

Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
USAID/Swaziland Management  
of Commodities

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Report No. 3-645-92-09  
March 26, 1992



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

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March 26, 1992

**MEMORANDUM**

**TO** : Roger D. Carlson, Mission Director, USAID/Swaziland  
**FROM** : Toby L. Jarman, RIG/A/Nairobi   
**SUBJECT:** Audit of USAID/Swaziland Management of Commodities

Enclosed are five copies of our audit report on USAID/Swaziland Management of Commodities, Report No. 3-645-92-09.

We have reviewed your comments on the draft report and included them as an appendix to this report. Based on your comments, Recommendation No. 1.1 is closed upon the issuance of this report. Recommendation Nos. 1.2, 1.4 and 2.3 are resolved and can be closed upon receipt of documentary evidence showing that the actions cited have been completed. Recommendation Nos. 1.3, 2.1 and 2.2 are unresolved and will be resolved when we obtain your agreement on the recommended actions. Please provide your agreement with the amounts of \$53,125 and \$387,106 contained in Recommendation Nos. 1.3 and 2.1. We will close those recommendations upon receipt of documentary evidence that the required actions have been completed. Please respond to this report within 30 days indicating any actions planned to implement the recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

## EXECUTIVE SUMMARY

Since 1978, USAID/Swaziland had 21 bilateral development assistance projects, 13 of which involved the procurement of commodities. For these 13 projects, USAID/Swaziland had obligated \$13.2 million for commodity procurement and spent \$11.5 million (see page 1).

Of these totals, our review included eight projects with commodity obligations and expenditures of \$3.8 million and \$2.1 million, respectively (see page 1).

We audited USAID/Swaziland's management of commodities between June 26, 1991 and September 5, 1991 in accordance with generally accepted government auditing standards (see page 2 and appendix I) and found that USAID/Swaziland:

- planned for commodity needs in accordance with A.I.D. policies and procedures (see page 4).
- had not established a monitoring system to ensure that commodities valued at \$2.1 million were received, stored and used as intended; unless corrected, an additional \$1 million in planned commodity procurements will be at risk (see page 5).
- had not established a monitoring system to ensure that commodities valued at \$1.7 million were disposed of at the completion of projects (see page 11).

The audit objectives, scope and methodology sections are on page 2 and Appendix I respectively.

The report contains two recommendations. The first recommends that USAID/Swaziland establish a commodity management system and determine the allowability, and collect as appropriate \$53,125 for vehicles and motorcycles sold prior to project completion by the Government of Swaziland without USAID/Swaziland's approval. Further, these weaknesses should be reported in the next Federal Managers' Financial Integrity Act reporting cycle if

they remain uncorrected (see page 6). The second recommends that USAID/Swaziland notify IG/A/FA of problems to be included in future audits regarding four projects which include \$1.3 million in commodities disposed of under those projects, determine the allowability of \$387,106 in commodities disposed under another project, and establish a system to monitor commodity disposals. Further, these weaknesses should be reported in the next Federal Managers' Financial Integrity Act reporting cycle if they are not corrected (see page 12). The report also (1) presents our assessment of internal controls (see page 17) and (2) reports on USAID/Swaziland's compliance with applicable laws and regulations (see page 20).

USAID/Swaziland management reviewed the draft report and generally agreed with the findings and recommendations. We modified the final report to address their specific concerns

*Office of the Inspector General*

Office of the Inspector General  
March 25, 1992

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# INTRODUCTION

## Background

Since 1978, USAID/Swaziland had 21 bilateral development assistance projects with obligations of \$90.5 million and expenditures of \$73 million. A.I.D. assistance through these projects was targeted to the following sectors:

	<u>Obligations</u> '000	<u>Expenditures</u> '000
Agriculture	\$ 31,513	\$ 27,811
Education	42,715	32,043
Health	12,690	10,667
Other	<u>3,610</u>	<u>2,494</u>
Total	<u>\$90,528</u>	<u>\$73,015</u>

Thirteen of the 21 bilateral projects involved the procurement of commodities for which USAID/Swaziland had obligated \$13.2 million and spent \$11.5 million as of July 8, 1991. The commodities procured included mostly construction equipment, computers, photocopiers, laboratory and agricultural equipment, motor cycles and motor vehicles.

Our audit included eight of these projects with obligations of \$3.8 million and expenditures of \$2.1 million. Appendix III provides a complete listing of the eight projects which were audited.

USAID/Swaziland procured commodities through technical assistance contractors and by direct A.I.D. procurement, which included both local and offshore procurements. Commodity needs, specifications, source/origin and contracting modes were selected during project design and summarized in the project papers as the procurement plans. The plans were used as the basis for preparing the project agreements and budgets for commodity procurement.

Procurement was usually made in accordance with the guidance provided in the procurement plan. For example, procurement by technical assistance contractors was approved by the Regional Contracting Officer at USAID/Swaziland. Offshore procurements were received through sea ports in the Republic of South Africa. The commodities were cleared through

customs and transported to project sites by either of two clearing agents recommended by the Government of Swaziland -- Manica and Interfreight clearing agents. Thereafter, it was the responsibility of USAID/Swaziland project officers to monitor the receipt, storage, use and disposal of A.I.D.-financed commodities.

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## **Audit Objectives**

The Office of the Regional Inspector General for Audit, Nairobi audited USAID/Swaziland's management of commodities to answer the following audit objectives:

1. Did USAID/Swaziland follow A.I.D. policies and procedures in planning for commodity needs?
2. Did USAID/Swaziland follow A.I.D. policies and procedures in monitoring the receipt, storage and use of commodities?
3. Did USAID/Swaziland follow A.I.D. policies and procedures in monitoring the disposal of commodities at the completion of projects?

In answering these audit objectives, we tested whether USAID/Swaziland (1) followed applicable internal control procedures contained in A.I.D. Handbooks 1B, 3, 11, 14 and 15 and (2) complied with certain provisions of laws, regulations, grants and contracts. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect our audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Swaziland followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine that USAID/Swaziland was not following a procedure or not complying with a legal requirement,
- identify the causes and effects of the problems, and
- make recommendations to correct the conditions and causes of the problems.

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

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## **REPORT OF AUDIT FINDINGS**

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### **Did USAID/Swaziland follow A.I.D. policies and procedures in planning for commodity needs?**

For the eight projects audited, USAID/Swaziland followed A.I.D. policies and procedures in planning for commodity needs which were documented in the project papers and the grant agreements.

A.I.D. Handbook 11 requires realistic advance planning for commodity procurement. A list of needed commodities and anticipated costs is to be prepared as the project is developed. A.I.D. Handbook 3 chapter 13 states that A.I.D. policy supports the adjustments of project designs and implementation methods to maintain their relevance and effectiveness under changing conditions. Such flexibility is a critical tool for sound project management. This is not to imply that originally agreed upon project elements and objectives are to be taken lightly or altered without justification and prior approval. This policy intends that approved project designs are to be adhered to unless conditions change to the degree wherein their continued pursuit would not, with all factors and risks considered, result in appropriate use of resources or the practicable and effective achievement of agreed-upon objectives. When problems are suspected or confirmed, the borrower/grantee or A.I.D. project committee members should evaluate the condition and, as appropriate, recommend alternative approaches and mechanisms, prepare justifications for the changes and obtain prompt approval to incorporate such changes into the project.

