

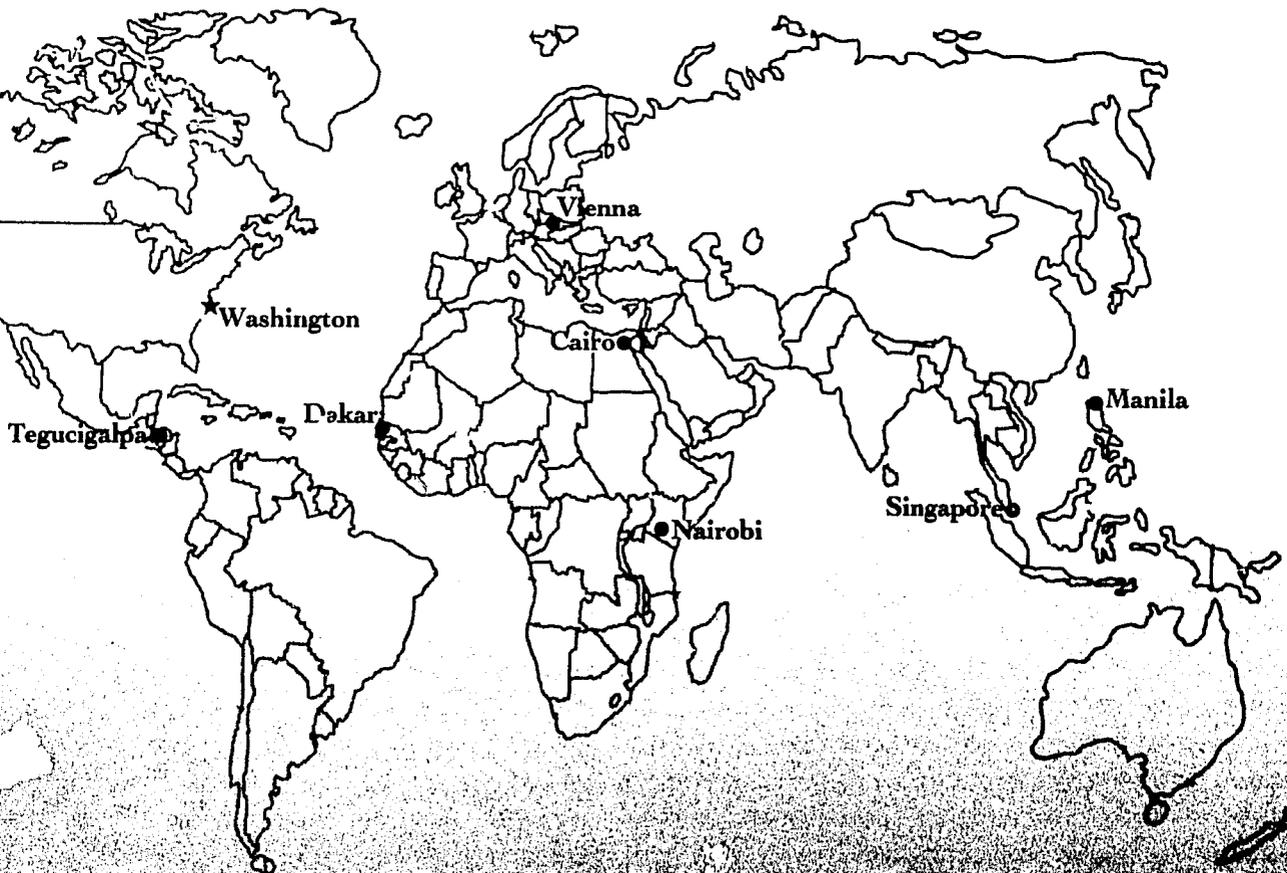
Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of  
USAID/Uganda's Management  
of Commodities

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Report No. 3-617-92-11  
July 9, 1992



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

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July 9, 1992

MEMORANDUM

TO: Keith W. Sherper, Mission Director, USAID/Uganda  
FROM: Joseph Farinella, Acting/RIG/A/Nairobi   
SUBJECT: Audit of USAID/Uganda's Management of Commodities

Enclosed are five copies of our audit report on USAID/Uganda's Management of Commodities, Report No. 3-617-92-11.

We were not able to fully answer audit objective one because USAID/Uganda's management declined to provide us with all the information essential for us to render a professional conclusion. The scope limitations are discussed in more detail in the body of the report.

We have reviewed your comments on the draft report, made wording changes as appropriate, and included your response as an appendix to this report. Based on the actions taken by the Mission, Recommendations 1.1, 1.3, 1.4, 2.1 and 2.3 are resolved; recommendation 1.2 is closed and recommendation 2.2 is unresolved. Recommendations will be resolved and closed when appropriate actions are 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

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## Background

A.I.D. spends millions of dollars in commodity procurement to support project and non-project activities. As of October 18, 1991 USAID/Uganda's portfolio of active and recently completed projects consisted of about \$175 million in total obligations, of which USAID/Uganda had obligated about \$92 million and disbursed about \$60 million, for commodities such as vehicles, computers, furniture, spare parts, fertilizer, cement and farming instruments. (See page 1.)

In addition to the above amounts, USAID/Uganda procured commodities under technical assistance contracts and grants. At the time of the audit, USAID/Uganda had obligated about \$63 million and disbursed about \$26 million for grants and technical assistance contracts that included commodities. However, we were unable to determine the value of commodities that were included in the grants and technical assistance contracts because USAID/Uganda did not have documentation for these amounts. (See page 1.)

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## Audit Objectives

We audited USAID/Uganda's management of commodities in accordance with generally accepted government auditing standards. (See Scope and Methodology, page 28.) Our field work was conducted from September through November 1991 to answer the following questions:

1. Did USAID/Uganda follow A.I.D. policies and procedures in planning for commodity needs? (See page 4.)
2. Did USAID/Uganda follow A.I.D. policies and procedures in monitoring the receipt, storage and use of commodities? (See page 5.)
3. Did USAID/Uganda follow A.I.D. policies and procedures in disposing of commodities? (See page 12.)

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## Summary of Audit

We were unable to fully answer audit objective one because USAID/Uganda's management would not provide us with a written confirmation that, to the best of their knowledge and belief: (1) all essential information was provided to us, (2) the information provided was accurate and complete, and (3) management had followed A.I.D. policies. (See page 28.) Therefore we cannot state positively that USAID/Uganda followed all A.I.D. policies and procedures applicable to audit objective one. Based on the information provided and the tests made, the following problem areas came to our attention regarding objectives two and three:

- USAID/Uganda did not follow A.I.D. policies and procedures in monitoring the receipt, storage and use of \$59.5 million in commodities. (See pages 5 and 6.)
- USAID/Uganda did not follow A.I.D. policies and procedures in monitoring disposal of \$12.7 million in commodities. (See page 12.)

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## Audit Findings

As discussed above, we cannot fully answer the first audit objective. However, project papers, project assistance approval documents, technical assistance contracts and/or grant agreements that were provided by USAID/Uganda contained listings of commodities which USAID/Uganda considered necessary in planning for commodity needs. (See page 4.)

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

USAID/Uganda did not have a system to ensure that commodities were monitored as required by A.I.D. policies and procedures. This happened because USAID/Uganda officials did not give commodity management high priority and project officers lacked thorough knowledge of their duties and responsibilities relating to commodities. As a result, USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities, totalling at least \$59.5 million, were received, stored and used as intended. (See page 6.)

**Improvements Are Needed in  
Monitoring Commodity Disposal**

A.I.D. is required to maintain a system to monitor commodity disposal. However, USAID/Uganda did not establish such a system because project officers were not trained and lacked the specific knowledge of their duties and responsibilities regarding commodity disposal. As a result, USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities totalling at least \$12.7 million for the three terminated projects were disposed of in accordance with A.I.D. policies and procedures. Unless corrected, these weaknesses will also impact on commodities for on-going projects and planned procurement totalling \$79.0 million, less expendables. (See page 12.)

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**Summary of Recommendations**

The report contains two recommendations to correct the problem areas identified. The report recommends that USAID/Uganda establish and implement a monitoring system for commodities, provide training to project officers, and include requirements for commodity management in employee evaluation reports. This report also recommends that the problems with the receipt, storage, use and disposal of commodities be reported to the Assistant Administrator as material weaknesses in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected. (See pages 6 and 13.)

