being Z$ 246,510 (see section 6.2), a reduction of Z$ 7,470.

Thus, the net amount owed to ZECO against the contract sum and approved work orders, assuming USAID processes the Z$ 59,102 of underbillings, should be Z$ 19,296 (Z$ 11,826 plus Z$ 7,470) which is equivalent to US$ 7,357.

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3 STATEMENT OF UNAPPROVED EXTRA COSTS CLAIMED

3.1 OPINION

Independent Auditor's Report

We have audited the Statement of Unapproved Extra Costs Claimed by ZECO Limited (ZECO) under the USAID/Zimbabwe Contract number 613-0231-C-00-6022 for the period May 16, 1986 through March 31, 1990. This statement is prepared directly from information concerning ZECO's claimed costs prepared and submitted by ZECO to USAID and is therefore the responsibility of ZECO. Our responsibility is to express an opinion on the statement based upon out audit.

As conducted out audit in accordance with generally accepted auditing standards and in accordance with Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Unapproved Extra Costs Claimed is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 on Appendix A-2, the Statement of Unapproved Extra Costs Claimed by ZECO Limited was prepared to present the amount of extra costs incurred by ZECO Limited under the contract with USAID/Zimbabwe, and is not intended to be a complete presentation of ZECO's revenues and expenses arising under that contract.

As discussed in section 3.4 and 3.5 of this report, ZECO did not retain accounting records relating to labor hours. Furthermore, certain accounting reports detailing individual cost transactions could not be located. Adequate supporting documentation could not be located for a significant proportion of the cost transactions that were selected for testing. The principle effect of this is that, for a significant proportion of costs claimed by ZECO, we were unable to obtain reasonable assurance that the costs claimed were free from material misstatement.

A list of partners is available from the above address

Because of the significance of the matters discussed in the preceding paragraphs, we are unable to form an opinion as to whether the Statement of Unapproved Extra Costs Claimed presents fairly, in conformity with generally accepted accounting principles, the extra costs incurred and claimable by ZECO Limited under the ZECO Limited and USAID/Zimbabwe Contract Number 613-0231-C-00-6022 for the period May 16,1986 through March 31,1990.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of ZECO'S management or USAID, and should not be used for any other purpose.

Price Waterhouse

November 7, 1990

3.2 INTRODUCTION

In May 1987, ZECO submitted a claim for Z$ 294,000 for extra work carried out on four steam locomotives. No Work Order had been approved prior to the extra work being carried out. In September 1987, USAID/Zimbabwe approved Work Order number 9 in respect of this claim, on the basis of cost schedules submitted to them. The claim was paid in October 1987.

In February 1988, ZECO raised a further claim in the amount of Z$ 439,000 for extra work done on the remaining five steam locomotives. USAID/Zimbabwe rejected this claim, and despite several correspondences since that date, the claim has not been resolved. The principle reasons for the rejection of the claim included:

- a work order had not been approved prior to the work being carried out
- lack of supporting documentation
- lack of breakdown of labor wage rates
- concerns over the accuracy of the list of materials.

ZECO has continued to press for settlement of the claim. They have submitted numerous analyses of the costs they incurred on the extra work. In the process of reviewing these analyses, USAID/Zimbabwe discovered that the original claim for Z$ 294,000 was overstated as labor rates other than those specified in the contract had been used. ZECO, in a letter dated September 1, 1988, accepted this error and promised USAID/Zimbabwe a credit of Z$ 81,707 against this claim. USAID/Zimbabwe withheld Z$ 81,707 against one of ZECO's claims (see sections 2.6.1 and 6.1.1).

In December 1989, ZECO submitted a final claim showing that they had incurred costs amounting to Z$ 1,497,237 on extra work on all nine steam locomotives. ZECO indicated however that they would claim only the amounts of Z$ 294,000 and Z$ 439,000 in respect of these nine locomotives. (See Appendix D-1 for details)

The scope of our audit included the review of the costs recorded by ZECO as incurred on extra work on the nine steam locomotives with a view to scheduling unsupported, questioned and accepted costs. Included in this review was Work Order No 9 since the costs relating to this approved Work Order were commingled in ZECO's accounting records with the remaining unapproved costs.

3.3 AUDIT APPROACH

Comparison of amount claimed with ZECO's accounting records

We compared the amount claimed with ZECO's accounting records to ensure that it was derived from and is supported by the accounting records.

Audit of expenses incurred

The job cost accounts for unapproved extra costs in ZECO's accounting records relating to the USAID/Zimbabwe project served as the basis for selecting transactions for detailed testing.

There are three main categories of expenditures:

- materials and purchases
- labor costs
- allocated overheads.

Each of these categories was tested separately. The detailed audit steps and selection methods are explained for each in section 3.4.

3.4 FINDINGS AND RECOMMENDATIONS

3.4.1 Records Retention

All labor costs and allocated overheads are unsupported

Because ZECO did not retain labor time cards, we were unable to satisfy the audit objectives on labor and overhead costs amounting to Z$ 398,474. This represents 26% of the total costs under review. (See Appendix D-2).

We have performed certain limited audit tests as set out in sections 3.4.3 and 3.4.4 but are unable to obtain the necessary audit assurance. We therefore consider these costs to be unsupported.

Missing accounting reports

ZECO was unable to locate the status reports (job cost subsidiary ledger) for one contract account. As a result, we were unable to identify individual transactions for detailed audit verification.

The recorded costs relating to the missing report amount to Z$ 101,903 of the recorded cumulative costs, ie 7% of the total recorded costs. (See Appendix D-2).

The result of the above findings is that costs of Z$ 500,377 (33% of the recorded unapproved extra costs) are not fully auditable, and are classified as unsupported. The balance of Z$ 996,860 which is auditable, represents materials and purchases. These findings are shown in Figure 5 and Table 5.

Figure 5

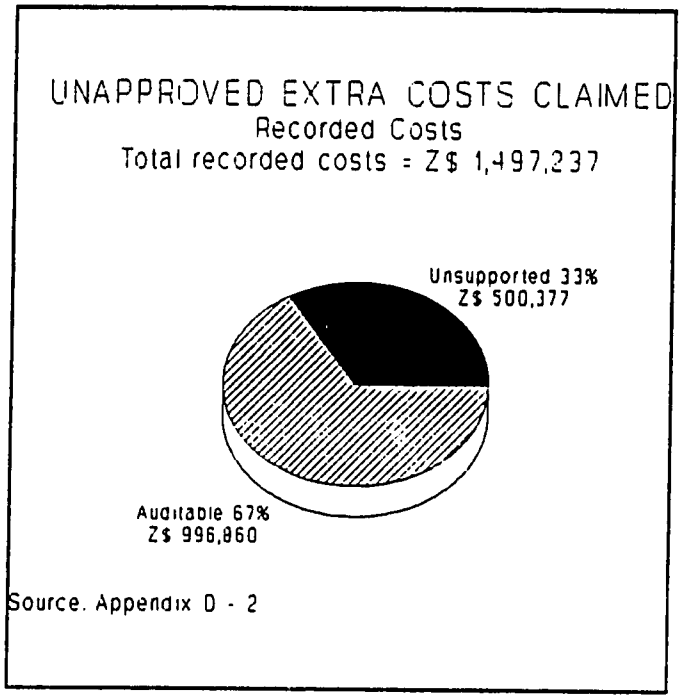


Table 5: Unapproved extra costs claim

Costs Recorded	Unsupported	Auditable
Z$	Z$	Z$
1,497,237	500,377	996,860
	33%	67%
Equivalent to:		
US$ 584,858	US$ 195,460	US$ 389,398

Recommendation

The Regional Contracting Officer (RCO) should accept as unsupported the unapproved extra costs amounting to Z$ 500,377 (US$ 195,460). However, the RCO should take into the account the observations arising out of our limited audit work covering labor and allocated overhead.

3.4.2 Materials and purchases

The total value of recorded materials and purchases costs that is auditable is Z$ 996,860.

Audit approach

We set a high Zimbabwean Dollar threshold value and selected all items above this threshold for review. In addition, we selected a judgmental sample of items below this threshold. Our sample covered costs amounting to Z$ 652,289 (65% of the recorded costs).

Finding - Unsupported, questioned and accepted costs.

ZECO was unable to establish the allowability of significant amounts of recorded expenditures.

Costs amounting to Z$ 312,723 (31% of recorded expenses) are considered to be unsupported. In specific:

- no supporting vouchers could be located for costs amounting to Z$ 133,672 (See Appendix D-4)

- insufficient details were available to allow us to determine the validity of recorded costs amounting to Z$ 16,409 (See Appendix D-4)

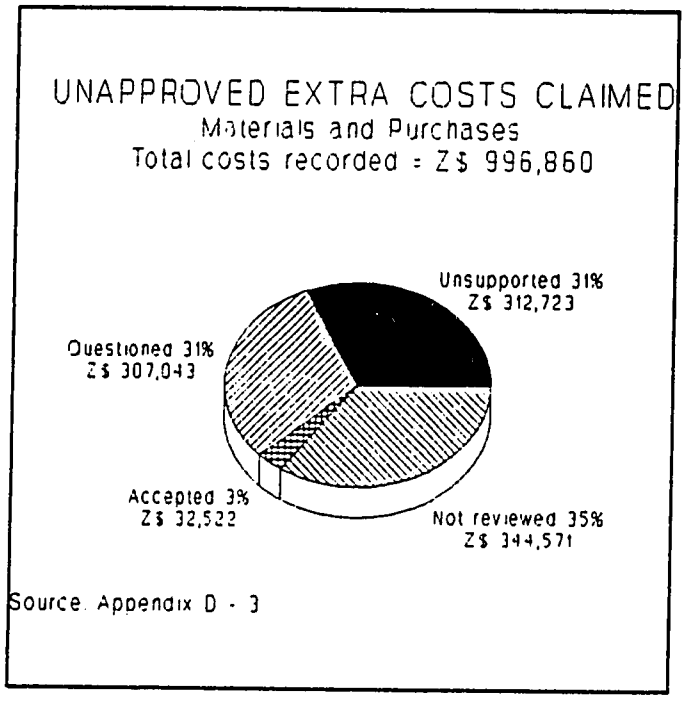
- costs amounting to Z$ 162,642 (See Appendix D-5) included in the accounting records could not be traced to the detailed analyses of extra costs. These detailed analyses were prepared by ZECO from informal "cuff" records to support the amounts claimed under Work Order 9 and the current claim. We are therefore unable to determine whether these costs should be included as part of the claim for extra work.