In addition, A.I.D. Handbook 15 states that the eligible source for all grants is code 000, the United States. Furthermore, the Handbook requires USAIDs to approve the eligibility and suitability of commodities prior to financing them, and to issue waivers for procurement whose source is inconsistent with the authorizing documents.

USAID/Swaziland reviewed, assessed and identified commodity needs and specifications, and this was documented in the project papers and grant agreements for the eight projects. The project papers and grant agreements contained descriptive listings of commodities that were considered necessary for the projects. For example, commodities considered necessary for

the Education Policy and Management Project included personal computers, laser printers, facsimile machines, photocopiers, optical scanners, graphics equipment, educational films and books, video equipment and vehicles. The Manpower Development Project included studio equipment, editing and reproduction equipment, studio equipment, audio tapes and reference materials. The Teacher Training Project included microfiche and related equipment, laboratory equipment, children's books, sports equipment, computers, library material, video equipment, concrete learning facilitators and supplies. In most cases, commodity specifications were rather general as illustrated by the above examples. However, considering the time lag between project planning and implementation, specifications change and are better defined as implementation progresses. Thus, lack of exact commodity specifications at the initial planning stages appears to have had no adverse effect on the purchases eventually made, which were in line with A.I.D. Handbook 3 guidance. Furthermore, nothing came to our attention that indicated ineligible or restricted commodities were funded by USAID/Swaziland.

Project papers and grant agreements also contained geographic codes identifying the areas from which commodities were to be procured unless waivers were issued. The prescribed geographic code for all project grants was '000', the United States.

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### **Did USAID/Swaziland follow A.I.D. policies and procedures in monitoring the receipt, storage and use of commodities?**

For the eight projects audited, USAID/Swaziland did not follow A.I.D. policies and procedures in monitoring the receipt, storage and use of commodities.

USAID/Swaziland did not prepare, or require the technical assistance contractors to prepare, listings of commodities ordered, received, stored and used. Without such listings, USAID/Swaziland could not determine whether all commodities ordered and paid for were received, stored and used for their intended purposes. Due to the lack of commodity listings, it was not possible to select a meaningful sample for the purposes of the audit. Although, USAID/Swaziland was responsive to the auditors' request to provide commodity listings for the eight projects audited, those listings were incomplete and did not include information such as serial numbers, dates of arrival, locations and unit costs. The problems with USAID/Swaziland's management of commodities are discussed below.

### **Improvements are Needed in Monitoring the Receipt, Storage and Use of Commodities**

According to A.I.D. policies, USAID offices are responsible for ensuring that a monitoring system is in place to give reasonable assurance that A.I.D.-financed commodities comply with

the Agency's commodity procurement policies. However, USAID/Swaziland had not established a monitoring system to ensure that commodities were received, stored, and used as intended. This happened because USAID/Swaziland officials were unclear about their responsibilities regarding the management of A.I.D.-financed commodities and did not give commodity management a high priority. As a result, USAID/Swaziland did not have complete assurance that commodities valued at \$2.1 million were received, stored and used as intended. Furthermore, the lack of a system would also impact on an additional \$1 million in planned commodity procurements.

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

- 1.1**            **Establish a system to (a) monitor the contractors' and grantees' compliance with the requirement to perform annual physical inventories and submit annual inventory reports and certifications, (b) ensure that contractors and grantees establish commodity management systems, and (c) account for the receipt, storage and use of A.I.D.-financed commodities for all on-going and future projects.**
  
- 1.2**            **Include the requirement for commodity management in the project officers' employee evaluation reports as a continuing responsibility in their work requirements.**
  
- 1.3**            **Determine the allowability of, and collect as appropriate, \$53,125 for vehicles and motorcycles sold prior to project completion by the Government of Swaziland without A.I.D.'s authorization.**
  
- 1.4**            **Report internal control weaknesses associated with USAID/Swaziland's commodity monitoring systems to the Assistant Administrator in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected.**

A.I.D. Handbook 15, chapter 10, states that A.I.D. offices are responsible for ensuring that A.I.D. financed commodities are properly accounted for regarding receipt, storage and use. A.I.D. Handbook 1B, chapter 24, states that USAID offices are responsible for ensuring that the borrower/grantee's commodity management systems are operating effectively. USAIDs are required to maintain a current description of those systems, and its evaluation of them, as well as the monitoring procedures established by the USAID office. The Handbook further states that project officers have ultimate responsibility for ensuring that A.I.D. funded commodities are effectively used for project purposes. It requires project officers to

continuously monitor their projects and give periodic end-use reports to the Mission Director.

In addition, the Federal Managers' Financial Integrity Act (the Integrity Act) requires Agencies' internal controls to provide reasonable assurance that funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

To implement A.I.D. Handbooks 1B and 15 policies, and the Integrity Act, the technical assistance contracts required contractors to establish commodity management systems to control, protect, preserve and maintain U.S. Government property. The contracts also required the contractors to submit, to USAID/Swaziland, annual reports on all non-expendable property in their possession or control, detailing acquisitions, disposals and balances of property on hand. Contractors were to perform physical inventories of U.S. Government property at least annually and maintain records for A.I.D.-financed commodities which agreed with the inventories. The Federal Acquisition Regulations (FAR) Subpart 45-508 states that physical inventory consists of sighting, tagging or marking, describing, recording, reporting, and reconciling the commodities with inventory records.

At the time of audit in July 1991, documents within USAID/Swaziland and contractors' offices showed that \$2.1 million worth of commodities had been procured, and financial reports listed about \$1 million in planned procurement of additional commodities. However, there were no detailed listings of commodities ordered, received, stored and used which could be reconciled to the \$2.1 million. USAID/Swaziland had not established a monitoring system to account for the receipt, storage and use of these commodities, which included, among other things, assurance that contractors performed the required physical inventories and submitted the required inventory reports to USAID/Swaziland annually.