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**Management Comments and Our Evaluation**

USAID/Uganda reviewed the draft report and generally agreed with the findings. However, USAID/Uganda took strong exception to the Inspector General's policy of requiring a representation letter. USAID/Uganda's comments were considered in preparing the final report. Recommendations 1.1, 1.3, 1.4, 2.1 and 2.3 are resolved; recommendation 1.2 is closed and recommendation 2.2 is unresolved. (See pages 17, 21, 23 and Appendix II.)

*Office of the Inspector General*

Office of the Inspector General  
July 9, 1992

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# INTRODUCTION

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## Background

A.I.D. spends millions of dollars in commodity procurement to support project and non-project activities. As of October 18, 1991, USAID/Uganda's portfolio consisted of about \$175 million in total obligations of which USAID/Uganda had obligated about \$92 million and disbursed about \$60 million (about 60 percent of total disbursements of about \$96 million) for commodities alone. In addition to the above amounts specifically obligated and disbursed for commodities, USAID/Uganda procured commodities under technical assistance contracts and grants. As of October 18, 1991, USAID/Uganda had obligated about \$63 million and disbursed about \$26 million for grants and technical assistance contracts that included commodities. However, we were unable to determine the value of commodities that were included in the grants and technical assistance contracts because USAID/Uganda did not have documentation for these amounts. Commodities procured for projects included vehicles, computers, furniture, spare parts, fertilizer, cement and farming instruments.

Commodities financed by A.I.D. in Uganda were procured by technical assistance contractors, USAID/Uganda and/or the host government entity. The 17 projects reviewed had various start dates ranging from September 1981 to August 1991. Completion dates for the 17 projects ranged between October 1990 and August 1996. The audit covered 14 active projects as of October 18, 1991, and three projects completed between October 1990 and October 1991. (See Appendix III for a complete listing).

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## Audit Objectives

The Office of the Regional Inspector General for Audit/Nairobi conducted an audit of USAID/Uganda's management of commodities to answer the following objectives:

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

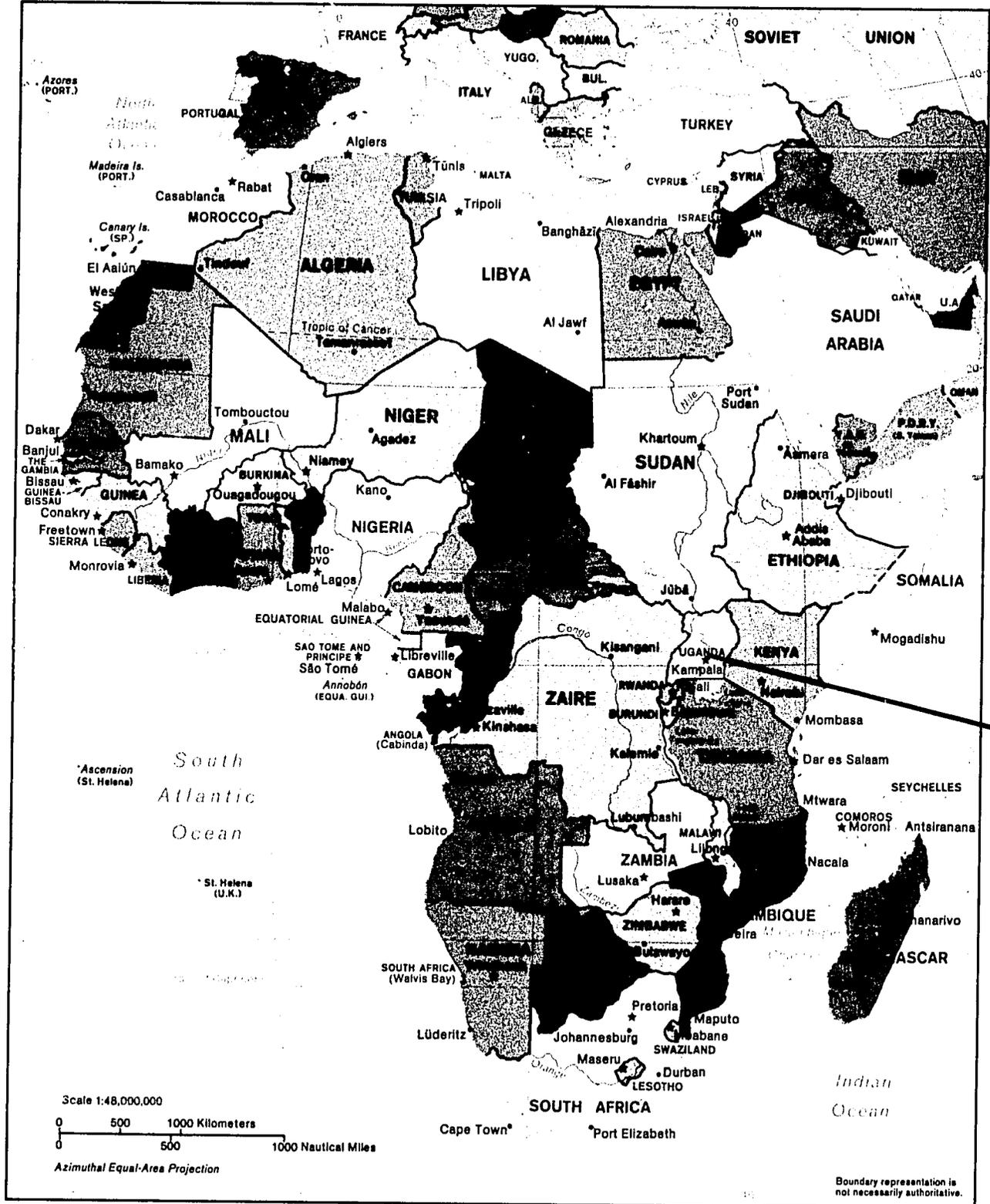
commodities?

In answering the audit objectives, we tested whether USAID/Uganda followed applicable internal control procedures and complied with the laws, regulations and agreements that pertain to the audit objectives. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse/or illegal acts that could significantly affect the audit objectives. We did not continue testing when we found that USAID/Uganda followed A.I.D. policies and procedures and complied with legal requirements. Where we found problems, we performed additional work to:

- conclusively determine whether USAID/Uganda was following procedures or complying with legal requirements,
- identify the causes and effects of the problems, and
- make recommendations to correct the conditions and causes of the problems identified.

Appendix I contains a complete discussion of the scope and the methodology for each objective.

# Africa



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## **REPORT OF AUDIT FINDINGS**

We are not able to fully answer the first audit objective because USAID/Uganda's management declined to provide us all the information essential for us to render a professional conclusion.

For example, USAID/Uganda's management would not confirm that to the best of their knowledge and belief:

- they had provided us with all essential information,
- the information they did provide to us was accurate and complete, and
- they had followed A.I.D.'s policies.

(A complete description of the essential information that USAID/Uganda would not provide or confirm is provided in the Scope and Methodology section of this report.)

Without these confirmations from USAID/Uganda, we cannot fully determine if USAID/Uganda did what it is required to do. Without such confirmations, we would, in essence, be stating that USAID/Uganda complied with A.I.D.'s policies and procedures when USAID/Uganda itself is unwilling to make such a statement.

While we cannot state positively that USAID/Uganda followed its policies and procedures, this lack of a management confirmation would not preclude us from reporting on any problem areas that came to our attention. Based on the information that USAID/Uganda did provide to us and the tests that we were able to perform, the following information came to our attention.

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### **1. Did USAID/Uganda Follow A.I.D. Policies and Procedures in Planning for Commodity Needs?**

As discussed above, we cannot fully answer the audit objective. However, project papers, project assistance approval documents, technical assistance contracts and/or grant agreements that were provided by USAID/Uganda contained listings of commodities which USAID/Uganda considered necessary in planning for the projects.

A.I.D. Handbook 11 requires realistic advance planning for commodity procurement. It requires that a list of needed commodities and anticipated costs be prepared as the project is developed. This list and budget normally require refinement as the project progresses.