Costs amounting to Z$ 307,043 (31% of recorded costs) have been questioned because they relate to costs incurred on approved Work Orders. (See Appendix D-6). They should not therefore form part of the claim for unapproved extra costs.

Costs amounting to Z$ 32,522 (3% of recorded costs) have been accepted. (See Appendix D-7)

Because of the significance and nature of the matters raised above, we cannot directly project the findings to the costs that were not reviewed. These findings are summarized in Figure 6 and Table 6.

Figure 6



Recommendation

The Regional Contracting Officer (RCO) should accept the audit findings of unsupported, questioned and accepted costs as set out above. The RCO should assess the impact, if any, of the unsupported and questioned costs in the context of the payment already made by USAID/Zimbabwe for Work Order 9. Prior to negotiating payment for additional costs, ZECO should supply evidence to justify the payment received for Work Order No 9.

Table 6: Unapproved Extra Costs - Material and Purchases

Costs Recorded	Not Reviewed	Unsupported	Questioned	Accepted
Z$	Z$	Z$	Z$	Z$
996,860	344,572	312,723	307,043	32,522
	35%	31%	31%	3%
Equivalent to:				
US$	US$	US$	US$	US$
389,398	134,598	122,157	119,939	12,704

3.5 LABOR AND ALLOCATED OVERHEADS COSTS

The labor and allocated overhead costs recorded in the accounting records relating to the claim for unapproved extra costs amount to Z$ 410,128. This amount is made up as follows:

	Z$
Per available records (Section 3.2)	398,474
Relating to missing records	11,654
	410,128

Section H Article III of the contract between ZECO and USAID/Zimbabwe specifies the fixed labor rates to be used in claiming for extra work under the contract. Therefore, in order to compute the maximum amount claimable by ZECO for labor and overheads, it is necessary to apply these rates to the labor hours recorded in the accounting records.

The accounting records show that the following labor hours were allocated to the unapproved extra work:

	HRS
Skilled labor hours	19,093
Semi-skilled labor hours	9,418
Unskilled labor hours	19,660
	48,171

Based on the labor rates set out in the contract, ZECO could claim a maximum amount of Z$ 540,940 for labor and overhead costs. This exceeds the recorded actual costs of Z$ 410,128 because the fixed labor rates allow for an element of profit.

As explained in Section 1.4, our audit work in this area was severely limited as we could not identify for audit testing the individual employees whose hours are allocated to the extra costs claim. We are therefore unable to determine whether the hours allocated by ZECO are valid.

Audit approach adopted

We carried out the following additional audit steps in an attempt to provide some limited audit assurance as to the validity of the labor hours allocated to the claim for extra costs.

To provide assurance that the total labor hours recorded are reasonable.

ZECO prepared analyses of the labor hours spent on unapproved extra work to support the amounts claimed from informal records maintained by the Steam Locomotive Division. We compared the total labor costs by category recorded in the accounting records with these analyses.

Observation

Significant differences exist between the labor hours per the accounting records and the detailed analyses (see Appendix D-8). In some cases, the hours per the analyses exceed the hours recorded in the accounting records. Little reliance can therefore be placed on the hours recorded in the accounting records or the informal records.

To provide assurance that the labor hours recorded arise from the normal accounting systems and procedures

We selected on a judgement basis six months for review. For these months we agreed the labor hours recorded in the accounting records to the totals of the wage distribution journals. These journals are prepared on a weekly basis from the daily time cards.

We selected 16,544 labor hours (34% of recorded hours) for verification in this manner.

Observation

We were unable to trace a total of 606 labor hours (3.6% of the sample) posted to unapproved extras costs to the wage distribution journals. It was not clear from where the postings had originated. Also, we noted that wage distribution journals for the month of December 1987 were missing although this month was not part of our sample.

To obtain assurance that labor hours and related costs are not misstated by postings from unusual sources

We set a Zimbabwean dollar threshold level and selected all items above this threshold that arose from sources other than the normal wage distribution journals.

Observation

No such entries were noted.

To obtain assurance that the average labor rates used in the accounting records and the overhead allocation rates are reasonable, and by doing so, to identify possible major posting errors.

We computed the average labor rates by division for all the labor hours recorded. These average rates were reviewed for reasonableness in comparison with the actual average labor rates per the payrolls.

Observation

This audit step revealed posting errors arising from incorrect data entry amounting to Z$ 7,042. These errors increased the total labor and overhead costs recorded although they do not affect the labor hours recorded. Also we noted one posting of Z$ 7,997 which had no supporting documentation.

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4 STATEMENT ON COMPLIANCE WITH US LAWS, REGULATIONS AND CONTRACT PROVISIONS

4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the Special USAID Statement of Revenue and Expenses for costs claimed by ZECO Limited (ZECO) under the USAID/Zimbabwe contract number 613-0231-C-00-6022-00 for the period May 16, 1986 through March 31, 1990 and have issued our report thereon dated November 7, 1990.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, agreements and grants applicable to ZECO is the responsibility of ZECO's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ZECO's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have not been corrected in this Special USAID Statement of Revenue and Expenses.

Material noncompliances were observed in ZECO's failure to bill progress payments in accordance with contract provisions, failure to use labor rates set out in the contract for approved work orders, failure to retain records and separately account for a significant proportion of costs incurred and failure to comply with contract provisions regarding overhead allocations.

A list of partners is available from the above address

We considered these material instances of noncompliance in forming our opinion on whether the Special USAID Statement of Revenue and Expenses was presented fairly, in all material respects, in conformity with the basis of accounting set out in note 2 on Appendix A-1, and this report does affect out report dated November 7, 1990 on that statement.

As described above and as further discussed in section 4.3 of the following pages, the results of our tests of compliance indicated that, with respect to the items tested, ZECO did not comply, in all material respects, with the provisions referred to in the third paragraph of this report.

Because of the significance of the matters referred to above, we do not believe that, with respect to the items not tested, ZECO has complied, in all material respects, with the provisions referred to in the third paragraph of this report.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of ZECO's management or USAID, and should not be used for any other purposes

November 7, 1990 Price Waterhouse

4.2 INTRODUCTION

USAID expects all contractors, regardless of the country or continent, to comply with the terms and conditions included in the contract, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by a Mission or by AID/Washington.

4.3 FINDINGS AND RECOMMENDATIONS

Below we indicate our findings with respect to billings, approved work orders, records retention, overhead allocations and other issues. Our recommendations are provided in Section 4.3.6.

4.3.1 Billings

Federal Acquisition Regulation (FAR) 52.232 was incorporated into the contract by section I. Under this FAR, ZECO could bill 80% of the cumulative actual costs incurred less progress payments received on the fixed price contract. Such progress payments could be billed monthly up to the delivery of the locomotive. However, the cumulative progress payments were limited to 80% of the fixed price contract sum.

Finding - Progress payments not based on recorded incurred costs

During the period of the contract, ZECO made a number of journal entries in its books (see Section 2.4.3). These entries all increased the recorded cumulative costs on the job cost ledger for each locomotive and credited a separate account within the job cost ledger. Thus at any given time, the net balance on these accounts gave the actual cumulative costs incurred to date for each locomotive.

When calculating the amounts to be billed for progress payments, ZECO based the progress payments on the cumulative costs increased by the journal voucher entries and ignored the related credits. However, when computing the final cumulative costs upon completion of the contract, these credits were applied correctly to arrive at actual net costs.

The effect of the above was to accelerate the receipt of progress payments. For example, for some locomotives ZECO had billed up to the contract sum even though the actual costs recorded in their accounting records only amounted to approximately 35% of the costs disclosed to USAID (see Appendix E-3). In most cases, the final invoicing was done well before the locomotives were actually delivered.

The journal vouchers had little in the way of supporting documentation or explanation. ZECO's management acknowledged that the journal vouchers were used to increase the cumulative costs for billing purposes. Their explanation was that the journal vouchers were used to get the disclosed cumulative costs to equal a pre-determined percentage of the contract value. This pre-determined percentage represented the estimated percentage completion of the work on the locomotive. However, there was no supporting documentation such as an engineer's report to justify the percentage completion.

Finding - Progress payments based on 100% of disclosed costs

ZECO billed USAID/Zimbabwe for 100% of the cumulative costs (as adjusted by the journal voucher) instead of the required 80%. In addition, ZECO billed 90% or more of the contract sum for all the locomotives prior to their delivery. In no instance did ZECO comply with requirement to limit the progress payments to 80% of the contract sum prior to delivery of the locomotives.