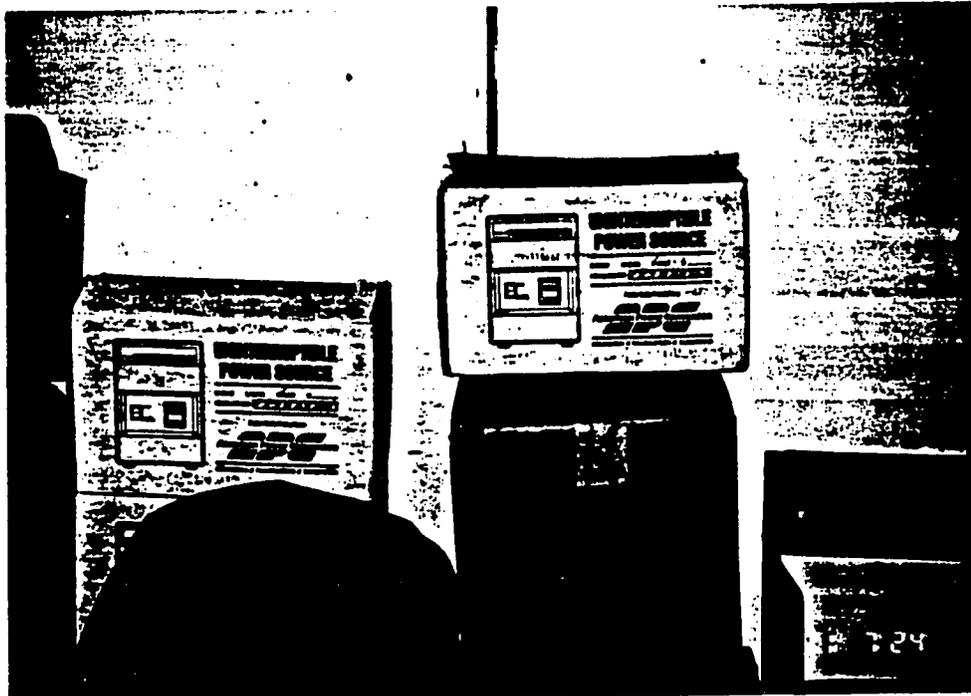
In addition, neither USAID/Swaziland nor the technical assistance contractors maintained records to compare commodities ordered with items actually received and paid for. Although USAID/Swaziland was responsive to the auditors' request for inventories of project commodities, it could only provide inventories for four of the eight projects audited, and those lists did not include information such as serial numbers, dates of arrival and locations. Moreover, neither USAID/Swaziland nor the auditors could determine the extent of the information missing from these inventory lists since prior inventories had either not been provided or had not been done by the contractors. Finally, USAID/Swaziland did not have a system to ensure that the technical assistance contractors tracked all commodities from receipt to end use. The result was that USAID/Swaziland could not assure itself that all commodities were received, stored and used for their intended purposes.

In those cases where documentation did exist, enabling us to identify the location, quantity, type and value of commodities procured, we found the following specific examples of problems under several projects. However, we could not attach values to all of these commodities because this information was not maintained.

- Under the Family Health Services Project, commodities were not properly inspected upon receipt. Five Caramate slide-projectors and three Uninterruptible Power Supply units (UPS) could not be used because they were delivered without necessary accessories and incorrect voltage ratings that were not subsequently converted to the correct voltage. Also, a UPS under the same project was unserviceable because parts were not available.
- A projector procured under the Education Policy and Management Project was not being used because it was delivered with incorrect voltage and was not subsequently converted to the correct voltage.
- Under the Cropping Systems Research and Extension Training Project, some items such as planters, generators and dictating machines had been idle for as long as seven years because of incorrect voltage, a lack of accessories, or excess to the project's needs. Also under the same project, some commodities included in the contractors' inventory listing could not be identified during our physical inspections. In fact, commodities such as motor vehicles and motor cycles which had been sold several years before the physical inventory were included in the physical inventory list -- a fact the physical inventory did not disclose.
- Also, under the Cropping Systems Project, six motor vehicles and eight motorcycles valued at \$53,125, which were under the custody of the technical assistance contractor, were sold prior to project completion by the Government's Central Transport Administration without USAID/Swaziland's knowledge and approval. See appendix IV for a complete listing.



**Figure 1:** Caramate projectors at the Family Planning Association of Swaziland that could not be used because they were delivered without necessary accessories.



**Figure 2:** Uninterruptible Power Supply Units at the Family Planning Association of Swaziland which could not be used because these units had not been converted to the correct voltage.

In addition, the foregoing problems identified with the receipt, storage and use of commodities were not reported by USAID/Swaziland, as a material weakness, in the last Federal Managers' Financial Integrity Act reporting cycle.

The above problems occurred because of two factors. First, USAID/Swaziland project officers, though aware of requirements in the A.I.D. Handbooks, did not have specific knowledge of their duties and responsibilities regarding project commodities. The project officers were unclear as to who was responsible for monitoring receipt, storage and use. Whereas some project officers believed the responsibility to monitor project commodities rested with the Executive Officer, others believed it was the responsibility of the Regional Contracting Officer. The project officers also stated that they had not been asked by management to monitor commodities. We were told that the responsibility for commodity management as described in A.I.D. Handbooks were not included in the project officers' employee evaluation reports (EERs). The result was that USAID/Swaziland relied upon the technical assistance contractors to track the receipt, storage and use of A.I.D.-financed commodities without evaluating the contractors commodity management systems, as required in A.I.D. Handbook 15. Such evaluations would have shown that the technical assistance contractors did not have adequate systems to track project commodities.

Second, USAID/Swaziland gave areas other than commodity management priority. The project officers stated that most of their time was taken up preparing Project Implementation Letters, Project Implementation Orders and other paperwork connected with projects management. Therefore, they stated that they did not have the time to make site visits, prepare trip reports, test inventory records and perform end-use reviews.

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*--- USAID/Swaziland did not have complete assurance that commodities valued at \$2.1 million were received, stored and used as intended.*

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As a result of the foregoing, while there was no evidence of unauthorized use, USAID/Swaziland did not have complete assurance that commodities valued at \$2.1 million were received, stored and used as intended. The lack of a system would also impact on an additional \$1 million in planned commodity procurements. As stated on page 8, in cases where documentation did exist, the audit determined problems in several projects. For example, items such as planters, generators, and dictating machines valued at \$109,013 were idle for several years or more, \$63,498 worth of commodities could not be located, and vehicles and motorcycles valued at \$53,125 were sold without USAID/Swaziland's knowledge and approval.

Based on the foregoing, we concluded that USAID/Swaziland needed to establish a monitoring system to properly account for the receipt, storage and use of A.I.D.-financed commodities for all on-going and future projects. This should include a complete and accurate accounting for all commodities under these projects and assurance that contractors used by USAID/Swaziland have established systems to track project commodities. In addition, USAID/Swaziland needed to determine the allowability, and collect as appropriate \$53,125 for vehicles and motorcycles sold without its authorization. Further, the problems with commodities should be reported in the next Federal Managers' Financial Integrity Act reporting cycle as a material weakness if they remain uncorrected.

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**Did USAID/Swaziland follow A.I.D. policies and procedures in monitoring the disposal of commodities at the completion of projects?**

For the five completed projects audited, USAID/Swaziland did not follow A.I.D. policies and procedures in monitoring the disposal of commodities at the completion of projects. USAID/Swaziland did not maintain complete records, as required by A.I.D. policies and procedures, that could be reconciled to what A.I.D. had paid for and received.

As discussed under Audit Objective Two, USAID/Swaziland did not maintain complete records of commodities ordered, received, stored and used. Without complete records, we could not determine if all the A.I.D.-financed commodities in our sample were disposed of in accordance with A.I.D. policies and procedures at the completion of the projects.

However, using other information available at USAID/Swaziland and the technical assistance contractors' offices, we determined that USAID/Swaziland did not obtain complete commodity listings to be used for disposal purposes. For example, physical inventories were not conducted at the completion of the contract or project for two out of five projects. In addition, where commodity listings were provided, they were incomplete and did not include all the required information. Furthermore, USAID/Swaziland did not reconcile commodities disposed of in the five projects to what had been paid for and received.

**Improvements are Needed in  
Monitoring Commodity Disposals**

A.I.D. regulations require USAID offices to monitor the disposal of A.I.D.-financed commodities at contract or project completion. However, USAID/Swaziland did not have a monitoring system to ensure that commodities were disposed of at the completion of projects. This occurred because USAID/Swaziland officials were unclear about their responsibilities regarding the disposal of A.I.D.-financed commodities and did not give

commodity management a high priority. As a result, USAID/Swaziland could not fully account for the disposal of \$1.7 million worth of commodities.