Project papers, project assistance approval documents, technical assistance contracts and/or grant agreements that were provided by USAID/Uganda for the 14 projects audited contained descriptive listings of commodities which USAID/Uganda considered necessary to the projects. The documents also contained listings of commodities and the prescribed geographic codes from which these commodities were to be procured unless waivers were issued. For example, commodities considered necessary for (i) the Action Program for the Environment project included personal computers, printers, vehicles and office furniture; (ii) the Expanded Family Health Services project included contraceptives, office furniture, equipment and vehicles; (iii) the Agricultural Non-traditional Export Program included office equipment, vehicles, and fertilizers; (iv) the Cooperative Agriculture and Agribusiness Support project included photocopiers, fertilizers, seeds and vehicles.

However, due to the scope limitation of not obtaining a representation letter, based on our review of the documentation that USAID/Uganda did provide, we were unable to determine whether USAID/Uganda followed A.I.D. policies and procedures in planning for commodity needs.

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## **2. Did USAID/Uganda Follow A.I.D. Policies and Procedures in Monitoring the Receipt, Storage and Use of Commodities?**

USAID/Uganda did not follow A.I.D. policies and procedures in monitoring the receipt, storage and use of commodities.

Regarding the receipt of commodities, USAID/Uganda did not compare quantities ordered against what was actually paid for, shipped and received in country. For storage of commodities, project officers did not ensure that (i) physical inventories of commodities were made by contractors, grantees or the host government, (ii) results and reports of physical inventories were submitted to USAID/Uganda on a periodic basis, and (iii) reconciliations of physical inventories and the book amounts were performed. Regarding use, USAID/Uganda did not have a system to ensure commodities were used for intended purposes by contractors, grantees and the host government.

The problems with receipt, storage and use of these commodities are more fully described below.

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

USAID/Uganda did not have a system to ensure that commodities were monitored as required by A.I.D. policies and procedures. This happened because USAID/Uganda officials did not give commodity management high priority and project officers lacked thorough knowledge of their duties and responsibilities relating to commodities. As a result, USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities, totalling at least \$59.5 million, were received, stored and used as intended.

### **Recommendation No. 1: We recommend that USAID/Uganda:**

- 1.1 establish and implement a monitoring system, which includes evaluating borrower/grantee systems, for the receipt, storage and use of A.I.D.-financed commodities for all on-going and future projects;**
- 1.2 provide commodity management training for project officers;**
- 1.3 include the requirement for commodity management in the project officers' employee evaluation reports, as appropriate; and**
- 1.4 report to the Assistant Administrator the problems with the receipt, storage and use of commodities as material weaknesses in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected.**

Handbook 15 Chapter 10, states that USAID offices are responsible for ensuring that A.I.D.-financed commodities are properly monitored regarding receipt, storage and use. For A.I.D. assistance to be used effectively, commodities financed by A.I.D. must reach the ultimate user on time, in a usable condition and must be used for the purpose intended within a prescribed time period. The USAID is responsible for the review of project progress reports to verify that commodities financed by A.I.D. are being effectively used in the project. Specifically this guidance requires USAID/Uganda to:

- monitor the borrower/grantees' systems by reviewing progress reports on the use of commodities;
- require submission by the borrower/grantee of periodic reports which identify the

**utilization, cost/value of goods shipped and/or value of any claims made;**

- **require periodic reports of commodities held in customs and borrower/grantees' warehouses;**
- **perform periodic port checks to ensure that cargo that goes astray is located and that all cargo is safely and expeditiously cleared through the customs; and**
- **perform periodic end-use checks to evaluate the continued effectiveness of the borrower/grantees' systems and for taking meaningful corrective action.**

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. According to A.I.D. Handbook 15, USAID is 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 the ultimate responsibility for ensuring that A.I.D.-funded commodities are effectively used for project purposes. The Handbook 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 the Agency's internal controls to provide reasonable assurance that funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation. The implementation of the Integrity Act also requires all A.I.D. Missions to report any internal control weaknesses to the Assistant Administrator as an annual certification.

When we began our field work in late September 1991, we were provided with a mission order on commodity management that had been issued two working days prior to the start of the audit. However, the mission order had not yet resulted in the establishment and implementation of a system of the controls contained in that order. At the time of the audit in October 1991, USAID/Uganda's accounting records showed that at least \$59,496,742 had been disbursed for procurement of project commodities for 17 projects. Furthermore, as discussed on page 1, an undetermined amount of the \$26,248,943 disbursed to technical assistance contractors and grantees was spent on commodities. Commodities alone accounted for more than one half of USAID/Uganda's portfolio of obligations and over sixty percent of the disbursements. Commodities purchased for projects included computers, vehicles, contraceptives, oral rehydration therapy salts, farm machinery, seeds, cement and fertilizer. Project officers stated that although they had a general idea, they did not have a system that determined the exact amount and condition of project commodities that were

received, stored and put into use.

During our audit, we intended to select a sample of commodities from each project we reviewed and trace these to ensure that they were received, stored and used as intended. Since USAID/Uganda did not have a system to monitor the receipt, storage and use of commodities, we were unable to do this. Specifically, USAID/Uganda did not have complete commodity listings indicating types of commodities, location of commodities, dates of acquisition, amounts paid, conditions and/or the use of commodities. Moreover, project officers at USAID/Uganda did not maintain receiving and inspection reports as part of their project files. Because of the lack of documentation or a monitoring system, we were unable to perform this audit procedure.

Regarding the receipt of commodities, USAID/Uganda did not compare quantities ordered against what was actually paid for, shipped and received in country. Upon arrival of commodities in country, USAID/Uganda's involvement was limited to helping importers obtain duty exemption letters. As long as the importer did not complain, USAID/Uganda assumed that there was no problem with the receipt of commodities.

USAID/Uganda did not have a system to ensure that commodities procured by contractors, grantees or the host government were inspected upon receipt to determine that commodities delivered were received in the quantities and condition ordered. Also, project officers were not aware of how contractors, grantees or the host government resolved discrepancies in the amounts ordered and the amounts received. Furthermore, USAID/Uganda relied on contractors, grantees or the host government's systems for monitoring receipt. However, there was no evidence that USAID/Uganda performed evaluations of the systems. The following examples demonstrate the problems relating to the receipt of A.I.D.-financed commodities.

- USAID/Uganda was relying on the host government's inventory control system for accounting for the receipt, storage and use of project commodities under the Expanded Family Health services project. However during our visit to the host government's medical stores on October 12, 1991, we found that the records were incomplete. There were no reconciliations of quantities received , issued and those on hand.
- The accounting records for the Rehabilitation of the Productive Enterprises project showed that \$1.5 million had been obligated of which \$774,900 had been disbursed for support commodities. However, at the time of the audit, the project officer did not have an inventory of the items procured. Therefore, there was no way of relating what was procured to what was actually received and on hand.

For storage of commodities, project officers did not ensure that (i) physical inventories of commodities were made by contractors, grantees or the host government, (ii) results and reports of physical inventories were submitted to USAID/Uganda on a periodic basis, and (iii) reconciliations of physical inventories and the book amounts were performed. Further, project officers at USAID/Uganda did not visit contractor or host government warehouses periodically.

USAID/Uganda did not ensure that technical assistance contractors, grantees and the host government established systems to track and thus identify the location of all commodities. Complete listings and the locations of all the project commodities in storage were not maintained by all project officers. The following example demonstrates the problems relating to the storage of A.I.D.-financed commodities.

- At the time of our audit, one vehicle under the Expanded Family Health Services project, was still in the USAID/Uganda warehouse unregistered for over one year. USAID/Uganda was unable to obtain duty exemption for this vehicle from the Government of Uganda. Under the same project, several million condoms and oral contraceptives remained uncleared at the port of Mombasa, Kenya. At the time of the audit, the condoms had expired and were scheduled to be destroyed. The project officer stated that arrangements were being made to ship the oral contraceptives to Kampala. USAID/Uganda officials explained that these problems were due to delays in clearing these goods with the governments of Kenya and Uganda and their shipping agents. While USAID/Uganda officials stated that they have been aware of the problem, we are concerned that these commodities have remained uncleared at the port of Mombasa for over two years and that some are to be destroyed. If USAID/Uganda had systems which included regular port visits, such problems could have been identified sooner and appropriate corrective action taken.