4.3.2 Approved Work orders

Finding - Contract labor rates not used

Section H, Article III of the contract sets out the hourly labor rates to be used in billing under approved work orders. For some of the work orders we reviewed, ZECO did not use these hourly rates. For example:

- the amount claimed under work order number 9 of Z$ 294,000 was later revised downwards by Z$ 81,707 to correct for the use of non contract rates.

- in computing the amount to be billed under work order number 3, ZECO used their own standard labor rates and included a 20% profit margin. Use of the contract labor rates would have reduced the amount payable by USAID/Zimbabwe by Z$ 9,463.

- in estimating the total amount billed under work order number 4, ZECO included an amount of Z$ 116,000 for labor costs. This estimate was obtained from an independent party and utilizes the labor rates and profit margins of that party. The work was actually carried out by ZECO but the accounting records do not separately identify the labor hours spent. It is thus not possible to calculate the effect of not using the contract labor rates.

4.3.3 Records Retention

Finding - Accounting records not retained

As explained in Sections 1.4, 2.4.1, 2.4.2, 2.5.1, 2.5.2, 3.3.1 and 3.3.2 of this report, ZECO did not retain for audit accounting documents supporting a large proportion of total costs it incurred, as required by FAR.

Finding - Accounting system insufficient

ZECO has failed to implement an accounting system sufficient to identify separately the costs incurred against each contract component and approved work order. This is further discussed in Section 5.3.2.

4.3.4 Overhead Allocations

Finding - Cost principles regarding overhead not adhered to

ZECO did not comply with the cost principles set out in FAR 52.230 3-5, the requirement of which were incorporated into the contract through Section I of the contract. In specific:

- Standard overhead allocation rates were not adjusted for large variances from actual overhead rates (see Section 2.4.4 for details).

- ZECO used overhead allocation rates for the USAID contract that were different from the rates generally used for non-USAID contracts. This occurred in division 9 and resulted in an overstatement of allocated overheads by Z$ 42,500 (see Section 2.4.4 for details).

- The pool of actual overhead costs allocated to contracts include some costs that are specifically disallowed under the FAR. Examples include advertizing, donations, and interest expense. The total value of disallowable expenditure was Z$ 143,465 in the year ended February 28, 1987, and Z$ 412,280 in the year ended February 28, 1988.

The net result of the above appears to have been in USAID's favor in the year ended February 28, 1987. For the year ended February 28, 1988 however, it may have been in ZECO's favor. It was beyond the scope of this audit to assess the full effect of these matters. A separate overhead audit would be necessary to calculate the effect, and may not be appropriate given the nature of a fixed price contract.

4.3.5 Other Non-Compliance Issues

Other instances of non-compliance included:

- ZECO failed to secure prior written approval from USAID/Zimbabwe before incurring costs on extra work under the contract. Many of the work orders were approved by USAID/Zimbabwe after the work had been completed.

- ZECO failed to provide a 5% bank guarantee as required by section H article IV of the contract.

- ZECO did not provide semi-annual progress reports as required by AIDAR 752.7026.

- ZECO failed to secure written approval of an extension to the delivery schedule for the locomotives.

- ZECO did not submit certification for use of non-US flag carriers. ZECO also applied the cost of Club-class air tickets to the fixed price contract.

4.3.6 Overall Recommendations

ZECO should develop an understanding of USAID contract clauses and the importance of compliance with these requirements. ZECO does not appear to have any institutional knowledge of USAID contract requirements. We recommend that for future USAID contracts, ZECO seek guidance from USAID/Zimbabwe on all regulations with which it must comply.

We also recommend that ZECO appoint a contracts administrator for USAID contracts to assume responsibility for ZECO compliance with contract and US government regulations. This administrator should work closely with the ZECO project manager(s) and accounting staff to ensure compliance with USAID regulations.

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5 STATEMENT OF INTERNAL CONTROLS

5.1 INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROLS

We have audited the Special USAID Statement of Revenue and Expenses for costs claimed by ZECO Limited (ZECO) under the USAID/Zimbabwe contract number 613-0231-C-00-6022-00 for the period May 16, 1986 through March 31, 1990 have issued our report thereon dated November 7, 1990.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing out audit of the Special USAID Statement of Revenue and Expenses for the period May 16, 1986 through March 31, 1990, we considered ZECO's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the special USAID statement and not to provide assurance on the internal control structure. The establishment and maintenance of the internal control structure is the responsibility of ZECO's management. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized user or disposition, and that transactions are executed in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Directors WA Hollas AL Baldwin WV Bouch CD Lucy (British)

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Purchasing and Receiving
Cash Disbursement and Accounts payable
Payrolls
Billings, Receivables and Cash Receipts
Inventory
Property and Equipment.
General Ledger

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation for the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We noted reportable conditions in ZECO's internal control structure in the areas of institutional commitment to contract compliance, lack of written policies and procedures and frequent overrides of accounting controls, lack of follow-up on job cost ledger amounts recorded, inappropriate structure of the job cost ledger, and poor audit trail for accounting transactions. Further description of these reportable conditions is provided in section 5.3 of this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that all of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported separately to ZECO's management.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of ZECO's management or USAID, and should not be used for any other purpose.

November 7, 1990

Price Waterhouse

5.2 INTRODUCTION

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- the control environment
- the accounting system
- control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record and report transactions and to maintain accountability for both assets and liabilities. Control procedures are those policies and procedures in addition to the control environment and accounting systems that management has established to safeguard the organization's resources, such as procurement practices, authorization levels and segregation of duties.

Our findings and recommendations are based on the above guidelines, taking into consideration the context within which ZECO operates which is unique to the organization, eg its size, the nature of its activities, its methods for processing data, its applicable regulatory requirements and the requirements imposed by the US Government on USAID recipients. Our findings are based on meetings and interviews with ZECO's management and supporting staff and the results of detailed transaction testing.

5.3 FINDINGS AND RECOMMENDATIONS

5.3.1 Control Environment

Finding - Lack of institutional commitment

ZECO has not demonstrated the institutional commitment necessary for it to achieve compliance with USAID contract requirements and to having a strong control environment. There appeared to be no institutional knowledge of the requirements of the USAID contract requirements and of the necessity to comply with them. The external auditor's letters to management indicated the uncontrolled disposal of some fixed assets.

ZECO's management also informed us about an alleged misappropriation of cash perpetuated by a senior official. We consider these examples as indicative of a very weak control environment.

Finding - Lack of written policies and procedures

ZECO does not have any written policies and procedures to formalize and communicate its accounting and control procedures in respect of USAID contracts. ZECO's normal policies and procedures are not suitable for the special requirements of USAID contracts.

Finding - Accounting procedures overridden

We noted a number of instances where the journal vouchers were raised to increase the cumulative costs reported to USAID (see Sections 2.4.3 and 4.3.1). These entries would not have formed part of the normal accounting procedures of the company. The journal vouchers did not have descriptions and supporting documentation sufficient to explain the nature of the transactions.

Recommendations

ZECO's management needs to understand the importance of a strong control environment to achieving the necessary level of compliance with USAID regulations. The management needs to communicate this commitment throughout the organization. This may be achieved partly by appointing a contracts administrator with the specific responsibility of ensuring compliance with USAID regulations.

5.3.2 Accounting Systems

Finding - Job cost ledgers not evaluated

ZECO's management does not appear to adequately evaluate the information contained in the job cost ledgers. The costs recorded are not reviewed against the original cost estimates or the recorded income. As a result, errors of misallocation of costs go undetected and uncorrected. For example, for ZECO account number 9203 relating to the training of CFM personnel, the recorded income was Z$ 326,150 while recorded expenses are Z$ 44,244. The reason for this is that invoices from sub-contractors have apparently been misposted. This error had not been noted or corrected by ZECO.

Recommendation

ZECO's management should critically review the information on the job cost ledgers on a monthly basis in relation to the budgeted expenditure and the recorded income levels. Major differences should be followed-up and errors corrected.

Finding - Structure of the job cost ledger inadequate

ZECO did not open separate job cost ledger accounts for each approved work order. As a result, the costs relating to approved work orders cannot be separately identified and have been mixed with the costs on the fixed price contract and unapproved extra costs (see Section 2.5.1).

Recommendation

ZECO should ensure that a separate job cost ledger account is opened for each major project component and for each major extra work activity identified.

Finding - Loss of audit trail

The high number of transactions selected for detailed testing for which ZECO was unable to locate supporting documentation indicates a serious deficiency in ZECO's internal controls.

We recommend that ZECO implement additional procedures to enable it to maintain adequate documentation to support its accounting records.

5.3.3 Control Procedures

Finding - Danger of double payment of suppliers invoices

We noted a number of instances where suppliers invoices were initially posted to contract expenses and credited to the suppliers' accounts through the normal purchases accounting system. However, on the subsequent payment of these invoices, the payment was also debited to contract expenses. Numerous journal vouchers had to be raised to correct for these errors. The errors apparently arose from miscodings on the payment vouchers. There is the danger that not all such errors may have been detected and that suppliers' invoices may be paid twice, once manually and once through the normal suppliers payment routine. Suppliers' invoices are not cancelled to indicate that they have been paid.

Recommendation

The cashier responsible for coding payments and the check signatories should scrutinize the suppliers' invoices at the time of payment. If the invoice has been stamped "POSTED" then the payment should be debited to the suppliers' account and not to contract expenses. ZECO should cancel all invoices by stamping them "PAID" at the time of payment.

Finding - Processing controls over account number coding weak

Under the present system, the computer operators make a visual check between the account code number they have keyed in for a transaction as it appears on the computer screen and the code per the document. However, this check does not appear to be very effective. We noted a number of keying errors relating to account numbers that had not been detected by ZECO.