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

- 2.1 (a) Notify IG/A/FA of the \$1.3 million in commodity disposal problems experienced by U.S. Private Voluntary Organizations and U.S. universities which administered project numbers 645-0212, 645-0220, 645-0214, and 645-0218 and request that these problems be included in the next scheduled recipient biannual audits or any upcoming agency-contracted audits; and (b) determine the allowability of, and collect as appropriate, \$387,106 in commodities disposed of under project number 645-0087, administered by an indigenous non-Governmental Organization.**
- 2.2 Establish a system to (a) monitor the contractors' compliance with the requirement to perform physical inventories at the completion of projects, and (b) account for commodities disposed of at the completion of projects.**
- 2.3 Report to the Assistant Administrator the problems with the disposal of commodities as a material weakness in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected.**

A.I.D. Handbook 15, chapter 10, requires USAIDs to monitor the disposition of A.I.D.-financed commodities. Furthermore, chapter 11 of the Handbook requires all commodity disposal arrangements to follow adequate audit trace principles.

A.I.D. Handbook 14, which is based on FAR, requires physical inventories of all A.I.D.-financed commodities to be performed upon termination or completion of contracts. The Handbook further requires USAIDs to obtain, from contractors, listings to be used for commodity disposal purposes which, at a minimum, identify all discrepancies disclosed by the physical inventories, and obtain signed inventory certifications from the contractors.

To implement Handbooks 14 and 15 requirements, the technical assistance contracts required contractors to finalize inventory reports of all commodities at the completion of contracts. Furthermore, the contracts required the contractors to turn over the commodities in their possession or control to A.I.D., the host government, or as directed by USAID/Swaziland, upon the termination or completion of contracts.

The Federal Managers' Financial Integrity Act (the Integrity Act) requires Agencies' internal controls to give reasonable assurance that funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.

However, USAID/Swaziland had not established a system that required the accounting, reconciling and taking of complete physical inventories -- by contractors, grantees or project officers -- when disposing of commodities. As discussed under Audit Objective Two, USAID/Swaziland did not maintain complete inventory records of commodities ordered, received and used. Thus, it was not possible to determine all commodities which should have been available for disposal at the completion of contracts or projects. According to the information available within USAID/Swaziland and the technical assistance contractors' offices, \$2 million worth of commodities which were procured under the five projects should have been transferred to the Government of Swaziland. However, USAID/Swaziland did not have complete assurance that commodities valued at \$1.7 million, out of the \$2 million, were disposed in accordance with A.I.D. policies and procedures as follows.

- **Cropping Systems Research and Extension Training Project No. 645-0212:** According to the contractor's -- a U.S. university -- August 5, 1991 summary of costs, \$414,852 was paid by A.I.D. for project commodities. However, the final physical inventory conducted on July 9, 1991 included commodities worth only \$248,852. No explanations were provided for the difference of \$166,000. Commodities that were not included in the inventory list were items such as computers, cameras, projectors, recorder/players, planters and motor cycles. Furthermore, this list included commodities such as motor vehicles which had been sold several years before the physical inventory was carried out -- a fact which the inventory list did not disclose. Therefore, USAID/Swaziland could not account for the \$158,358 disbursed for commodities under this project.
- **Primary Health Care Project 645-0220:** The contractor's -- a U.S. Private Voluntary Organization (PVO) -- summary of costs showed that \$245,751 was spent on commodities under this project. However, the required physical inventories were not conducted during the life of the project and a listing of commodities procured was not submitted to USAID/Swaziland. According to a USAID/Swaziland letter of January 8, 1991, commodities valued at \$67,762 were to be turned over to the Government in January and June 1991. No explanations were provided for the other commodities valued at \$177,989. Thus, USAID/Swaziland could not account for the \$177,989 spent on commodities under this project.

- **Teacher Training Project (645-0214):** According to the MACS report PO6B of July 8, 1991, \$783,262 was disbursed for commodities under this project, which was implemented by a U.S. university. A physical inventory was conducted at the completion of the contract in June 1989 and a Project Implementation Letter was executed handing over the commodities to the Government. However, the physical inventory did not include all the commodities. For example, it did not include those commodities which were being used at Government institutions. In addition, the inventory list did not include the unit costs of the commodities and thus the results of the physical inventory could not be reconciled with the commodities paid for and received. Thus, USAID/Swaziland could not reconcile the \$783,262 disbursed under this project to what was disposed of.
  
- **Manpower Development Project (645-0218):** The MACS report PO6B of July 8, 1991 showed that \$155,883 was disbursed for commodities under this project. A physical inventory was conducted at the end of each of the contracts by the U.S. PVOs involved -- Academy for Educational Development (AED) and Transcentury Corporation. Commodities procured under AED were transferred to the Government, while those commodities procured under the Transcentury contract were transferred to a follow-on project -- STRIDE Project No. 645-0231 in January 1991. However, the inventory list did not include unit costs of the commodities and thus the results of the physical inventory could not be reconciled to what A.I.D. had paid for and received. Therefore, USAID/Swaziland could not reconcile the \$155,883 disbursed to what was disposed of.
  
- **Rural Water-Borne Disease (645-0087):** According to the Mission Accounting and Control Systems (MACS) report PO6B of July 8, 1991, \$387,106 was spent on commodities under this project, which was implemented by an indigenous non-Governmental Organization. However, there was no evidence that a physical inventory was conducted at the end of the contract in 1986 and there were neither listings of commodities that were procured under this project nor evidence to show whether the commodities were turned over to the Government. Thus, USAID/Swaziland could not account for the \$387,106 disbursed for commodities under this project.

In addition, the foregoing problems with commodity disposal were not reported by USAID/Swaziland as a material weakness in the last Federal Managers' Financial Integrity Act reporting cycle.

The causes of the problems with commodity disposal are similar to the problems with receipt, storage and use of commodities discussed under Audit Objective Two. First,

USAID/Swaziland project officers, though generally aware of A.I.D. Handbooks requirements, did not have specific knowledge of their duties and responsibilities regarding project commodities. The project officers believed that it was not their responsibility to monitor commodity disposal, but rather the responsibility of the Executive Officer or the Regional Contracting Officer.

Second, USAID/Swaziland did not give commodity management a high priority. USAID/Swaziland project officers stated that most of their time was taken up preparing Project Implementation Letters, Project Implementation Orders and other paperwork related to project management. Therefore, the project officers stated that they did not have the time to make site visits, prepare trip reports, test inventory records and perform end-use checks.

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*--- USAID/Swaziland could not account for the disposal of \$1.7 million worth of commodities ---*

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As a result, USAID/Swaziland did not have reasonable assurance that all A.I.D.-financed commodities under the five completed projects were disposed of in accordance with A.I.D. policies and procedures. Since it could not reconcile commodities disposed of at the completion of projects to what A.I.D. paid for and received, USAID/Swaziland could not account for the disposal of \$1.7 million worth of commodities disposed under five projects completed within the last three years.