Regarding the use of commodities, USAID/Uganda did not have a system to ensure that commodities were used for intended purposes by contractors, grantees and the host government. For example, USAID/Uganda did not:

- require the borrower/grantees to submit progress reports on the use of commodities;
- require periodic reports on the status of commodities held in the custom and/or borrowers/grantees' warehouses -- consequently, the project officers could not provide a complete listing of all project commodities nor could they identify the location of these commodities;

- perform periodic port checks to ensure that commodities did not go astray and were cleared expeditiously through customs; and
- perform end-use checks on a regular basis to ensure that borrower/grantees were using commodities as intended -- out of 17 projects reviewed, USAID/Uganda had performed end-use checks for only the Agricultural Non-traditional Export Program and the Rehabilitation of Productive Enterprises project.

Under the Cooperative Agriculture and Agribusiness Support (CAAS) project, \$728,293 of A.I.D. funded commodities were in the warehouses for over one year. These commodities included seeds which could not be used if kept for long periods of time. In addition, bee keeping equipment valued at \$76,820 was held by customs authorities for which the letter of commitment was signed in 1989. USAID/Uganda stated that the commodities were held at their request because of the importer's financial problems. However, we are concerned about the long period it is taking to clear these goods and whether they will be effectively used to meet the project objectives. Also, there were two electric mills purchased for milling coffee which could not be used because the coffee factories they were procured for were not supplied with electricity.

Under the AIDS Prevention and Control project, various project commodities such as vehicles, computers and generators remained in bonded warehouses over 90 days due to problems in obtaining customs clearances.

Furthermore, a mission-contracted audit report (No. 3-617-92-07-N, dated March 25, 1992) of the Rehabilitation of Productive Enterprise project identified project commodities that were sold without the required approval of USAID/Uganda. This report also identified some commodities that have never been used and some commodities that were being used for businesses other than that financed by project funds.

The above problems occurred because of five reasons. First, project officers did not have specific knowledge of their duties and responsibilities regarding project commodities. The project officers were not clear regarding whose responsibility it was to monitor the project commodities. Some believed that the responsibility for monitoring project commodities rested with the Executive Officer while others believed that it was the responsibility of the Controller.

Second, project officers needed training in commodity management. The only training offered for most of the project officers was the Project Implementation Course. Those who attended the course stated that commodity management was only a small part of the course and that they needed additional training specifically on commodity management.

Furthermore, there were two project officers out of the 10 interviewed who had not attended this course. We considered the lack of training to be a major contributing factor to the problems identified with monitoring of project commodities.

Third, project officers at USAID/Uganda did not give commodity management a high priority in relation to other duties. Although more than 50 percent of USAID/Uganda's portfolio consisted of commodities, project officers stated that most of their time was taken up in preparing project implementation letters, project implementation orders, attending meetings with contractors, the host government, etc. Consequently, they stated that they did not have time to prepare trip reports, make site visits, test inventory records and perform end-use checks.

Fourth, USAID/Uganda officials relied on the borrower/grantees' systems without evaluating and documenting those systems. Interviews with the project officers showed that project officers were relying on the borrowers/grantees to monitor the receipt, storage and use of the commodities. However, without documenting and evaluating these systems, we concluded that the project officers were relying on systems whose effectiveness was not known.

Fifth, although USAID/Uganda reported the arrival accounting and end-use checks as weaknesses for USAID/Uganda's Commodity Import Program in the last Federal Managers' Financial Integrity Act reporting cycle, USAID/Uganda did not identify the above weaknesses with receipt, storage and use of commodities. The weaknesses with receipt, storage and use of commodities continued to exist because they were not identified by USAID/Uganda as material weaknesses in the last Federal Managers' Financial Integrity Act reporting cycle.

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*--- USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities, totalling at least \$59.5 million, were received, stored and used as intended.*

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As a result of the above problems, USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities, totalling at least \$59.5 million, were received, stored and used as intended. Furthermore, as discussed on page 1, USAID/Uganda recorded another \$26.25 million as disbursements for grants and technical assistance contracts that included

an undetermined amount of commodities.

Thus, we concluded that USAID/Uganda needed to establish and implement a system to monitor the receipt, storage and use of commodities, provide training to project officers substantially involved in commodity management and include requirements for commodity management in employee evaluation reports. We considered the absence of complete monitoring systems to be material weaknesses. These weaknesses should be reported in the next Federal Managers' Financial Integrity Act reporting cycle if they are not corrected.

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### **3. Did USAID/Uganda Follow A.I.D. Policies and Procedures in Disposing of Commodities?**

USAID/Uganda did not follow A.I.D. policies and procedures in disposing of commodities.

At the time of the audit, USAID/Uganda had disbursed at least \$59.5 million for commodities for 17 projects in our sample. Also, as explained on page 1, USAID/Uganda disbursed \$26.25 million for grants and technical assistance contracts that included an undetermined amount of commodities. However, USAID/Uganda did not have a system that required the accounting, reconciling and taking of complete physical inventories when disposing of project commodities. During the life of projects, USAID/Uganda did not always obtain periodic inventory reports from contractors or grantees on the use of commodities or perform end-use checks which would allow a complete accounting when commodities were disposed of.

The problems with commodity disposal are discussed below.

#### **Improvements Are Needed in Monitoring Commodity Disposal**

A.I.D. policies require maintenance of a system for monitoring the disposal of A.I.D.-financed commodities. However, USAID/Uganda did not establish such a system. This happened because project officers were inadequately trained and lacked the specific knowledge of their duties and responsibilities regarding commodity disposal. As a result, USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities totalling at least \$12.73 million for the three terminated projects were disposed of in accordance with A.I.D. policies and procedures. Unless corrected, these weaknesses will also impact on commodities for on-going projects and planned procurement totalling \$79.0 million, less expendables.

**Recommendation No. 2: We recommend that USAID/Uganda:**

- 2.1 implement a system for monitoring commodity disposal to include taking of annual inventories of commodities procured under each project, reconciling inventories to the disbursements, accounting for any differences and taking appropriate action for any discrepancies,**
- 2.2 take physical inventory of the commodities procured under project Nos. 617-0102, 617-0108 and 617-0109, reconcile the inventories to the disbursements made by USAID/Uganda and account for any differences, and**
- 2.3 report to the Assistant Administrator problems with the disposal of commodities as material weaknesses in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected.**

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. Handbook 15 requires USAIDs to monitor the disposition of A.I.D.-financed commodities. According to the Handbook, each USAID is responsible for maintaining a current description, approved by the USAID Controller, of the borrower/grantees' commodity disposition system(s), the USAID's evaluation of the system(s) and the monitoring procedures established by the USAID.

In managing commodity disposal by recipients, good management practice dictates that the Mission monitor recipients to ensure that they comply with applicable agreements, laws and regulations. This means ensuring that recipients comply with Federal Acquisition Regulation 45.508 and technical assistance contracts requirement for periodic inventories and finalization of inventory reports for all commodities at the completion of contracts and grants.

Handbook 14, which is based on Federal Acquisition Regulations, requires USAIDs to obtain from contractors, listings to be used for commodity disposal purposes which, at a minimum, should identify all discrepancies disclosed by physical inventories and signed certifications. The Handbook further requires Missions to approve a program prepared and established by the contractor for the receipt, use, maintenance, protection, custody and care of non-expendable property. Finally, the Handbook states the contractor must submit an annual report on non-expendable property in a form and manner acceptable to A.I.D. An acceptable report includes: description of the property, acquisitions (purchases and transfers from various sources), disposal (returns to A.I.D., transfers to various parties and other disposal), and value of property as of closing date.

Further, the Federal Managers' Financial Integrity Act (the Integrity Act) requires the Agency's internal controls to provide reasonable assurance that funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation. The implementation of the Integrity Act also requires all A.I.D. Missions to report any internal control weaknesses to the Assistant Administrator as an annual certification.