Recommendation

ZECO should consider using hash total checks for account numbers, as batch totals checks are already in use for transaction amounts.

Finding - Labor hour comparison checks ineffective

For divisions 5,6 and 7, the divisional payroll clerks prepare a weekly manual summary of the hours charged to each contract from the daily time cards. This summary is compared with the total hours allocated to that contract as per the wage distribution journals. Our audit work showed that the differences between the two are not followed-up. The value of this check is therefore negated.

Recommendation

ZECO should make it a policy that all differences over a given percentage must be followed up by the payroll clerks and errors on the wage distribution journals corrected.

Finding - Journal voucher transactions not fully explained

We noted a number of cases where journal entries passed in the books did not have descriptions or supporting documents sufficient to explain the nature of the entries being passed. This greatly increases the danger of incorrect entries being passed. Examples are the credit entries posted in error as detailed in Section 2.4.2.

Recommendation

All journal vouchers should be adequately documented.

Finding - Control over check receipts weak

Under the present system, one individual is responsible for preparing the check received register, preparing the banking slips and banking the checks. There is thus inadequate segregation of duties in this area.

Recommendation

Banking slips preparation and banking of checks should be done by an individual independent from the person who prepares the initial record of checks received. Management should, on a regular basis, compare the amounts banked with this initial record to ensure that all check are promptly banked.

6 OTHER MATTERS

6.1 MISSION OBSERVATIONS

The following issues relating to the USAID/Zimbabwe mission came to our attention during the course of our audit.

6.1.1 Contract Management

The following issues were noted in relation to contract management:

from October 1987, USAID/Zimbabwe retained 5% of the gross billings from ZECO. This was because ZECO had failed to provide a 5% bank guarantee as required by section H article IV of the contract. The retentions were initiated after discussions and correspondence between ZECO and USAID/Zimbabwe. The amounts retained were repaid at the expiry of the locomotive guarantee period. A contract amendment to regularize the retentions was drafted but apparently never signed

USAID/Zimbabwe has retained amounts from payments to ZECO to cover a credit note of Z$ 81,707 due from ZECO. This credit relates to incorrect labor rates used on Work Order number 9. However, ZECO has not yet issued a formal credit note nor has the contract been amended to reduce the amount payable under work order number 9

the contract required work orders to be signed in advance of any extra work being carried out. However, by approving many of the work orders after the costs had been incurred, USAID/Zimbabwe institutionalized the informal work order procedures

under the initial contract, work orders for extra work were to be approved on a firm fixed price basis (see Section H, Article III - 4 on page 27 of the contract). In their correspondence with ZECO, the contracting officer and COTR indicated that they would treat the work orders on a "cost reimbursement not to exceed" basis. No contract amendment was prepared to formalize this intention and the individual work orders contained language consistent with a firm fixed price contract

USAID/Zimbabwe did not note nor enforce ZECO reporting requirements under the contract. AIDAR 752.7026, incorporated into the contract by Section I, required ZECO to submit semi-annual progress reports

the was no apparent monitoring of the contractor or guidance provided by USAID/Zimbabwe to ensure the contractor's knowledge of and compliance with USAID/FAR regulations

overall monitoring of the progress of the project by USAID/Zimbabwe appears to have been limited. The final project evaluation report dated March 15, 1989, noted that the training objectives of the project had been only 20% fulfilled. The lack of a full-time USAID project manager may have made it difficult to continually assess the progress of the contract against the objectives

the COTR was not present at all the locomotive tests as required by section E of the contract. Instead, the CF inspectors attended the tests and USAID signed the test certificates at a later date. A contract amendment to formalize this practice was drafted but never signed

there was no indication in the contract regarding the final disposition of the furniture and vehicle procured under the contract.

6.1.2 Financial Management

The following issues were noted in relation to financial management:

- under the contract, ZECO was allowed to bill up to 80% of the contract sum prior to delivery of the locomotives (FAR 52.232). On delivery, USAID/Zimbabwe was required to pay 90% of the contract sum. For a number of individual locomotives, USAID had paid more than 90% of the contract line item price prior to delivery. This situation was noted by USAID/Zimbabwe in October 1987 and additional amounts were retained from payments for other locomotives such that, in total, USAID/Zimbabwe never paid more than 90% of the total contract sum prior to delivery of all locomotives.

- for locomotive number 953, USAID paid Z$ 6,000 in excess of the contract sum for that locomotive. ZECO billed the excess amount in error, but this was not noted by USAID/Zimbabwe prior to payment

in September 1987 USAID/Zimbabwe accepted the billed amount of Z$ 294,000 under work order number 9 even though the analysis of costs submitted showed that incorrect labor rates had been used (see schedule attached to letter from ZECO dated July 1, 1987). This error was only noted one year later. ZECO reduced the amount claimed by Z$ 81,707 by a letter dated September 1, 1988

the invoice for work order 9 included Z$ 72,000 for locomotive number 957. However, on the covering letter the locomotive number was mistyped as 953. USAID/Zimbabwe has posted both the amount committed and the amount billed to locomotive 953. Although the total payments per the MACS report are not affected, the Special USAID Statement which shows amounts by line item needs to be amended.

6.2 LIQUIDATED DAMAGES

Introduction

USAID/Zimbabwe and ZECO signed Amendment 1 to the contract on February 16, 1988. This amendment provides for the payment of damages by ZECO to USAID/Zimbabwe for late delivery of locomotives beyond January 1, 1988.

USAID/Zimbabwe have calculated the damages due to them under this amendment as Z$ 253,980. They have sought to retain amounts from payments to ZECO sufficient to cover this amount.

Under the scope of the audit, we were asked to calculate the amount of damages due to USAID/Zimbabwe. We were also verbally requested by USAID/Zimbabwe to calculate the damages that would arise if they were calculated from the original delivery dates for the locomotives ie February 28, 1987.

Results

Our calculation of liquidated damages due under Amendment 1 of the contract is Z$ 246,510 (see Appendix E-1). This is Z$ 7,470 less than the amount calculated by USAID/Zimbabwe.

We have also calculated the damages from the original delivery date of the locomotives as Z$ 1,324,350 (see Appendix E-2).

Recommendations

The Regional Contracting Officer should determine whether USAID/Zimbabwe will be able to recover damages over and above their entitlement under Amendment 1 to the contract. If Amendment 1 is to be used as the basis for liquidated damages, USAID/Zimbabwe should consider reimbursing ZECO for the excess amount retained in light of the audit findings of this report.

6.3 SUMMARY OF CONTRACT CLOSE-OUT ISSUES

The major issues to be addressed prior to the close-out of the contract include:

ZECO should bill the net outstanding amounts on the contract amounting to Z$ 59,102.

the RCO should provide guidance to USAID regarding the payment of the contract amount outstanding to ZECO (Z$ 11,826 for outstanding billings and Z$ 7,470 for liquidated damages in excess of Amendment 1 - see section 2.6.1). This guidance should be in light of the audit findings of questioned and unsupported costs as described in Sections 2 and 3 of this audit report and the additional liquidated damages as calculated from the original due date of the locomotives. The RCO should also provide guidance on the payment of the disputed amount of Z$ 439,000 in light of the audit findings of this report

the Regional Contracting Officer should determine whether the approved work orders are a firm fixed price commitment or whether ZECO can only claim reimbursement of actual costs incurred. If they are considered a fixed price contract, USAID/Zimbabwe should process an Amendment to Work Order 9 to reflect the decrease of Z$ 81,707

USAID/Zimbabwe should amend the Special USAID Statement to correct for the misallocated commitment and expenditure between locomotives 953 and 957

- the Regional Contracting Officer should determine whether an analysis of the amount of interest that USAID/Zimbabwe can recover from ZECO in respect of the accelerated billings on the contract is warranted. Our rough estimate of the amount of interest that could be claimed is Z$ 80,000 (US$ 31,250). This calculation is based on a number of simplifying assumptions (see Appendix E-4). Full analysis would be required to compute a more precise figure

- the Regional Contracting Officer should determine the final disposition of assets procured under the contract.

LIST OF APPENDICES

A GENERAL

A - 1 Summary of Special USAID Statement of Revenues and Expenses
A - 2 Summary of Statement of Unapproved Extra Costs Claimed

B FIXED PRICE CONTRACT

B - 1 Comparison of recorded costs with contract sum
B - 2 Unsupported costs - records unavailable
B - 3 Materials and Purchases - Results of audit work
B - 4 List of unsupported costs
B - 5 Details of amounts questioned
B - 6 Details of erroneous credits

C APPROVED WORK ORDERS

C - 1 Unsupported costs - costs not identifiable
C - 2 Results of audit work on identifiable costs

D UNAPPROVED EXTRA COSTS CLAIMED

D - 1 Comparison of recorded costs with amounts claimed
D - 2 Unsupported costs - records not retained
D - 3 Results of audit work
D - 4 List of unsupported costs
D - 5 Details of costs not traceable to detailed lists
D - 6 Details of costs relating to approved work orders
D - 7 Details of accepted costs
D - 8 Comparison of labor hours

E OTHER MATTERS

E - 1 Computation of liquidated damages - based on Amendment 1
E - 2 Calculation of liquidated damages - based on original delivery date
E - 3 Progress payment billings - effect of journal vouchers on cumulative costs disclosed
E - 4 Computation of approximate interest claimable