Based on the above, we concluded that USAID/Swaziland needed to obtain a complete and accurate accounting for the \$1.7 million in commodities disposed of under the five projects. Since four of the projects were administered by U.S. universities or U.S. PVOs, USAID/Swaziland should notify IG/A/FA of the problems and request that future audits of these projects address those problems. Because project number 645-0087 was administered by an indigenous non-Governmental Organization, USAID/Swaziland can determine the allowability, and collect as appropriate, \$387,106 in project commodity disposals.

**In addition, USAID/Swaziland needed to establish a system to monitor the contractors' compliance with the requirement for physical inventories and to account for commodities disposed of at the completion of projects. Such a system should include, among other things, assurance that technical assistance contractors who dispose of project commodities for USAID/Swaziland have systems to provide the Mission with complete and accurate information on disposal. Furthermore, we considered this to be a material weakness and a reportable condition under the Federal Managers' Financial Integrity Act if the problems remain uncorrected.**

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# REPORT ON INTERNAL CONTROLS

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

## **Scope of Our Internal Control Assessment**

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

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

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

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

## **General Background on Internal Controls**

The management of A.I.D., including USAID/Swaziland is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which

amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers, as delegated, legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

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

### **Conclusions for Audit Objective One**

This objective relates to procedures used by USAID/Swaziland in planning for commodity needs. In planning and performing our audit work, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 11 chapter 3, Handbook 15 chapter 2 and Handbook 3 chapter 13. For the purpose of this report, we have classified the relevant policies and procedures into the commodity procurement planning process.

We reviewed USAID/Swaziland's controls relating to this process. Our tests showed that control procedures relating to planning for commodity needs were logically designed and consistently applied. Therefore, we limited our tests to reviewing the procurement plans contained in the project papers and grant agreements and the procurement files for the ten projects in our audit sample.

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

This objective relates to USAID/Swaziland's procedures for monitoring the receipt, storage and use of A.I.D.-financed commodities. In planning and performing our audit work, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 15. For the purpose of this report, we have classified the relevant policies and procedures

into the following three categories: the commodity arrival and receipt process, the commodity storage process and the commodity usage process.

We reviewed USAID/Swaziland's internal controls relating to these processes. Our assessment showed that control procedures relating to monitoring commodity receipt, storage and use were not properly designed and implemented. USAID/Swaziland did not have controls to ensure that the technical assistance contractors had inventory management systems in place, performed annual inventories and submitted annual inventory reports. Therefore, we could not rely on USAID/Swaziland's controls in designing our audit approach. We conducted more extensive testing to achieve our objective of determining whether USAID/Swaziland followed A.I.D. policies and procedures in monitoring the receipt, storage and use of A.I.D.-financed commodities. We physically inspected all commodities included in the listings provided to us by USAID/Swaziland and for which either USAID/Swaziland or the contractors could identify where they were located. Finally, we noted that USAID/Swaziland did not report these weaknesses in its latest internal control assessment under the Federal Managers' Financial Integrity Act.

### **Conclusions for Audit Objective Three**

This objective relates to USAID/Swaziland's procedures for monitoring the disposal of commodities at the completion of projects. In planning and performing our audit work, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 14 and 15. For the purpose of this report, we have classified the relevant policies and procedures into the following category: the commodity disposal monitoring process.

We reviewed USAID/Swaziland's internal controls relating to this process. Our assessment showed that control procedures relating to monitoring the disposal of commodities at project completion were not logically designed and implemented. USAID/Swaziland did not establish a system that required the accounting, reconciling and taking of complete physical inventories at the completion of projects. Therefore, we could not rely on USAID/Swaziland's controls in designing our audit approach. We conducted more extensive testing to achieve our objective of determining whether USAID/Swaziland followed A.I.D. policies and procedures in monitoring the disposal of commodities at project completion. These tests included comparisons of commodities procured with commodities either turned-over or transferred to other projects according to the information within USAID/Swaziland. Finally, we noted that USAID/Swaziland did not report these weaknesses in its latest internal control assessment under the Federal Managers' Financial Integrity Act.

# REPORT ON COMPLIANCE

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

## **Scope of Our Compliance Assessment**

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

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that we found during or in connection with the audit.

We tested USAID/Swaziland's compliance with the provisions of the Federal Managers' Financial Integrity Act of 1982. However, our objective was not to provide an opinion on USAID/Swaziland's overall compliance with the provisions of the Federal Managers' Financial Integrity Act of 1982.

## **General Background on Compliance**

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing an entity's conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls.

Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with the provisions of the Federal Managers Financial Integrity Act is the overall responsibility of USAID/Swaziland's management. However, as part of fairly, objectively and reliably answering the audit objectives, we performed tests of USAID/Swaziland's compliance with those provisions.

### **Conclusions on compliance**

We found that USAID/Swaziland complied with the provisions of the Federal Managers' Financial Integrity Act.

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## **MANAGEMENT COMMENTS AND OUR EVALUATION**

In response to Recommendation No. 1.1, USAID/Swaziland provided RIG/A/N with a copy of a Mission Directive that establishes policy, procedures and responsibilities for commodity arrival, control, and end-use monitoring. The procedures established in this directive address the requirements of the recommendation. Based on this action by USAID/Swaziland, Recommendation No. 1.1 is closed upon the issuance of this report.

For Recommendation No. 1.2, USAID/Swaziland stated that it would be willing to include a commodity management requirement, among other project management requirements already included in Part II B of the project officers' employee evaluation reports (EERs). Recommendation No. 1.2 is resolved and can be closed upon receipt of documentary evidence showing that the commodity management requirement is included in Part II B of the project officers' EERs

Regarding Recommendation No. 1.3, USAID/Swaziland stated that there was nothing to be gained by issuing a bill of collection to the Government of Swaziland for \$53,125 relating to the motor vehicles and motorcycles sold prior to project completion without its knowledge and approval. It stated that every item was always to have been turned over to the Government of Swaziland upon completion of its useful role in the performance of the contract. USAID/Swaziland added that the contractor had not misappropriated or misdirected any of the U.S. Government property for which it was responsible, and the Government of Swaziland's acceptance of the equipment effectively absolves the contractor of any residual responsibility for it. However, USAID/Swaziland stated it would be willing to send a letter to the Ministry of Economic Planning and statistics stating that in the future any sale of project commodities without A.I.D.'s written consent would result in a review of the sale and issuance of a bill of collection if deemed appropriate. RIG/A/N still believes that it was inappropriate for the Government of Swaziland to sell motor vehicles prior to project completion and the time those vehicles were formerly turned-over to them at the completion of the project. Thus, Recommendation No. 1.3 is unresolved. It will be closed upon either issuance of a bill of collection for all or part of the \$53,125 or the receipt of the Mission Director's formal written determination that \$53,125 worth of motor vehicles and

motorcycles, sold by the Government of Swaziland without USAID/Swaziland's knowledge and approval, is allowable.

Regarding Recommendation No. 1.4, USAID/Swaziland stated that they did not believe that lack of systems to monitor the receipt, storage and use of commodities as discussed in the report was a reportable material weakness, since the report specifically discussed only \$172,511 in idle or unlocated commodities and \$53,125 in equipment sold without USAID/Swaziland approval. However, as discussed in the report, USAID/Swaziland did not maintain records for at least \$2.1 million worth of commodities. The \$172,511 only represent the idle and unlocated commodities that we were able to identify with available documentation. Nevertheless, USAID/Swaziland stated that they will review records and documents during the next Internal Control Assessment and report any material weaknesses found relating to commodity management. Based on USAID/Swaziland comments, Recommendation No. 1.4 is resolved. This recommendation will be closed upon receipt of documentary evidence that the weaknesses regarding the monitoring of receipt, storage, and use of the project commodities have been corrected, or reported in USAID/Swaziland's next Internal Control Assessment.