For the projects reviewed, USAID/Uganda did not have a system for ensuring that the borrower/grantees' commodity disposal systems were operating effectively. During the life of projects, USAID/Uganda did not always ensure that recipients complied with acquisition regulations for performing periodic inventories including reconciliation of physical inventories. Furthermore, USAID/Uganda did not ensure that inventory reports were finalized for all commodities at the completion of contracts and grants. There was no evidence that the Mission maintained current descriptions, approved by the Controller, of the borrower/grantee commodity disposition system(s). In addition, the Mission did not perform end-use checks. End-use checks would ensure that commodities existed and would not be disposed without following A.I.D. policies and procedures.

- Under the Uganda Food Production Support Project (project no. 617-0102), USAID/Uganda had disbursed \$ 7,610,463 for commodities as of October 18, 1991. In addition, as of that date, the project disbursed \$3,100,254 for technical assistance contracts that included commodities. The Project Assistance Completion Date (PACD) was September 15, 1991. According to the project officer, some project commodities were disposed of by handing them over to various projects. However, before handing over the commodities to these projects, no reconciliations were made of the physical inventories to what was paid for and received. There was no assurance that commodity listings included all commodities that existed at the close of the project. The project officer could therefore not determine the value of all items transferred to the other projects. During the audit, we could not trace commodities such as vehicles and computers to the inventory listing of the follow-on project. The project officer could not explain what happened to these commodities - - whether they were lost, disposed of or whether they had not been recorded in the records of the follow-on projects. During the life of the project, there was no indication that USAID/Uganda had been monitoring project controls of commodities including the requirement for physical inventories and reconciliations.

- The Rural Economic Recovery project (project no. 617-0108), which had a PACD of September 30, 1991, disbursed \$5,120,499 for commodities. At the close of the project, commodities were not inventoried nor were they reconciled to what A.I.D. had paid even though some of the commodities were supposed to be transferred to follow-on projects. The project officer could not account for the amounts disbursed

for commodities under the project.

- The West Nile Agricultural Rehabilitation project (project no. 617-0109) disbursed \$4,118,222 under a grant to CARE that included commodities such as vehicles, spare parts and farm implements. This project had a PACD of March 31, 1991. At the time of the audit in November 1991, seven months after the completion date, a physical inventory of the commodities still had not been finalized indicating how the commodities were disposed of. Furthermore, during the life of the project, there was no indication that USAID/Uganda had been monitoring the grantee's performance of annual inventories.

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

Causes of commodity disposal problems were similar to those identified under audit objective two. First, project officers, though aware of A.I.D. Handbook requirements, did not have specific knowledge of their duties and responsibilities regarding project commodities. The project officers were not clear as to who was responsible for the monitoring of commodity disposal. Some believed that this responsibility rested with the Executive Officer, while others believed that it was the responsibility of the Controller.

Second, the lack of training in commodity management had an impact. The only training offered to most of the project officers was the Project Implementation Course, of which commodity management was not the focus. Those who had attended the course stated that they needed additional training specifically on commodity management.

Third, project officers at USAID/Uganda did not consider commodity management a high priority area in relation to other duties. Although more than 50 percent of the USAID/Uganda's portfolio consisted of commodities, project officers stated that most of their time was taken up in preparing project implementation letters and project implementation orders and attending meetings with contractors, the host government etc. Consequently, they stated that they did not have time to prepare trip reports, make site visits, test inventory records and perform end-use checks.

Fourth, the above weaknesses with disposal of commodities continued to exist because they were not identified by USAID/Uganda as material weaknesses in the last Federal Managers' Financial Integrity Act reporting cycle.

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*--- USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities totalling at least \$12.7 million for the three terminated projects were disposed in accordance with A.I.D. policies and procedures.*

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As a result of the above problems, USAID/Uganda did not have reasonable assurance that all A.I.D.-financed commodities totalling at least \$12.7 million for the three terminated projects were disposed in accordance with A.I.D. policies and procedures. In addition, USAID/Uganda could not ensure that commodities for all on-going projects valued at about \$46.8<sup>1</sup> million and planned procurement of \$32.3 million, less expendables, would be disposed of in accordance with A.I.D. policies and procedures.

Thus, we concluded that USAID/Uganda needed to implement a system for monitoring commodity disposal for all on-going and future projects to ensure that commodities are disposed of in accordance with A.I.D. policies and procedures. The monitoring system should include taking periodic inventories and reconciling any discrepancies.

In addition, USAID/Uganda should provide training to project officers substantially involved in commodity management and include requirements for commodity management in employee evaluation reports. The recommendation for training and work requirements responsibility are included under audit objective two, audit recommendation 1.2. and 1.3, respectively.

Finally, we believe that commodity disposal weaknesses are material weaknesses. Therefore the weaknesses should be reported under the Federal Managers' Financial Integrity Act in the next reporting cycle if the weaknesses are not corrected.

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<sup>1</sup> at least \$20 million in expendable Petroleum and Other Lubricants would not be impacted by USAID/Uganda's weaknesses in disposal procedures.

# 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, except that management would not provide us with a representation letter confirming, among other things, its responsibility for the internal controls related to the audit objectives or confirming whether or not there were any instances of noncompliance with A.I.D. policies and procedures or whether or not it had provided us with all the information related to this audit.

Management's refusal to make such representations, constitutes a limitation on the scope of the audit and is sufficient to preclude an unqualified conclusion on the reliability of the internal controls related to the audit objectives. (A complete description of the representations that USAID/Uganda would not make is provided in the Scope and Methodology section of this report).

## General Background on Internal Controls

The management of A.I.D. is responsible for establishing and maintaining adequate internal controls under the Federal Managers' Financial Integrity Act and Office of Management and Budget's (OMB) implementing policies. In addition, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal control policies and procedures for Federal foreign assistance is to provide management with reasonable--but not absolute-- assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in the reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Furthermore, predicting whether a system will work in the future is risky because

- changes in conditions may require additional procedures or
- the effectiveness of the design and operation of policies and procedures may deteriorate.

In performing the audit, we found certain problems that we consider reportable under the Federal Managers' Financial Integrity Act and OMB's reporting requirements. Reportable conditions are those which in our judgement could adversely affect A.I.D.'s ability to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data is obtained, maintained, and disclosed in reports.

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

Audit Objective one sought to establish whether USAID/Uganda followed A.I.D. policies and procedures 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. For the purposes of this report, we have classified the relevant policies and procedures into commodity procurement planning process.

We are not, however, able to reach a conclusion on the reliability of these controls, as management was not willing to confirm essential information related to these controls in a representation letter.

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to this audit objective are effective and can be relied on. However, based on the information that USAID/Uganda did provide, we can report only that no significant internal control weaknesses came to our attention, other than USAID/Uganda's inability to confirm essential information about its own internal controls.

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

Audit objective two sought to establish whether USAID/Uganda followed A.I.D. policies and procedures in accounting for the receipt, storage and use of commodities. In planning and performing our audit work, we considered the applicable internal controls and procedures cited in A.I.D. Handbook 1B chapter 24, Handbook 15 chapter 10 and the Federal Managers' financial Integrity act requirements.

For the purposes of this report, we have classified the relevant policies and procedures into the following processes: commodity arrival accounting process, commodity storage process

and commodity use process. Our review of internal controls related to these processes showed that internal controls were not implemented and could therefore, not be relied on.

The following is a significant reportable weakness noted:

- controls were not implemented to ensure that commodities were received, stored and used.

As part of our consideration of the internal controls, we reviewed USAID/Uganda's Annual Internal Control Certification under the Federal Managers' Financial Integrity Act (the Integrity Act) dated November 30, 1990 and the general assessment conducted by USAID/Uganda pursuant to the requirements of Office of Management and Budget Circular A-123. The certification and the general assessments did not note the conditions discussed above. Therefore we have recommended that these weaknesses, if uncorrected, be reported during the next reporting cycle.

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

Audit objective three sought to establish whether USAID/Uganda followed A.I.D. policies and procedures in disposing of commodities.

For this objective we reviewed USAID/Uganda's internal controls relating to inventory reporting process, inventory reconciliation process and inventory accounting process during the life and/or at the closure or termination of a grant or contract. Our review of these processes showed that the internal controls were not implemented and could not be relied on.

The following are significant reportable weaknesses noted:

- controls were not implemented to ensure that (a) periodic inventories of A.I.D. commodities were done and reported to USAID/Uganda, (b) reconciliations between physical and book quantities were done, and (c) commodities were accounted for during the life and/or at the close of projects or contracts.