F MANAGEMENT REPRESENTATION LETTER

SUMMARY OF SPECIAL USAID STATEMENT OF REVENUE AND EXPENSES

	Fixed Price Contract sum	Approved work orders	Total Contract Value	Amounts billed by ZECO and accepted by USAID	Balance (Over)/ Under billed
	Z$	Z$	Z$	Z$	Z$
STEAM LOCOMOTIVES					
Loco 960	236,845	155,560	392,405	390,373	2,032
Loco 962	228,620	143,560	372,180	363,639	8,541
Loco 91	141,450	70,780	212,230	220,979	(8,749)
Loco 957	238,490	47,000	285,490	285,490	0
Loco 953	241,780	119,000	360,780	366,780	(6,000)
Loco 952	226,975	47,000	273,975	251,278	22,698
Loco 961	230,265	47,000	277,265	277,261	4
Loco 971	240,135	66,720	306,855	287,135	19,720
Loco 972	241,780	47,000	288,780	288,780	0
Sub total for steam locos	2,026,340	743,620	2,769,960	2,731,715	38,245
DIESEL LOCOMOTIVES					
Loco D26	269,920	54,919	324,839	324,799	40
Loco D33	362,895	54,919	417,814	417,774	40
OTHER LINE ITEMS					
Procurement fees	30,000	81,914	111,914	110,914	1,000
Training CFM staff	204,315	118,515	322,830	304,970	17,860
Admin Tech Advisors	106,910	64,360	171,270	169,353	1,917
Admin Tech Inpectors		74,025	74,025	74,025	0
TOTAL	3,000,380	1,192,272	4,192,652	4,133,550	59,102

USAID SPECIAL STATEMENT OF REVENUE AND EXPENSES

Basis of Accounting/Accounting Policies.

1. Funds are provided by USAID/Zimbabwe to ZECO in local currency. Consequently the special USAID Statement of Revenue and Expenses is expressed in Zimbabwean Dollars.

2. Amounts payable to ZECO under the contract are reflected on the statement on a cash basis i.e. when they have been paid by USAID/Zimbabwe. Invoices raised by ZECO which have not yet been approved by USAID/Zimbabwe or paid are not reflected on the statement.

3. Expenses pertaining to the purchase of spare parts from General Electric and the purchase of commodities set out in Attachments J–3 to J–7 and J–10 of the contract are not reflected on the statement, as payment for these costs was directly disbursed by USAID to the suppliers.

APPENDIX A - 2

STATEMENT OF UNAPPROVED EXTRA COSTS CLAIMED

STEAM LOCOS	MATERIALS VALUE Z$	LABOUR VALUE Z$	ON-COST VALUE Z$	TOTAL COSTS Z$
953	47,166	9,929	14,011	71,106
960	53,586	72,812	110,886	237,284
962	20,233	5,201	7,750	33,184
91	48,747	1,973	3,223	53,943
952	50,334	7,571	10,962	68,867
957	23,308	6,160	6,807	36,275
961	80,952	8,456	11,882	101,290
971	64,791	3,827	5,823	74,442
	90,249	4,647	7,007	101,903
972	249	6	9	265
All Nine Loco's	607,495	39,208	71,976	718,679
TOTALS	1,087,110	159,790	250,336	1,497,238

LESS: Claims submitted by Zeco

- Approved on Work Order No. 9	(294,000)
- Still Outstanding	(439,000)
Actual Loss Sustained	Z$ 764,238

STATEMENT OF UNAPPROVED EXTRA COSTS CLAIMED

Notes to the Statement.

1. This statement was prepared by ZECO to present the costs it incurred in completing work that did not fall within the scope of the Fixed Price Contract with USAID/Zimbabwe or Extra Work Orders subsequently approved by them.

2. The books of accounts maintained by ZECO identify the costs incurred in completing such out of scope work separately from the costs incurred on ZECO's other activities.

3. The costs incurred on the out of scope work are determined in accordance with Generally Accepted Accounting Policies.

APPENDIX B – 1

FIXED PRICE CONTRACT
Comparison of recorded costs with contract sum

	Adjusted recorded costs	Fixed price contract sum	Cost Overrun (Profit)	Percentage Overrun (Profit)
	Z$	Z$	Z$	
STEAM LOCOMOTIVES				
Loco 960	310,782	236,845	73,937	31.2%
Loco 962	428,373	228,620	199,753	87.4%
Loco 91	300,768	141,450	159,318	112.6%
Loco 957	298,486	238,490	59,996	25.2%
Loco 953	277,482	241,780	35,702	14.8%
Loco 952	200,878	226,975	(26,097)	-11.5%
Loco 961	211,228	230,265	(19,037)	-8.3%
Loco 971	229,808	240,135	(10,327)	-4.3%
Loco 972	225,076	241,780	(16,704)	-6.9%
Sub total	2,482,881	2,026,340	456,541	22.5%
DIESEL LOCOMOTIVES				
Loco D26	505,319	269,920	235,399	87.2%
Loco D33	444,876	362,895	81,981	22.6%
OTHER LINE ITEMS				
Procurement fees	0	30,000	(30,000)	-100.0%
Training CFM staff	44,244	204,315	(160,071)	-78.3%
Admin Tech Advisors	213,283	106,910	106,373	99.5%
TOTAL	3,690,603	3,000,380	690,223	23.0%

APPENDIX B – 2

FIXED PRICE CONTRACT
Unsupported costs – Records unavailable

	Costs recorded in accounting records	Adjustment for errorneous credits	Adjusted costs	Unsupported costs		Costs Auditable
				Missing Status Reports	Labor & Overhead Costs	
	Z$	Z$	Z$	Z$	Z$	Z$
STEAM LOCOMOTIVES						
Loco 960	310,782	0	310,782	0	265,331	45,451
Loco 962	428,373	0	428,373	0	363,759	64,614
Loco 91	300,768	0	300,768	0	239,981	60,787
Loco 957	298,486	0	298,486	0	274,576	23,910
Loco 953	277,482	0	277,482	0	259,829	17,653
Loco 952	200,878	0	200,878	0	184,030	16,848
Loco 961	211,228	0	211,228	(17,843)	199,573	29,498
Loco 971	229,808	0	229,808	4,306	201,384	24,118
Loco 972	225,076	0	225,076	51,807	152,315	20,954
Sub total	2,482,881	0	2,482,881	38,270	2,140,778	303,833
DIESEL LOCOMOTIVES						
Loco D26	386,247	119,072	505,319	0	219,682	285,637
Loco D33	396,715	48,161	444,876	0	263,876	181,000
OTHER LINE ITEMS						
Procurement fees	0	0	0	0	0	0
Training CFM staff	44,244	0	44,244	2,233	5,235	36,776
Admin Tech Advisor	213,283	0	213,283	30,731	0	182,552
TOTAL	3,523,370	167,233	3,690,603	71,234	2,629,571	989,798
Percentage			100%	2%	71%	27%

APPENDIX B – 3

FIXED PRICE CONTRACT
Materials and purchases – Results of audit work

	Costs auditable (From B 1)	Not Reviewed	Unsupported (see B 4)	Questioned (see B 5)	Accepted
	Z$	Z$	Z$	Z$	Z$
STEAM LOCOMOTIVES					
Loco 960	45,451	42,845	2,606	0	0
Loco 962	64,614	49,747	14,867	0	0
Loco 91	60,787	40,711	3,352	16,724	0
Loco 957	23,910	22,849	1,061	0	0
Loco 953	17,653	17,653	0	0	0
Loco 952	16,848	16,848	0	0	0
Loco 961	29,498	29,498	0	0	0
Loco 971	24,118	24,118	0	0	0
Loco 972	20,954	20,954	0	0	0
Sub total	303,833	265,224	21,886	16,724	(1)
DIESEL LOCOMOTIVES					
Loco D26	285,637	83,465	119,590	4,628	77,954
Loco D33	181,000	114,042	52,875	4,627	9,456
OTHER LINE ITEMS					
Procurement fees	0	0	0	0	0
Training CFM staff	36,776	36,776	0	0	0
Admin Tech Advisors	182,552	478	34,080	7,583	140,411
TOTAL	989,798	499,985	228,431	33,562	227,820
Percentage	100%	51%	23%	3%	23%

APPENDIX B - 4

FIXED PRICE CONTRACT
List of unsupported costs

Date	Reference	Account Number	Amount	Comments
No supporting documents found				
			Z$	
27.8.87	CB 155	9201	70,370.75	Bank debit
21.8.87	CB 169	9201	21,626.29	vouchers
30.7.88	CB 92	9201	15,262.33	Bank debit +
27.7.87	CB 207	9202	11,287.77	vouchers
31.10.88	CB 72	"	11,280.80	Bank debit &
19.8.87				vouchers
4.3.87	CB 107	9205	34,079.86	Bank debit & supporting vouchers
20.10.86	CB 100	7502	5,519.82	
31.7.87	ABJ	7504	3,351.50	Boxes
31.7.87	Sandville	7506	1,061.38	Tools
		Balance c/f	173,840.50	

APPENDIX B - 4 (Continued)

FIXED PRICE CONTRACT

a/c no	Date	Details	Amount	Comments
			Z$	
		Balance b/f	173,840.50	
Amounts not adequately supported				
9502 Loco D33	30.12.86	CB 128 + payment to Quadro Exports	17,344.32	Invoices not available
9201 loco D26	30.12.86		17,344.32	
9202 9201	88.9.87	J187 adjustments to NRZ may statement	12,962.15 (5,013.33)	Explanation on JV inadequate and no supporting documents
7501	28.2.87	J110 - Transfer of labour costs from a/c 5516	2,606.18	No reason for transfer given and cannot find status report for a/c 5516
7502	30.4.87	J196 Transfer of materials costs frame a/c 5516.	9,347.06	
			54,590.70	
Total unsupported vouchers			**228,431.20**	