In response to Recommendation No. 2.1, USAID/Swaziland requested RIG/A/N to make arrangements for a cost audit of the expired project numbers 645-0212, 645-0220, 645-0214, and 645-0218 to give an item-by-item accounting of the purchases under the contracts, which could then be matched with the contractor turn-over reports. In addition, the management requested RIG/A/N to drop the inventory requirements for Project Nos. 645-0068, 645-0087, and 645-0224. Management stated that there were no contractors from whom they could get inventories and there was no funding to hire someone to reconcile any records that the ministries might have. We have revised Recommendation No. 2.1 to recommend that USAID/Swaziland notify IG/A/FA of the commodity disposal problems experienced by U.S. Private Voluntary Organizations and U.S. universities which administered project numbers 645-0212, 645-0220, 645-0214 and 645-0218, and request that these problems be addressed in future audits. We also recommended that USAID/Swaziland determine the allowability and collect as appropriate \$387,106 in commodities disposed under project number 645-0087 which was completed less than three years ago. A.I.D. Handbook 21 Chapter 26 requires project records to be maintained for at least three years after project completion. Based on the foregoing, Recommendation No. 2.1 is unresolved. The recommendation can be closed when RIG/A/N receives documentary evidence that USAID/Swaziland: (a) formally notified IG/A/FA of the problems in project numbers 645-0212, 645-0220, 645-0214 and 645-0218 and requested future audits to include these projects, and (b) issued a bill of collection for \$387,106 for commodities disposed under project number 645-0087 or determined that this amount was allowable.

Concerning Recommendation No. 2.2, USAID/Swaziland indicated it had incorporated the requirements of this recommendation under its planned actions for Recommendation No. 1.1. However, USAID/Swaziland's Mission Directive No. 1313, dated March 3, 1992, does not address procedures for accounting for commodity disposals as required by Recommendation No. 2.2. Based on the foregoing, Recommendation No. 2.2 is unresolved. It can be resolved when USAID/Swaziland agrees to establish procedures for disposal of commodities and closed when RIG/A/N receives a copy of those procedures.

For Recommendation No. 2.3, USAID/Swaziland stated that it will review the status of disposed commodities during the next Internal Control Assessment and report material weaknesses found in connection with the disposal of commodities. This recommendation is resolved and can be closed upon receipt of documentary evidence that the weaknesses regarding the monitoring of the disposal of project commodities have been corrected, or reported in USAID/Swaziland's next Internal Control Assessment.

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## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/Swaziland's Management of Commodities in accordance with generally accepted Government auditing standards. We began audit work on June 26, 1991 and carried out the fieldwork from July 8, 1991 to September 5, 1991 in the offices of USAID/Swaziland, and in the offices of the technical assistance contractors, as well as various Government of Swaziland institutions and non-governmental organizations in Swaziland. The audit covered the systems and procedures relating to (1) planning for commodity needs, (2) receipt, storage and use, and (3) disposal of commodities at the completion of projects financed by A.I.D. from July 31, 1979 to July 1991.

The audit sample included eight of the 13 bilateral projects in USAID/Swaziland's portfolio which involved commodities; five of these eight projects had been completed by the time of the audit. We tested obligations of \$3.8 million and expenditures of \$2.1 million under the eight projects. The scope of the audit was limited by lack of documentation such as annual inventories, and lists of commodities ordered, received, stored, used. As a result, we could not (1) conclusively determine whether all commodities ordered were received and (2) select a meaningful sample to test the receipt, storage, use and disposal of commodities. In addition, we could not identify a breakdown of the value and type of all the commodities by location. Furthermore, because of the lack of documentation we were unable to test the accuracy of the computer data in the Mission Accounting and Control System (MACS) for obligations and expenditures for four projects totalling \$2 million and \$1.4 million, respectively. We used the contractor's records for the other four projects in our sample, which encompassed the remainder of the \$1.8 million and \$700,000 million in obligations and expenditures, respectively.

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## **Methodology**

The methodology for each audit objective follows:

### **Audit Objective One**

To accomplish the first audit objective, we used the criteria established in A.I.D. Handbook 11 chapter 3, Handbook 15 chapter 2, and Handbook 3 chapter 13 to determine whether USAID/Swaziland followed A.I.D. policies and procedures in planning for commodity needs. We determined whether (1) project papers and grant agreements included evidence of planning for commodity needs at the project development stage, (2) project papers and grant agreements included listings of eligible commodities and prescribed geographic codes, and (3) waivers were issued for procurement from sources other than the prescribed geographic areas. We obtained an understanding of USAID/Swaziland's internal control environment for this objective through interviews with USAID/Swaziland officials as well as officials representing contractors and the Government of Swaziland.

To make the above determinations, our audit included eight projects for which \$2.1 million in commodities was spent. Also, we reviewed procurement files for these projects to determine whether waivers were issued for purchases made from sources outside the prescribed geographic areas.

### **Audit Objective Two**

To accomplish the second objective, we used the criteria established in A.I.D. Handbook 15 chapter 10, Handbook 1B chapter 24 and the Federal Managers' Financial Integrity Act of 1982 to determine whether USAID/Swaziland followed A.I.D. policies and procedures in monitoring the receipt, storage and use of A.I.D.-financed commodities. We determined whether USAID/Swaziland established monitoring procedures to ensure that commodities paid for by A.I.D. were (1) received in the nature and quantities for which payments were made, (2) properly stored to safeguard them against waste, loss and theft, and (3) used for intended purposes.

To make the above determinations, our audit included eight projects for which \$2.1 million had been spent. We considered these eight projects representative of USAID/Swaziland's portfolio of on-going and recently completed projects. We reviewed available documents within USAID/Swaziland and the technical assistance contractors such as payment vouchers, invoices, and commodity procurement requests. In addition, we interviewed USAID/Swaziland's project officers, the Regional Contracting Officer and other USAID/Swaziland and contractors officials who were involved with project commodities.

Also, where we were able to identify commodity locations, we conducted site visits to physically inspect commodities, test the accuracy of inventory records and interview contractor and Government officials who were responsible for the mechanics of the receipt, storage and use of commodities. The physical inspections covered the following project sites:

- the Family Planning Association of Swaziland in Manzini,
- the Educational Policy and Management Project offices at the Institute of International Research Manzini and Mbabane,
- the Cropping Systems Research Station at Malkerns, and Ministry of Agriculture offices in Mbabane,
- the Primary Health Care and Ministry of Health offices in Mbabane, and
- Commercial Agricultural Production and Marketing Project offices in Mbabane.