As part of our consideration of the internal controls, we reviewed USAID/Uganda's Annual Internal Control Certification under the Federal Managers' Financial Integrity Act (the Integrity Act) dated November 30, 1990 and the general assessment conducted by USAID/Uganda pursuant to the requirements of Office of Management and Budget Circular A-123. The certification and the general assessments did not note the conditions discussed above. Therefore we have recommended that these weaknesses, if uncorrected, be reported

during the next reporting cycle.



# REPORT ON COMPLIANCE

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

## Scope of our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, except that management would not provide us with a representation letter confirming to the best of their knowledge and belief: (1) their responsibility for compliance with applicable laws and regulations, (2) whether or not there were any irregularities involving management or employees, (3) whether or not there were any instances of violations or possible violations of laws and regulations. (A complete description of the representations that USAID/Uganda would not make is provided in the Scope and Methodology section of this report.)

Management's refusal to make such representations, constitutes a limitation on the scope of the audit and is sufficient to preclude us from designing our audit to provide reasonable assurance of detecting abuse and illegal acts and from giving an unqualified conclusion on compliance with 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 organization's conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into the definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with the Federal Managers' Financial Integrity Act of 1982 is the overall

responsibility of A.I.D. which, in turn, requires each Mission to comply with the Act as set forth by binding policies in Department of State Cables sent to Missions each year.

### **Conclusions on Compliance**

We reviewed USAID/Uganda's compliance with the Federal Managers' Financial Integrity Act. As management was not willing to confirm in a representation letter essential information related to such compliance, we cannot therefore state positively that USAID/Uganda has complied. However, based on the information that USAID/Uganda did provide to us and the tests that we were able to perform, we can report that no irregularities or instances of violations of such applicable laws and regulations came to our attention.

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## **MANAGEMENT COMMENTS AND OUR EVALUATION**

Before commenting on the specific audit findings, USAID/Uganda made some general comments. Both are summarized below with our response.

### **Management's General Comments and Our Response**

USAID/Uganda took strong exception to the Inspector General's policy of requesting a representation letter and stated that this policy impacted on the effectiveness and objectivity of the audit. They believed that the disclaimer language in the audit report summary section of the executive summary implied that USAID/Uganda withheld information from the audit team and that RIG/A/N should either be specific or drop such a statement. USAID/Uganda also suggested that the Agency's Management Control Review Committee review this audit and its process.

The Inspector General's policy on representation letters was discussed throughout the audit with USAID/Uganda's management. We do not believe that this policy in any way adversely impacts on the effectiveness and objectivity of the audit. Quite to the contrary, the audit process would be enhanced by management's written confirmation of basic representations for the activity under audit. This would permit the auditors to provide reasonable assurance on positive findings without having to disclaim or attribute that information. Further, since a representation letter is management's representation to the auditors, it is incumbent upon them (and not RIG/A/N) to specifically state that all information pertaining to the audited activity was provided -- or what, if any, information was not provided. Finally, we have no objection to this audit and its process being reviewed by the Management Control Review Committee.

USAID/Uganda commented that the audit was focused on the past and did not reflect the present activities and management.

We do not agree with this statement. This was a functional audit of USAID/Uganda's entire commodity portfolio. It included 14 active and only three inactive projects which had A.I.D.-financed commodities. As such, the audit reviewed the current activities and management

of USAID/Uganda as it related to commodity management at the time we conducted our audit. The audit found that USAID/Uganda's commodity management at the time of the audit, September 23 through November 26, 1991, needed improvement.

USAID/Uganda stated that the "Management Comments and Our Evaluation" section of the executive summary in the draft report had not been written and requested an opportunity to comment on it prior to release of the final report.

This section was not included in the draft report because the purpose of the draft report was to solicit management comments. Those comments have now been obtained and are summarized in this section along with our independent evaluation. In addition, the complete text of management's comments are included as Appendix II.

USAID/Uganda stated that the audit objective numbers were not linked to the recommendation numbers in the draft report, and that this was confusing.

Audit Objective One did not have any recommendations. Therefore, the first recommendation in the report which appears under Audit Objective Two, is logically numbered Recommendation No. 1 with subsequent recommendations numbered sequentially. It would be confusing to label the first recommendation that appears in the report as Recommendation No. 2. Our system of numbering recommendations is consistent with the Agency's Audit Management and Follow-up system.

### **Management's Specific Comments and Our Response**

Concerning Audit Objective One, USAID/Uganda stated that the entire objective should be deleted since we were unable to fully answer the objective due to the scope limitation of not obtaining a representation letter. The Director, USAID/Uganda stated that the audit step of obtaining a representation letter was demeaning to the terms of service under which he is employed. He further stated that when RIG/A/N informs him about what essential information he did not provide, he would do his best to accommodate us.

It is the Inspector General's policy to disclaim an opinion -- using the disclaimer language contained in the report -- on positive findings when management declines to provide a representation letter. USAID/Uganda's comment that RIG/A/N should inform Mission management of what audit specific essential information USAID has not provided, reflects a basic lack of understanding regarding the purpose of a representation letter. A representation letter is a document from management to the auditor which confirms important statements made by management to the auditor regarding the activity under audit. It is incumbent upon management, and not the auditors, to confirm in that letter that all

information regarding the activity under audit has been provided.

Concerning Audit Objective Two, USAID/Uganda generally concurred with the findings. Regarding Recommendation No. 1.1, USAID/Uganda stated that Mission Order 44-91 on commodity management did exist at the time of the audit and requested that this recommendation be resolved and closed.

The team was provided with a copy of the mission order, issued two working days prior to the start of our audit. We recognize the difficulty in fully implementing the provisions of this mission order during the time of our field work. Nevertheless, the audit indicated that the requirements of that mission order had not been implemented, as described throughout the report. Therefore, based on the foregoing, Recommendation No. 1.1. is resolved. It will be closed when USAID/Uganda provides us with documentary evidence that the requirements contained in the mission order have been fully implemented for all active projects with commodities. This should include performing evaluations of borrower/grantee systems and evidence that the receipt, storage and use of A.I.D.-financed commodities are in fact being monitored.

Regarding Recommendation No. 1.2, USAID/Uganda stated that they had provided a one day course on commodity management for 19 personnel and had sent another 5 individuals for training. USAID/Uganda requested that this recommendation be resolved and closed.

We applaud USAID/Uganda's actions in providing this training and in raising awareness among project officers to the importance of commodity management. Therefore, Recommendation No. 1.2 is closed.

Regarding Recommendation No. 1.3, USAID/Uganda pointed out that the inclusion of the requirement for commodity management as specific objectives in the project officers' employee evaluation reports may not apply to all project officers and that USAID/Uganda viewed the requirement as "continuing responsibilities". They further stated that they would include commodity management as a work objective in evaluation reports, as appropriate.

Based on USAID/Uganda's comments, Recommendation No. 1.3 is resolved. It will be closed when this office receives documentary evidence or certification by the Mission Director that requirements for commodity management are included in the appropriate employee evaluation reports.

Concerning Audit Objective Three, USAID/Uganda generally concurred with the findings. Regarding Recommendation No. 2.1, USAID/Uganda stated that monitoring commodity disposal was covered by Mission Order 44-91, was a continuous and on-going process that

was part of the project implementation reviews and should be closed.

While we agree that project implementation reviews should be continuous and on-going and are covered by the mission order, our audit found that USAID/Uganda had not implemented the requirements of the mission order regarding commodity disposal. Based on the issuance of the mission order, Recommendation No. 2.1 is resolved. This recommendation will be closed when USAID/Uganda provides us documentary evidence that the requirements in the mission order have been implemented for all active projects with commodity disposals. This should include providing RIG/A/N with a schedule for conducting inventories of A.I.D.-financed commodities for the active projects, reconciling inventories to the disbursements, accounting for any differences and taking appropriate action for any discrepancies.

Regarding Recommendation No. 2.2, USAID/Uganda stated that due to the lapse of time, past political environment, past security concerns and the cost of conducting the inventory, USAID/Uganda was only conducting an inventory of project no. 617-0109.