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APPENDIX B - 5

FIXED PRICE CONTRACT
Details of amounts questioned

a/c no	Date	Details	Amount	Comments
			Z$	
7504	24.6.87	226 Smoke tubes @ $ 74.00 purchased from Stewart Lloyds	16,724.00	Contract attachment J-2 does not specify the condition of the smoke tubes on loco 91. (no reference at all).
9205 Admin Tech Advisors	17.3.87	Club class air fare * LON/BUL/LON for Mr Walters - advisor hired by ZECO to help in rehabilitation of diesel locos	7,582.50	Should be posted to cost of rehab, diesel locos or covered by ZECO as OH
		Sub-total	24,306.50	
Costs relating to approved work orders				
9201	5.5.87	Inv. 94480	4,627.50	
9202	26.5.87	Inv. 9465 from Frank Issels & Co. for machining of wheel sets Initially posted to a/c 9208 and then transferred by JV NO.s 73 & 75 of 30.10.87	4,627.50	
		Sub-total	9,255.00	
		Total questioned	**33,561.50**	

Alternatively should question the difference between the club class fare and economy class fare (approximately Z$ 800)

APPENDIX B - 6

FIXED PRICE CONTRACT
Details of credit entries made in error by ZECO

a/c no	Date	Details	Amount	Comments
			Z$	
9201	31.1.88	JV 216 - incorrect entry made to credit a/c 9201 and debit surtax recoverable a/c	(70,912.00)	
9201 9202	31.1.88	JV 215 duplicates entries on JV 223 of 30.6.87	(48,160.67) (48,160.67)	
		TOTAL	(167,233.34)	

APPENDIX C – 1

APPROVED WORK ORDERS
Unsupported costs – Costs not identifiable

Work Order's reviewed	Amount Approved	Not Reviewed	Profit/ (known cost overruns)	Costs identified in accounting records (From C2)	Unsupported (costs not identifiable)
	Z$	Z$	Z$	Z$	Z$
#1,#1A & #1B	74,025			52,548	21,477
#3	64,188		10,678	11,552	41,958
#4	376,000		(9,389)	269,389	116,000
#5	14,400		2,400	12,000	0
#7,#7A & #7B	91,988			37,655	54,333
#13	54,743			0	54,743
#14	51,040			0	51,040
Other work orders	171,888	171,888			
Total claimed	898,272	171,888	3,689	383,144	339,551
		19%	0%	43%	38%
Add work order #9	294,000	(Costs tested as part of unapproved extra costs claim)			
Total approved work orders per A – 1	1,192,272				

APPENDIX C – 2

APPROVED WORK ORDERS
Results of audit work on identifiable costs

Work Order's reviewed	Costs separately identifiable in accounting records	Not Reviewed	Unsupported	Accepted
	Z$	Z$	Z$	Z$
#1,#1A & #1B	52,548	43,203	9,345	0
#3	2,297	2,297		
#4				
#5	12,000			12000
#7,#7A & #7B				
#13				
#14				
Other work orders				
Total costs separately identifiable	66,846	45,501	9,345	12,000
Costs misposted to:				
Fixed price	9,255			9,255
Unapproved extra costs	307,043			307,043
Total misposted costs	316,298	0	0	316,298
Total identifiable costs	383,144	45,501	9,345	328,298
Percentage	100%	12%	2%	86%

APPENDIX D – 1

UNAPPROVED EXTRA COSTS CLAIMED
Comparison of recorded costs with amount claimed

	Cumulative costs per accounting records	Reallocation of costs	Adjusted costs recorded	Amounts claimed	
				Under Work order Number 9	Disputed claim
	Z$	Z$	Z$	Z$	Z$
STEAM LOCOMOTIVES					
Loco 960	237,284	79,854	317,138	87,000	
Loco 962	33,184	79,854	113,038	75,000	
Loco 91	53,943	79,853	133,796	60,000	
Loco 957	36,275	79,853	116,128	72,000	
Loco 953	71,106	79,853	150,959		79,000
Loco 952	68,867	79,853	148,720		76,000
Loco 961	101,290	79,853	181,143		84,000
Loco 971	176,345	79,853	256,198		103,000
Loco 972	265	79,853	80,118		97,000
All nine locomotives	718,679	(718,679)			
TOTAL	1,497,237	0	1,497,237	294,000	439,000

APPENDIX D – 2

UNAPPROVED EXTRA COSTS CLAIMED
Unsupported costs – records not retained

	Recorded Costs	Unsupported costs		Total Auditable
		Missing Reports	Labor and Overheads	
	Z$	Z$	Z$	Z$
STEAM LOCOMOTIVES				
Loco 960	237,284		183,698	53,586
Loco 962	33,184		12,951	20,233
Loco 91	53,943		5,196	48,747
Loco 957	36,275		12,967	23,308
Loco 953	71,106		23,940	47,166
Loco 952	68,867		18,533	50,334
Loco 961	101,290		20,338	80,952
Loco 971	176,345	101,903	9,651	64,791
Loco 972	265		15	250
All nine locomotives	718,679		111,185	607,494
TOTAL	1,497,237	101,903	398,474	996,860
Percentage	100%	7%	26%	67%

APPENDIX D – 3

UNAPPROVED EXTRA COSTS CLAIMED

Results of audit work

	Total Auditable (see D2)	Not Reviewed	Unsupported		Questioned	Accepted costs (see D7)
			Insufficient documents (see D4)	Not supported by informal records (see D5)	(Costs relate to approved Work orders) (see D6)	
	Z$	Z$	Z$	Z$	Z$	Z$
STEAM LOCO'S						
Loco 960	53,586	15,935	8,683	3,522	25,446	0
Loco 962	20,233	4,200	0	0	16,032	0
Loco 91	48,747	9,548	9,161	4,592	25,446	0
Loco 957	23,308	4,120	0	0	16,032	3,155
Loco 953	47,166	13,607	1,009	5,728	16,032	10,789
Loco 952	50,334	11,890	0	11,623	16,032	10,739
Loco 961	80,952	26,667	17,210	3,840	25,446	7,789
Loco 971	64,791	9,689	13,624	0	41,478	0
Loco 972	250	249	0	0	0	0
All nine Locomotives	607,494	248,667	100,394	133,337	125,097	0
TOTAL	996,860	344,572	150,081	162,642	307,043	32,522
Percentage	100%	35%	15%	16%	31%	3%

APPENDIX D - 4

UNAPPROVED EXTRA COSTS CLAIM
List of unsupported costs

DATE	REFERENCE	AMOUNT	ACCOUNT NUMBER
		Z$	
29.5.88	Manica Freight	(6,355.00)	7518
25.5.88	Manica Freight	(6,355.00)	7518
30.10.87	CB 166	31,455.00	7518
13.8.87	CB 147	5,197.83	7518
31.8.87	J288 (Journal voucher seen) need 6/87 and 7/87 NRZ statements		7518
31.8.87	Radiators and Tinning	6,680.94	7518
31.8.87	Radiators and Tinning	(3,156.40)	7518
13.7.87	CB 94	14,789.00	7518
31.7.87	ABJ	4,422.60	7518
30.7.87	All Metal	4,578.00	7518
31.7.87	SKF	3,544.72	7518
29.6.87	SKF	18,673.36	7518
29.6.87	Radiators and Tinning	4,070.49	7518
29.6.87	Radiators and Tinning	3,702.87	7518
29.6.87	KW Engineering	4,050.00	7518
31.3.87	Toolmaking & Engineer	5,868.22	7518
28.2.87	J101	(7,806.52)	7518
24.2.87	ABJ	4,275.65	7518
30.1.87	J57	(33,891.11)	7518
30.1.87	J57	4,236.38	7518
30.1.87	CB 198	6,330.95	7518
25.11.86	CB 43	3,570.13	7518
20.16.86	CB 131	5,519.92	7500
21.4.87	CB 130	3,162.79	7505
30.9.88	J11	3,210.60	7509
28.9.85	J 184	(3,306.87)	7509
30.4.88	CB 69	(3,219.60)	7509
29.2.88	J 255	(3,210.60)	7509
2.2.88	CB 12	7,526.60	7509
	c/f	90,289.49	

APPENDIX D - 4 (Continued)

DATE	REFERENCE	AMOUNT	ACCOUNT NUMBER
		Z$	
	balance b/f	90.289.49	
24.4.87	CB 130	3,162.79	7500
30.3.88	T Engineer	1,485.52	7505
15.10.88	CB 72	4,512.32	7505
30.3.88	Caridon	1,923.62	7518
29.2.88	R Tinning	1,464.62	7518
29.2.88	U Spring	3,264.00	7513
31.10.88	CB 72	6,768.48	7513
24.14.87	CB 130	3,162.79	7513
29.2.88	J 255	4,015.10	7513
30.3.88	CB 69	4,015.10	7153
30.9.88	J 11	(4,015.10)	7153
2.2.88	CB 12	6,855.40	7515
31.10.88	CB 72	6,768.48	7515
		133,672.74	
Insufficient documentation			
31.3.87	J157 - Trf of steel value from div 5 to	4,716.00	7518 loco 972
31.12.87	J180 - trf of labor overheads from div 5 account 5516 (for repair of tanks, bunkers and cab floors)	7,655.96	7518
31.8.87	Reallocation of NRZ June and July 1987 statements	4,026.84	7518
	Sub - total	16,408.80	
Total from appendix D - 5		162,641.81	
Total unsupported costs		**312,723.35**	