### **Audit Objective Three**

To accomplish the third objective, we used the criteria established in A.I.D. Handbook 14 Subchapter H, Federal Acquisition Regulations Subpart 45-508, and Handbook 15 chapter 10 to determine whether USAID/Swaziland followed A.I.D. policies and procedures to monitor the disposal of A.I.D.-financed commodities at the completion of projects. We determined whether: (1) physical inventories were conducted at the completion of contracts/projects, (2) contractors submitted to USAID/Swaziland listings of commodities to be disposed of at the end of contracts/projects, and (3) USAID/Swaziland reconciled the inventory lists with the amounts disbursed for commodities.

To make the above determinations, our audit included five projects which were completed at the time of audit and for which commodities valued at \$2 million were disposed of. We reviewed available documents within USAID/Swaziland and the contractors' offices such as Project Implementation Letters and commodity hand-over listings. Also, we interviewed responsible contractor and USAID/Swaziland officials.

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Management Comments

UNCLASSIFIED SECTION P1 OF 02 MEABANE 01520  
 TO AMEMBASSY NAIROBI IMMEDIATE 2099  
 FROM MEABANE  
 111-1520 MAR 92  
 1320/02 0721488  
 12-MAR-92

TOP: 13:25  
 CY: 46102  
 CTR: 111  
 DIS: 11  
 ATT: 11

COM AID FOR SIG/A/NAIROBI, T. JARMAN

SUBJECT: DRAFT AUDIT OF USAID/SWAZILAND MANAGEMENT OF  
 COMMODITIES AUDIT REPORT NO. 3-645-92-XX

OUR COMMENTS TO THE SUBJECT REPORT ARE AS FOLLOWS:

1. COVER PAGE. THE TWO STATEMENTS MADE ON THE COVER PAGE LEAD THE READER TO A DISTORTED CONCLUSION THAT THERE WAS NO SYSTEM BEING FOLLOWED OR THAT AN ACCOUNTING COULD NOT BE MADE FOR OVER DOLS 10 MILLION IN PROPERTY. THIS IS NOT THE CASE, NOR DOES THE AUDIT FIND SUCH EVIDENCE. DOLS 172,511 IN QUOTE IDLE UNLOCATED COMMODITIES UNQUOTE AND DOLS 53,125 FOR EQUIPMENT SOLD BY THE GOVERNMENT OF SWAZILAND WITHOUT USAID APPROVAL OUT OF MORE THAN DOLS 11 MILLION PURCHASED DOES NOT JUSTIFY THE CONCLUSION THAT USAID/SWAZILAND DID NOT FOLLOW AID PROCEDURES IN MONITORING THE RECEIPT, STORAGE AND USE OF COMMODITIES VALUED AT DOLS 11.3 MILLION.

THE STATEMENT THAT NEITHER ACCOUNTING NOR DISPOSAL FOR DOLS 10.8 MILLION OUT OF A TOTAL DOLS 11.2 MILLION COULD BE DETERMINED IS ALSO VERY MISLEADING. DOLS 8.49 MILLION IN COMMODITIES WERE PURCHASED UNDER RCA INFRASTRUCTURE SUPPORT (645-0068) WHICH WAS COMPLETED SIX AND ONE HALF YEARS AGO IN AUGUST 1985. THERE WAS NO TECHNICAL ASSISTANCE CONTRACTOR ACTING AS PROCUREMENT AGENT, NOR IS THERE ANYONE IN THE MISSION WHO IS CAPABLE OF RECALLING THIS PROJECT. TO OUR KNOWLEDGE, SOME OF THESE ACCOUNTING RECORDS MAY HAVE BEEN DEPOSITED WITH REGIONAL CONTRACTING OFFICE IN REDSO/NAIROBI WHICH AT THAT TIME HANDLED USAID/SWAZILAND CONTRACTING MATTERS. TO STATE ON THE COVER PAGE AND ON PAGE 27 THAT USAID/SWAZILAND COULD NOT ACCOUNT FOR DOLS 8.5 MILLION DISBURSED UNDER THIS PROJECT IS MISREPRESENTATIVE AND MISLEADING.

2. RECOMMENDATION NO 1, PART 1. USAID/SWAZILAND HAS IN CLEARANCE PROCESS A FORMAL MISSION DIRECTIVE THAT ESTABLISHES POLICY AND RESPONSIBILITIES FOR COMMODITY ARRIVAL, CONTROL AND END-USE MONITORING. WE WILL SEND A COPY OF THE DIRECTIVE WHEN ISSUED. PART 1 OF THIS RECOMMENDATION SHOULD BE CONSIDERED CLOSED UPON RECEIPT OF THE DIRECTIVE.

Best Available Document

3. RECOMMENDATION NO 1, PART 2. PROJECT MANAGERS ARE RESPONSIBLE FOR ALL FACETS OF MANAGING THEIR PROJECTS. PENN STATE/AID SHOULD BE WILLING TO INCLUDE AS EXPLANATION OF CONTINUING PROJECT RESPONSIBILITIES, A COMMODITY MANAGEMENT REQUIREMENT, AMONG OTHER PROJECT MANAGEMENT REQUIREMENTS ALREADY INCLUDED IN PART II 3 OF THE EOP. THE MISSION WOULD NOT BE ABLE TO NEGOTIATE WITH EMPLOYEES OF AFSA ANYTHING BEYOND THIS STATEMENT.

4. RECOMMENDATION NO 1, PART 3. THE REGIONAL CONTRACTING OFFICER (RCO) IN A MARCH 5, 1992 MEMO STATES, QUOTE ALL OF THE EQUIPMENT TURNED OVER TO THE GOS BY PENN STATE WAS ACCEPTED BY THE GOS, REGARDLESS OF HOW MUCH OF THAT ACCEPTANCE WAS RETROACTIVE OR CONCERNED EQUIPMENT SOLD BY THE GOS WHILE STILL IN PENN STATE'S STEWARDSHIP. EVERY ITEM WAS ALWAYS TO HAVE BEEN TURNED OVER BY PENN STATE/AID TO THE GOS UPON COMPLETION OF ITS USEFUL ROLE IN PENN STATE'S CONTRACT PERFORMANCE. THEREFORE, PENN STATE HAS NOT MISAPPROPRIATED OR MISDIRECTED ANY OF THE U.S. GOVERNMENT PROPERTY FOR WHICH IT WAS RESPONSIBLE, AND THE GOS ACCEPTANCE OF THE EQUIPMENT EFFECTIVELY ABSOLVES PENN STATE OF ANY RESIDUAL RESPONSIBILITY FOR IT. UNQUOTE. WE SEE NOTHING TO BE GAINED BY ISSUING A BILL FOR COLLECTION TO THE GOS FOR COMMODITIES THAT WOULD HAVE BEEN TURNED OVER TO THE GOS AT PROJECT TERMINATION. WE WOULD BE WILLING TO SEND A LETTER TO THE MINISTRY OF ECONOMIC PLANNING AND STATISTICS STATING THAT IN THE FUTURE ANY SALE OF PROJECT COMMODITIES WITHOUT AID'S WRITTEN CONSENT WOULD RESULT IN A REVIEW OF THE SALE AND ISSUANCE OF A BILL FOR COLLECTION IF DEEMED APPROPRIATE.

WE RECOMMEND THIS PART OF THE RECOMMENDATION BE CLOSED BASED ON THE RCO'S STATEMENT.