We believe that since political and security issues are past concerns and \$12.73 million disbursed under project Nos. 617-0102 and 617-0108 for commodities is material, the benefit of conducting inventories for these projects would exceed the cost and should be performed for all three. Based on the foregoing, this recommendation is unresolved. It will be resolved when USAID/Uganda agrees to conduct inventories for all three projects. This recommendation will be closed when USAID/Uganda provides us with documentation that physical inventories of A.I.D.-financed commodities procured under project numbers 617-0102, 617-0108 and 617-0109 have been performed, including reconciling inventories to the disbursements and accounting for any differences.

Regarding Recommendation Nos. 1.4 and 2.3, USAID/Uganda concurred and stated that it had reported the problem in its previous Internal Control Assessment.

Although USAID/Uganda reported the arrival accounting and end-use checks as weaknesses for USAID/Uganda's Commodity Import Program in the last Federal Managers' Financial Integrity Act reporting cycle, USAID/Uganda did not identify the weaknesses with the receipt, storage, use and disposal of all commodities. Recommendation Nos. 1.4 and 2.3 are resolved based on USAID/Uganda's concurrence. The recommendations will be closed when USAID/Uganda reports to the Assistant Administrator the problems with the receipt, storage, use and disposal of commodities as material weaknesses in the next Federal Managers' Financial Integrity Act reporting cycle or provides RIG/A/N with documentation to demonstrate that these weaknesses have been corrected.

Along with their response to the draft report USAID/Uganda provided several attachments

that included internal memorandums, their response to the record of audit findings, inventory lists, project implementation reports and a mission order. We reviewed these documents and incorporated changes to the final report, as appropriate. We also made certain wording changes, as appropriate, throughout the report.

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## SCOPE AND METHODOLOGY

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### Scope

We followed generally accepted government auditing standards except that USAID/Uganda's management would not provide us with a representation letter (although we requested they provide us one) confirming information essential to fully answer the audit objectives. Management's refusal to make such representations constitutes a limitation on the scope of the audit. The information that USAID/Uganda's management would not confirm, to the best of their knowledge and belief, follows:

1. whether they are responsible for the internal control system, compliance with applicable laws and regulations, and the fairness and accuracy of the accounting and management information for the organization under audit;
2. whether they have provided us with all the financial and management information associated with the activity or function under audit;
3. whether they know of any irregularities in the activity;
4. whether they know of any material instances in which financial or management information has not been properly and accurately recorded and reported;
5. whether they are aware of any instances of noncompliance with A.I.D. policies and procedures or violations of laws and regulations;
6. whether they have complied with contractual agreements; and
7. whether they know of any events subsequent to the period under audit that could affect the above representations.

The answers to the above questions are so fundamental to the basic concepts of auditing that it is not possible to render a positive conclusion without them. Thus, if managers will not answer these basic questions and will not confirm their answers in writing through a

representation letter, then we cannot risk giving a positive conclusion when managers will not even confirm to us what they know.

While we cannot render a positive conclusion without such representations, this lack of a management confirmation does not preclude us from reporting on any problem areas that came to our attention, and we have done so.

We conducted our audit from September 23, 1991 to November 26, 1991. Total obligations for USAID/Uganda's portfolio of 33 projects amounted to \$175.37 as of October 18, 1991. Our audit sample of 17 projects had total obligations of \$169.32 million which represented 96.55 percent of the total obligations. The audit covered project commodity obligations and disbursements of \$91.69 million and \$59.5 million, respectively. In addition, the 17 projects in our sample included various grants and technical assistance contracts that also included an undetermined amount of commodities. We were unable to determine the value of commodities that were included in the grants and technical assistance contracts because USAID/Uganda did not maintain documentation for these amounts.

Our audit did not include commodities under P.L. 480 since these were not included as part of USAID/Uganda's portfolio of obligations. We also did not examine operating expenses funded commodities that were purchased by USAID/Uganda.

Our audit was conducted in the offices of USAID/Uganda. We also held discussions with contractors, grantees and host government officials; however we did not audit these entities since this was outside our objectives and scope. The audit evidence gathered included oral explanations by management, documentary evidence provided by USAID/Uganda, contractors and the grantees. We also performed limited end-use checks of commodities. Due to limited time and resources, our scope of work did not include visits to the bonded warehouses. However, this did not impede us from answering the audit objectives.

As part of this audit, we examined USAID/Uganda's internal controls related to commodities. We also reviewed two prior audit reports and one draft audit report on USAID/Uganda.

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## **Methodology**

Our criteria for selection of the audit sample were projects that had total obligations in excess of \$1 million as of October 18, 1991 with a termination date of October 1990 and later. As a result, our audit sample of 17 projects had total obligations of \$169.32 million which represented 96.55 percent of the total obligations for USAID/Uganda's portfolio of 33 projects. Of the 17 projects in our sample, three projects had been terminated and 14

projects were active. Our audit sample represented 99.96 percent of project commodity obligations and 99.94 percent of project commodity disbursements at USAID/Uganda. Therefore, we concluded that our sample was representative of USAID/Uganda's commodity portfolio. We used our audit sample for the three audit objectives. The specific methodology for each objective follows.

### **Audit Objective One**

For the first objective, we held discussions with key USAID/Uganda officials to establish the internal control systems in place for planning commodity needs. We selected 17 projects out of 33 projects in USAID/Uganda's portfolio as of October 18, 1991. However, we did not examine three of the 17 projects in our sample because they were completed projects. We did not consider the examination of completed projects as necessary to answer audit objective one. Our conclusions for this objective are therefore based on examination of 14 projects. We examined project procurement plans included in the project papers, the program assistance approval documents, grant proposal papers, and the supporting documents for the commodities planned. We also examined amendments to the procurement plans and documents justifying changes to the procurement plans. In addition, we examined project agreements, grant agreements and contracts to establish whether commodities included in the design papers were the ones included in the grant documents. In examining these documents, we determined whether the commodity needs were justified and documented, and that commodity needs were not inflated.

### **Audit Objective Two**

For audit objective two, we included all 17 projects in USAID/Uganda's portfolio with obligations of over \$1.0 million as of October 18, 1991. Of these, 14 projects were active and three had been terminated. We held discussions with USAID/Uganda officials to establish whether internal control systems were in place for monitoring the receipt, storage and use of commodities. To obtain collaborative evidence we held discussions with contractors, and the host government officials. We also examined available documents and reports from USAID/Uganda, the contractors and the government. Further, we performed limited end-use checks and reviewed commodity findings on two prior audits; Uganda Manpower for Agricultural Development, audit report No. 3-617-91-10, and a Non-federal audit on the West Nile project, audit report No. 3-617-90-01-N. We also reviewed a draft mission-contracted audit report conducted by Price Waterhouse on the Rehabilitation of Productive Enterprises project, (Project 617-0104).

### **Audit Objective Three**

In answering audit objective three, our examination involved 14 active projects and three terminated projects. We interviewed USAID/Uganda, government and contractor officials to ascertain the system in place for disposing commodities. We also attempted to trace commodities from USAID/Uganda's accounting records to the documents made available to us from USAID/Uganda, the contractors or the host government. For completed projects which had their commodities transferred to follow-on projects, we traced the commodities to the commodity listings of the follow-on projects.

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# UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/KAMPALA:  
Agency for International Development  
Washington D.C. 20521 - 2190.

UGANDA ADDRESS:  
USAID Mission to Uganda  
P.O. Box 7007, Kampala, Uganda

## MEMORANDUM

May 29, 1992

TO: Toby Jarman, RIG/A/Nairobi  
Inspector General Audits

FROM: Keith W. Sherper, <sup>KX</sup> Mission Director  
USAID/Kampala

SUBJECT: Record of Audit Findings: Functional Audit of  
USAID/Uganda's Management of Commodities

### GENERAL COMMENTS:

While USAID appreciates constructive criticism, we question the effectiveness and objectivity of an audit that is concluded by RIG/A's insistence for "a written confirmation", a representational letter. With the result, as stated by RIG/A "...this report is limited because we cannot state positively that USAID/Uganda followed all AID policies and procedures applicable to the audit objective". We further question the RIG/A management approach when at the initial briefing the Acting Director was told that "without a representational letter positive findings cannot be reported". We also note that the general findings and problem areas are primarily based upon the past historical portfolio and not present activities.