APPENDIX D – 5

UNAPPROVED EXTRA COSTS CLAIMED

Costs incurred but which do not appear on the detailed lists

A/C NUMBER	DATE	SUPPLIER & INVOICE NUMBER	DESCRIPTION	AMOUNT Z$
7509	30.11.87	MANICA FREIGHT SERV. INV. NO BI 28311	12 PAIRS/PACKAGES LOCOMOT PARTS, CUSTOMS DUTY, AGENCY, DISBURSE. & POSTAGES. PARTS FROM Z.A.	3,744.06
7505	31.8.87	TOOLMAKING AND ENGINEERING INV. NO T6419	8 OFF VALVE ASSEMBLY LARGE @ $394.38	3,155.04
7505 7508 7511	23.11.87	ALLMETAL FOUNDERS INV. NO 71985	650 C.I. FINGER BARS – PER PATTERN @ $10.98	11,382.80
7518	31.10.87	ALLMETAL FOUNDERS INV. NO 71771	650 C.I. FINGER BARS – PATTERN PROVIDED	7,137.00
7518	17.11.87	MANICA FREIGHT SERV. INV. NO UI 7471	CUSTOMS DEPOSIT, DISBURSE BANK CHG., CONSIGNMENT FROM MOZAMB. BY ROAD (CARRIER NOT GIVEN)	6,355.00
7518	27.10.87	TOOLMAKING AND ENGINEERING INV. NO T6616	4 VALVE SPINDLES – PER DRAWING, C 750 (FOR ONE LOCO ONLY).	3,000.00
7518	24.12.86	STEWARTS & LLOYDS INV. NO 32176	LH 24054 SMOKE TUBE 3700mm LONG SWAGED ONE END TO 1 3/4 OD (FOR ONE LOCO)	14,400.00
7518	23.3.87	STEWARTS & LLOYDS INV. NO 34958	195 SMOKE TUBES 4mm WALL 3910 LONG @ $71.93	14,026.35
7518	06.3.87	STEWARTS & LLOYDS INV. NO 34306	200 SMOKE TUBE 3–7 M LONG @ $60.00	12,000.00
7518	21.1.87	UNITED SPRING & FORGING P/L INV. NO 7660	10 STEEL RINGS TO DRG P23 @ $511.00	5,110.00
			SUB-TOTAL C/F	80,310.25

APPENDIX D – 5 (Continued)

			SUB–TOTAL B/F	80,310.25
7518	29.1.87	F. ASSELS & SON LTD INV. NO 93878	9 C.S. ALLIANE NO. 1 COUPLERS 8″ x 6″ @ $405.00 (2 PER LOCO)	3,645.00
7518	26.1.87	W.J. CRASSER INV. NO 92376	8 21″ F–CLASS VACUUM BRAK CYLINDER & PISTON RODS – RUBBER MATERIALS @ $770.00 (2 PER LOCO)	6,160.00
7518	13.1.87	W.J. CRASSER INV. NO 92287	4 2″ F–CLASS VACUUM BRAKE CYLINDERS @ $770.00 (LOCO 91)	3,080.00
7518	28.1.87	CLEM ENTERPRISES INV. NO 0137	32 C.S. SHOES & PATTERN CHARGER @ $87.50 + 50.00 32 C.S. WEDGES & PATTERN CHARGER @ $91.30 + 50.00 (2 LOCOS)	5,843.70
7518	1.9.87	UNITED SPRING & FORGING INV. NO R161	34 ENGINE BEARING SPRING BELGIUM BARRET LOCOS 952/53/57/60/61/62 @ $109.00 (24 PER LOCO)	3,706.00
7518	4.12.87	RATTHAMS ENGINEERIN INV. NO 25068	124 1 1/2″ O NUTS 35mm LONG 124 1 1/2″ O NUTS 25mm LONG @ $24.00 A SET	3,025.60
7518	28.7.87	TOOLMAKING AND ENGINEERING INV. NO T6332	8 INTERMEDIATE CRANK PINS @ $371.50 8 OUTER CRANK PINS @ $371.50 + TAX (1 LOCO), (8 PER LOCO)	6,687.00
7518	25.9.87	RADIATOR & LINNING INV. NO M 209961	61 KG 1 BUNDLE 3/8″x 2mm 148 KG 5 BUNDLES 1/2″x 2mm 88 KG 4 BUNDLES 5/8″x 2mm ALL ABOVE – COPPER @ $22.00	6,534.00
7518	30.9.87	MAYFAIR ENTERPRISES INV. NO 2679	1004 3/8″ B.S.P. GREASE NIPPLES A.P.S. @ $3.50	3,514.00
			SUB–TOTAL C/F	122,505.55

APPENDIX D – 5 (Continued)

			SUB-TOTAL B/F	122,505.55
7518	30.7.87	A.B.J. GENERAL ENG. INV. NO 6749	19 CORED BRONZE STICKS 4"OD x 2 1/2"ID x 14" 8 CORED BRONZE STICKS 3 1/2"OD x 1 1/4"ID x 14" NAME PLATE (8 PER LOCO BRAKE SHAFTS)	4,089.00
7518	28.12.87	A.B.J. GENERAL ENG. INV. NO 7400	14 BRASS BUSHES COUPLING RODS 340 @ $174.09 3 BRASS BUSHES COUPLING RODS 352 @ $192.00 4 BRASS BUSHES COUPLING RODS 347 @ $97.50 (20 PER LOCO)	3,403.26
7500 7502	14.10.86	BOILER & STEAM SERV. INV. NO 3492	REMOVAL OF BOILER TUBES FROM THE BARREL, CLEAN AND DESCALE	7,044.00
7511 7513	7.01.88	UNITED SPRINGS AND FORGING INV. NO M 12589	32 LOCOMOTIVE FRAME SPRINGS @ $350.00	11,200.00
7518 7518 7518	19.02.87 24.12.86 24.12.86	STEWARTS & LLOYDS INV. NO 32176 & J72	SMOKE TUBES 3700mm SWANGED PASSED	14,400.00
			TOTAL	162,641.81

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APPENDIX D – 6

UNAPPROVED EXTRA COSTS CLAIMED

Details of costs that relate to approved work orders

A/C NUMBER	DATE	SUPPLIER & INVOICE NUMBER	DESCRIPTION	AMOUNT Z$
7518	16.12.86	SKF (ZIMBABWE) LTD INV. NO B93378	3 23232 C/C3 – BEARINGS 15 23140 C/C3 – BEARINGS Bearings – work order 4	17,808.71
7518	14.01.87	SKF ZIM. P/L INV. NO 93901	AIR FREIGHT CHARGES FOR INV. NO 63146. CLEARING AND HANDLING CHG. FOR INV. NO 20707	16,406.32
7518	19.05.87	SKF ZIM. P/L INV. NO 96019	72 23140 CC/C4 W33 – 20 24040 CC/C3 W33 – 8 23232 CC/C3 W33 – Bearings – work order 4	91,464.60
7518	16.12.86	SKF ZIM. P/L INV. NO 93380	5 23228 CC/C3 W33 – 5 23232 CC/C3 W33 – 1 23140 CC/C3 W33 – Bearings – work order 4	7,395.20
7518	19.05.87	SKF ZIM. P/L INV. NO 96021	AIR FREIGHT/INSURANCE FOR INV. NO 71126 CLEARING & HANDLING FOR INV. NO 21490 Bearings – work order 4	33,632.51
7518	23.12.86	SKF ZIM. P/L INV. NO 93570	51 23140 CC/C3 – W33 – 29 23140 CC/C4 – W33 – 27 232328 CC/C3 – W33 – 8 23144 CC/C3 – W33 – Bearings – work order 4	102,681.23
7500 7505 7513 7517	28.2.87	QUADRO INV. NO 270	STEEL TYRES work order 7	19,743.60
7500 7505 7513 7517	28.2.87	QUADRO INV. NO 212	STEEL TYRES work order 7	17,911.00
			TOTAL	307,043.17

APPENDIX D – 7

UNAPPROVED EXTRA COSTS CLAIMED
Details of accepted costs

A/C NUMBER	DATE	SUPPLIER & INVOICE NUMBER	DESCRIPTION	AMOUNT Z$
7507 7509 7511 7513	31.8.87	TOOLMAKING AND ENGINEERING INV. NO T6420	32 OFF VALVE ASSEMBLY LARGE @ $394.38	12,620.00
7509 7511	28.9.87	TOOLMAKING AND ENGINEERING INV. NO T6523	8 OFF VALVE SPINDLES @ $750.00	6,000.00
7509 7511 7513	17.12.87	ALLMETAL FOUNDERS	18 PISSON PACKING SPARE @ $140.40 18 PISSON GATES SPRING SEGMENTS @ $140.90	5,279.40
7509 7511 7513	28.9.87	TOOLMAKING AND ENGINEERING INV. NO T6524	12 OFF PISTON RODS @ $718.56	8,622.72
			TOTAL	32,522.12

APPENDIX D – 8

UNAPPROVED EXTRA COSTS CLAIMED
Comparison of labor hours per ZECO submissions

Date of claim	Loco numbers	Labor hours per analyses submitted				
		Supervisory	Skilled	Semi-skilled	Unskilled	Total
01-Jun-87	960 962 957 91	0	7,644	2,099	4,753	14,496
15-Feb-88	952 953 961 971 972	No analysis of labor hours submitted				
01-Sep-88	960 962 957 91 Amended	1,911	5,733	2,099	4,753	14,496
09-May-89						
sub-total for	960 962 957 91	452	4,200	13,381	11,160	29,193
sub-total for	952 953 961 971 972	700	5,826	18,423	14,560	39,509
Total for all nine		1,152	10,026	31,804	25,720	68,702
04-Dec-89	Per acct. records (all nine locos)		19,093	9,418	19,660	48,171