5. RECOMMENDATION NO 1, PART 4. FIRST, WE DO NOT BELIEVE THE FINDING OF DOLS 172,511 IN IDLE OR UNLOCATED COMMODITIES IN TEN PROJECTS WITH OVER DOLS 11 MILLION IN PROCUREMENT OVER A PERIOD OF AT LEAST 10 YEARS TO BE A REPORTABLE MATERIAL WEAKNESS. ALSO SIX PROJECTS ARE CLOSED (THESE PROJECTS REPRESENT DOLS 10.9 OF THE DOLS 11.3 MILLION EXPENDITURE), TWO HAVE BEEN CLOSED FOR SIX YEARS OR MORE. SIX YEARS AGO USAID DID NOT HAVE THE STAFF THAT IT HAS NOW BECAUSE WE WERE A CLIENT POST OF NAAPCF FOR CONTRACTING AND ACCOUNTING SERVICES.

3

SOME RECORDS MAY IN FACT BE IN NAIRCBI THAT WOULD PROVE OR DISPROVE EXISTENCE OF INVENTORIES, FOR EXAMPLE.

THE MISSION NOW REQUIRES CONTRACTORS TO ISSUE INVENTORIES AND WILL HAVE ISSUED SHORTLY A FORMAL MISSION DIRECTIVE ESTABLISHING A COMMODITY ARRIVAL, CONTROL AND END-USE MONITORING SYSTEM. WE WILL REVIEW RECORDS AND DOCUMENTS DURING THE NEXT INTERNAL CONTROL ASSESSMENT AND IF WE FIND MATERIAL WEAKNESSES WE WILL REPORT IT. WE RECOMMEND THIS RECOMMENDATION BE CLOSED BASED ON OUR WILLINGNESS TO REVIEW THE CURRENT PROJECTS ON SUBMISSION OF THE NEXT ICA.

5. RECOMMENDATION NO 2, PART 1. THE RCO MEMO OF MARCH 5 STATES, QUOTE, WE USUALLY ACCOUNT FOR PROPERTY PROCURED BY AID CONTRACTORS UNDER COMPLETED CONTRACTS BY WAY OF A COST AUDIT OF THE CONTRACTS. THE PENN STATE CONTRACT (PROJECT NO. 645-0212), THE MANAGEMENT SCIENCES FOR HEALTH CONTRACT (PROJECT NO. 645-0220), THE OHIO UNIVERSITY CONTRACT (PROJECT NO. 645-0214) AND THE TRANSCENTURY CORPORATION AND AED CONTRACTS (PROJECT NO. 645-0218) HAVE ALL ENDED, AND COST AUDITS HAVE BEEN REQUESTED FROM RIG/A/N FOR EACH CONTRACT. SINCE COMMODITIES WERE PROCURED FROM THE HOME OFFICES OF THESE CONTRACTORS, THESE AUDITS SHOULD BE ABLE TO DETERMINE WHAT COMMODITIES WERE PURCHASED BY EACH CONTRACTOR, IN WHAT DOLLAR VALUES. THIS EFFORT COULD BE EXPANDED TO GIVE AN ITEM-BY-ITEM ACCOUNTING OF THE PURCHASES UNDER THE CONTRACTS, WHICH COULD THEN BE MATCHED WITH THE CONTRACTOR TURNOVER REPORTS. WE COULD THEN DETERMINE WHICH ITEMS WERE NOT ACCOUNTED FOR, AND WHAT THE VALUE OF SUCH ITEMS WAS AT TIME OF PURCHASE. UNQUOTE.

WE REQUEST RIG/A/NAIRCBI TO TAKE ACTION WITH R/IC/A/WASHINGTON TO HAVE THE NECESSARY HOME OFFICE CONTRACT AUDITS PERFORMED.

WE REQUEST THE INVENTORY REQUIREMENT BE DROPPED FOR THE RDA INFRASTRUCTURE PROJECT (645-0068) RURAL WATER-BORNE DISEASE PROJECT (645-0087) AND THE RURAL RECONSTRUCTION PROJECT (645-0224) SINCE THERE WERE NO TECHNICAL ASSISTANCE CONTRACTORS IMPLEMENTING THESE PROJECTS FROM WHOM WE COULD GET INVENTORIES, AND THESE PROJECTS ARE COMPLETED, THERE IS NO FUNDING AVAILABLE TO HIRE SOMEONE TO RECONCILE ANY RECORDS THAT THE MINISTRIES MIGHT HAVE TO USAID RECORDS.

7. RECOMMENDATION NO 2, PART 2. SEE PARA 2 ABOVE.

8. RECOMMENDATION NO 2, PART 3. AS DISCUSSED IN NO 5, SECOND PARAGRAPH WE WILL REPORT DISPOSAL OF COMMODITIES AS A WEAKNESS IF IT IS MATERIAL AS APPLIED TO PROJECTS TERMINATED DURING THE YEAR.

WE RECOMMEND THIS PART OF RECOMMENDATION 2 BE CLOSED BASED ON OUR WILLINGNESS TO REVIEW THE STATUS OF DISPOSED COMMODITIES DURING THE NEXT ICA PREPARATION.

Best Available Document

BT  
#1520

**Summary of Commodity Obligations and Expenditures  
for Projects Audited**

<u>Project Number</u>	<u>Project Description</u>	<u>Obligation For Commodities</u>	<u>Expenditure On Commodities</u>
1. 645-0087	Rural Water Borne Disease	\$387,106	\$387,106
2. 645-0212	Cropping Systems Research	478,933	414,852
3. 645-0214	Teacher Training	989,884	783,262
4. 645-0218	Swaziland Manpower Development	191,219	155,883
5. 645-0220	Primary Health Care	556,876	245,751
6. 645-0228	Family Health Services	100,152	60,998
7. 645-0229	Commercial Agricultural Production	674,000	25,903
8. 645-0230	Education Policy Management	<u>400,000</u>	<u>72,093</u>
	<b>Total</b>	<b><u>\$3,778,170</u></b>	<b><u>\$2,145,848</u></b>

Source: MACS report PO6B and contractors' expenditure listings.

**Listing of Vehicles and Motor Cycles  
Sold Without A.I.D. Approval**

	<u>Make</u>	<u>Model Number</u>	<u>Registration Number</u>	<u>Chassis Number</u>	<u>Engine Number</u>	<u>Original Cost</u>
1.	Datsun	E-20	14566	003196	L1841590489	\$7,908
2.	Datsun	E-20	14569	003266	L1841590819	8,757
3.	Datsun	E-20	14613	004454	LP161418998	8,757
4.	Ford Cortina	1600	14432	CS14647	LB11023M	5,620
5.	Ford Cortina	1600	14433	CS21331	LB11423M	5,620
6.	Ford Cortina	1600	14435	CS1929	LB11508M	7,102
7.	Suzuki	125	14701	-	-	1,052
8.	Suzuki	185	14700	-	-	1,052
9.	Suzuki	125	14693	-	-	1,052
10.	Suzuki	185	14690	-	-	1,241
11.	Suzuki	185	14699	-	-	1,241
12.	Suzuki	185	14978	-	-	1,241
13.	Suzuki	185	16268	-	-	1,241
14.	Suzuki	185	14696	-	-	1,241
	<b>Total</b>					<u><b>\$53,125</b></u>

Source: Contractor's expenditure listings.

Report Distribution

American Ambassador to Swaziland	1
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IG/LC	1
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