APPENDIX E - 1

COMPUTATION OF LIDQUIDATED DAMAGES

BASED ON AMENDMENT 1 - Damages from 1 January 1988

Locomotive Number	Date Delivered	Number of days late	Damages Z$ per day	Total Damages Z$
960	15-Jul-87	0	415	0
962	20-Aug-87	0	415	0
957	14-Oct-87	0	415	0
953	16-Jan-88	15	415	6,225
952	21-Jan-88	20	415	8,300
961	29-Mar-88	88	415	36,520
91	09-Apr-88	99	415	41,085
971	13-Apr-88	103	415	42,745
972	05-May-88	125	415	51,875
D33	08-Jan-88	7	415	2,905
D26	17-May-88	137	415	56,855
		Total damages	Z$	246,510

APPENDIX E - 2

CALCULATION OF LIQUIDATED DAMAGES

BASED ON ORIGINAL DELIVERY DATE - Damages from 28 February 1987

Locomotive Number	Date Delivered	Number of days late	Damages			Total Damages Z$
			Days	@	Z$ per day	
960	15-Jul-87	137	137		360	49,320
			0		415	0
962	20-Aug-87	173	173		360	62,280
			0		415	0
957	14-Oct-87	228	228		360	82,080
			0		415	0
953	16-Jan-88	322	307		360	110,520
			15		415	6,225
952	21-Jan-88	327	307		360	110,520
			20		415	8,300
961	29-Mar-88	395	307		360	110,520
			88		415	36,520
91	09-Apr-88	406	307		360	110,520
			99		415	41,085
971	13-Apr-88	410	307		360	110,520
			103		415	42,745
972	05-May-88	432	307		360	110,520
			125		415	51,875
D33	08-Jan-88	314	307		360	110,520
			7		415	2,905
D26	17-May-88	444	307		360	110,520
			137		415	56,855
		Total damages			Z$	1,324,350

NOTES :

1 Although the locomotives were meant to be delivered at the rate of 3 a month from October 1986 to February 1987, the damages have only been calculated from 28 February 1987.

2 In 1987, the daily cost to CFM of hiring a locomtive was Z$360 per day. This rate increased to Z$415 per day from 1 January 1988.

APPENDIX E – 3

PROGRESS PAYMENT BILLINGS

Effect of journal vouchers on cumulative costs disclosed

Locomotive Number	Date of final billing (90% of contract value)	Cumulative costs billed	Actual costs per accounting records	Percentage actual to costs billed	Actual delivery date
		Z$	Z$		
D33	24.12.86	367,724	128,679	35%	8.1.88
960	16.2.87	247,855	68,130	27%	15.7.87
962	11.2.87	254,055	84,075	33%	20.8.87
91	21.4.87	195,776	96,206	49%	9.4.88
			Average	35%	

APPENDIX E - 4

COMPUTATION OF APPROXIMATE INTEREST CLAIMABLE

Loco Number	Date of First Bill	Date Delivered	Period of Work (months)	Cumulative Debits Z$	Approximate Interest Z$
			A	B	(A/2)*B*int
960	30-Aug-86	15-Jul-87	12	179,725	7,189
962	30-Aug-86	20-Aug-87	13	169,980	7,366
957	25-Dec-86	14-Oct-87	11	158,575	5,814
953	16-Feb-87	16-Jan-88	12	198,360	7,934
952	01-Jul-87	21-Jan-88	8	134,945	3,599
961	01-Jul-87	29-Mar-88	10	130,460	4,349
91	30-Sep-86	09-Apr-88	20	99,570	6,638
971	03-Sep-87	13-Apr-88	8	110,085	2,936
972	03-Sep-87	05-May-88	9	110,890	3,327
D33	30-Aug-86	08-Jan-88	18	239,045	14,343
D26	30-Aug-86	17-May-88	22	190,870	13,997
				1,722,505	77,492
				Say Z$	80,000

ASSUMPTIONS MADE

1 Annual US interest rates = 8% compounded monthly

2 Work on locomotives started one month prior to date of the first bill and was completed on the date of delivery

3 The actual expenditure on each locomotive was incurred evenly over the period of work on the locomotive

4 The amount of uplift applied to the actual costs incurred was applied evenly over the period from start of work to the date of the final bill

APPENDIX F

ZECO LTD
ZIMBABWE ENGINEERING

MANUFACTURERS OF RAILWAY ROLLING STOCK
STEEL FABRICATORS

BUILDERS OF LOCOMOTIVES
STRUCTURAL STEEL AND PLANT ERECTORS

Head Office:
Josiah Chinamano Rd

Telephone (263-9) 78931
Telefax (263-9) 72259

Telegrams: "Tensile" Belmont
Telex: 33171 Zeco ZW

P.O. Box 1874
BULAWAYO
ZIMBABWE

7 November, 1990

Price Waterhouse
P O Box 41966
Nairobi
KENYA

Dear Sirs,

We confirm, to the best of our knowledge and belief, the following representations made to you during your Non-Federal audit of the ZECO Limited/USAID contract (Contract number 613-0231-C-00-6022-00) for the period May 16, 1986 to March 31,1990 for the purpose of expressing an opinion on: i) whether the Special Statement of USAID Revenues and Expenses is free of material misstatement; ii) whether ZECO Limited has complied with applicable U.S. Laws and provisions; and iii) on ZECO Limited's system of internal accounting controls.

1. *Management has identified in the accounting records all assistance provided by US Government federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance or direct appropriations.*

2. *Management has complied with reporting requirements in connection with US Government financial awards.*

3. *Information presented in the US Government financial reports and claims for advances and reimbursements is supported by the books and records from which the basic financial statements have been prepared.*

4. *Amounts claimed or used for matching were determined in accordance with the applicable cost accounting requirements in connection with US Government financial awards.*

5. *Management has identified and disclosed to the auditor all amounts questioned and known noncompliance with requirements that could have a material effect on a major US Government financial award program.*

6. *We acknowledge management's responsibility for the fair presentation in the accounting records of the financial position, results of operations and cash flows in conformity with generally accepted accounting principles.*

7. *We have made available to you all financial records and related data and correspondence relating to the above contract.*

8. *We are not aware of any -*

a) *Irregularities involving management or employees who have significant roles in the internal control structure.*
b) *Irregularities involving other employees that could have a material effect on the financial accounting records.*

/2.....

Directors JRT Moxon FCA, CA(Z) MBA (Chairman) MV Cameron B Comm, MBL
EL Venables FCMA FCIS (Managing) DE Stephens B Comm, FCIS
RC Buxton MA FIStruct.E

9. *We have no plans or intentions that may materially affect the revenues or expenses reflected in the accounting records related to the US Government awards.*

10. *Transactions with related parties have been properly recorded and disclosed in the accounting records for the US Government awards.*

11. *There are no material transactions that have not been properly recorded in the accounting records.*

12. *No events have occurred subsequent to March 31, 1990 that would require adjustment to the accounting records in connection with US Government financial awards.*

MANAGING DIRECTOR

COMPANY SECRETARY

92

AUDIT OF
USAID/ZIMBABWE'S CONTRACT
NO. 613-0231-C-00-6022-00
WITH ZECO LIMITED

APPENDICES

UNITED STATES GOVERNMENT

memorandum

DATE: March 8, 1991

REPLY TO ATTN OF: Ted D. Morse, Director, USAID/Harare

SUBJECT: Audit of USAID/Zimbabwe's Contract 613-0231-C-00-6022-00 with ZECO Limited

TO: Toby L. Jarman, RIG/A/N

RECEIVED
10 MAR 1991
RIG/A/N

USAID appreciates the assistance RIG/A/Nairobi and Price Waterhouse has provided during the subject audit. The draft report was excellent and documented thoroughly the Mission's issues and concerns.

Following are the Mission's comments on the draft transmittal memorandum.

Recommendation 1.4

Mission suggests that recommendation be re-worded. The amount in question relates to approved work order costs which were misposted to fixed price contract expenses. Please see p.19, 2.5.2, and Appendix C-2. The auditors indicate that this amount was accepted as a valid approved work order cost although misposted to the fixed price component.

Recommendation 1.5

Mission suggests that recommendation be re-stated to reflect that it was the U.S. Government who incurred additional interest costs and that the RCO should consider collecting such from ZECO. USAID did not pay Z$77,000 to ZECO for interest.

If you have any questions regarding the above comments, please do not hesitate to contact me.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114
☆ USGPO 1988-491-248/20641

UNITED STATES GOVERNMENT

memorandum

DATE: March 21, 1991

REPLY TO ATTN OF: Richard J. Womack, RCO, REDSO/ESA Richard J Womack

SUBJECT: Audit of USAID/Zimbabwe's Contract No. 613-0231-C-00-6022-00 with ZECO Limited

TO: Toby Jarman, RIG/A/Nairobi

RECEIVED
21 MAR 1991
RIG/A/N

Thank you for your Memo dated March 5, 1991 and the copy of the draft transmittal memo for the above mentioned audit report.

I have reviewed the draft and have no objections to the factual information contained therein. In my opinion, the draft transmittal memo clearly and correctly states the facts.

I am currently reviewing the audit report and all relevant facts to determine what action, if any, the Regional Contracting Office will take in response to Recommendations No. 1 and No. 2.

cc: Mr. Fred C. Fischer, Director, REDSO/ESA
Mr. Ted Morse, Director, USAID/Zimbabwe

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114
* U.S. GPO: 1990-262-081/90286

Appendix II

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