The major findings of the audit focus on projects which began implementation as early as 1981. These projects had implementation interrupted by years of civil unrest and political instability. These projects do not represent the present activities and management of the USAID Mission.

We also note that a major section of the executive summary in the draft report is yet to be written entitled "Management Comments and Our Evaluation". If this section yet to be prepared, varies in substance with pp.40-41 of the draft report the Mission requests an opportunity to comment on it prior to release of the final report.

The Mission recommends that this audit and its process be reviewed by the Agency Management Control Review Committee (MCRC) in its new quality control and review process as referenced in paragraph 8, State cable 118468.

In general, we find audits helpful, but seriously question the intent of an audit and reported findings that implies USAID withheld information from the audit team because we would not confirm in writing that we provided it (See Audit Report Summary p.iii). The allegation demands a more specific statement, not damaging innuendo. We request that RIG/A either be specific or drop such a harmful, disparaging and castigating statement. The Mission has routinely cooperated with RIG/A teams, and provided requested information to the best of its ability.

If the point is that Mission management would not sign the RIG/A representational letter, then say so rather than refer to p.42. of the subject report. Then see my response below to the Finding of Objective No. 1.

The draft audit report is extremely disorganized and confusing. For example, the report discusses Objective 2, then follows it with recommendations 1.1 through 1.4. Recommendations 1.1 and 1.4 apply to Objective 2, not Objective 1. Objective 3 is discussed, then followed by recommendations 2.1-2.3. There are no recommendations on Objective 3 which deals with commodity disposal. Yet recommendations 2.1 and 2.3 directly relate to commodity disposal. RIG/A had over four months from the time of the first draft audit report on November 26, 1991 until they sent this product to Uganda. Part of our delay in responding to you (we received the report April 13, 1992), was due to the confusion from the report's quality.

SPECIFIC COMMENTS:

The following represent USAID/Uganda specific comments on the audit:

Objective:

1. Did USAID/Uganda follow A.I.D. policies and procedures in planning for commodity needs?

Mission General Comment on RIG/A's Reluctance to "Render a Professional Conclusion".

All of us as Federal Government employees, are sworn to uphold the Constitution and laws of the United States. We are required to have integrity and honesty to carry out our jobs, and are held responsible for our actions, with a range of punishments including termination and civil or criminal action. We are also duty bound through A.I.D. policy and regulations to report irregularities or improprieties. Therefore, I see no reason whatsoever to sign a representational letter for an audit which demeans the terms of service under which I am employed. RIG draws negative connotations and indeed, allegations, from the fact I or my Deputy would not sign a representational letter to reaffirm basic terms of service to which RIG, too, must abide. Once

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RIG/A informs me what audit specific "essential information" USAID was not provided, we will do our best to accommodate. The 7 points under Finding No.1 lack specificity for response. It appears that since RIG/A was "not able to fully answer the first audit objective" (p.5) and USAID was unable to reply to RIG/A because they could not specify their needs, the objective itself is seriously flawed and should be deleted in its entirety.

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

1.1 establish a monitoring system, which includes evaluating borrower/grantee systems, for the receipt, storage and use of A.I.D.-financed commodities for all on-going and future projects;

Concur. Mission Order 44-91 on Commodity Management did exist when the auditors began this audit. A monitoring system has been established. We have also issued follow-up letters to contractors on inventories and continued spot checks to determine proper storage and usage of commodities. This recommendation belongs under Objective 2.

Recommendation: Audit Finding 1.1 has been resolved and that it be closed.

1.2 provide commodity management training for project officers;

Concur in principle. If budgetary funds were available we would assign personnel to attend appropriate courses. In practical terms, this is not always possible. The finding is generic of the need for employee training in all AID procedures. The Mission has taken appropriate steps to improve the understanding and awareness of commodities within given, realistic budgetary levels. In keeping with Mission policy, the Mission has sent two Project Officers (new employees) interviewed by the audit team to the Project Implementation Course. Also, three FSNs attended a Mission sponsored three week course on Project Management and Implementation in May 1992. The RCMO from Nairobi gave a workshop on Procurement on May 28, 1992 with 19 USAID personnel in attendance. We plan to have him return to conduct another workshop with even greater commodity focus.

Recommendation: Audit Finding 1.2 has been resolved and that it be closed.

1.3 include the requirement for commodity management as specific objectives in the project officers' employee evaluation reports; and

Concur in principle. However, this again is a generalized statement that may or may not apply to all Project Officers.

The Mission feels that good stewardship of all resources is a primary function of all officers and this includes their time management. Nothing found in the audit suggests that Project Officers and the Mission were doing things wrong. Considering this, we will include this as a work objective in evaluation reports, as appropriate. In our view it is part of the "continuing responsibilities" of any officer, and not a "specific objective." If RIG/A is convinced this is a generic item that should be included in all Project Officers' EERs, you should recommend it to AID Washington FA/HRDM where it can be vetted and discussed with AFSA.

Recommendation: Audit Finding 1.3 be closed.

1.4 report to the Assistant Administrator the problems with the receipt, storage and use of commodities as material weaknesses in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected.

Concur. This Finding has been reported in the previous Internal Control Assessment. Actions were previously, and will continue to be taken to improve Mission systems on the receipt storage and use of commodities. This recommendation belongs under Objective 2.

Recommendation: Audit Finding 1.4 be closed. Mission will report as necessary.

Objective:

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

Recommendation No.2 We recommend that the Director USAID/Uganda:

2.1 implement a system for monitoring commodity disposal to include taking of annual inventories of commodities procured under each project, reconciling inventories to the disbursements, accounting for any differences and taking appropriate action for any discrepancies,

Concur. Mission Order 44-91 was developed and operational at the time of this audit. It was a result of corrective action the Mission took in response to a 1991 Audit Finding. Project officers are charged with implementing these commodity management procedures, and they are monitored at the time of Mission Project Implementation Reviews (PIRs). This recommendation belongs under Objective 3.

Recommendation: Audit Finding 2.1 is under continuous on-going implementation and that it be closed.

2.2 take physical inventory of the commodities procured under project Nos. 617-0102, 617-0108 and 617-0109,

reconcile the inventories to the disbursements made by USAID/Uganda and account for any differences, and

Do not fully concur. Due to the age of two of these projects, the civil unrest during implementation and lack of historic background or personnel familiar with old project activities this is not considered to be fully economically justifiable. Project 617-0102 was started over a decade ago. The majority if not all, of the commodities procured have outlived their depreciable life. Due to insecurity and destruction during the war, it is highly questionable whether data is available to accurately reconcile inventories. Similarly, project 617-0108 is completed and it will be equally improbable that an accurate physical inventory can be reconstructed since commodities went largely to producers in the relatively insecure parts of northern Uganda and Luwero Triangle.

Further, conducting physical inventories of these two projects in some remote areas may also propose a security issue, even at this time. See the enclosed May 5, 1992 Bayer/Ryner memorandum for more detail.

Regarding 617-0109, physical inventory has been completed and we are in the process of reconciling with financial records. See the May 5, 1992 memorandum cited above for more detail.

Recommendation: Audit Finding 2.2 be closed with respect to projects 617-0102 and 617-0108; regarding 617-0109 the Finding be considered resolved with closure pending completion of the reconciliation process.

2.3 report to the Assistant Administrator problems with the disposal of commodities as material weaknesses in the next Federal Managers' Financial Integrity Act reporting cycle if these weaknesses are not corrected.

Concur. Same as 1.4.

Recommendation.: Same as 1.4.

### Objective

3. Did USAID/Uganda follow A.I.D. policies and procedures in disposing of commodities

No Recommendations.

### Additional Information

As support and to assist you in completing this audit I have enclosed specific Mission documents which should be included as part of the mission response. Attached are:

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Mission comments of December 16, 1991

Controller Memo on Representational Letter, April 23,  
1992

Comments on CAAS Project, May 5, 1992.

Mission Order 44-91, Project Commodity Management,  
September 19, 1991.

**APPENDIX III**

**OBLIGATIONS AND DISBURSEMENTS OF USAID/UGANDA'S  
COMMODITIES, GRANTS & TECHNICAL ASSISTANCE FOR PROJECTS REVIEWED DURING THE AUDIT 1/  
(in excess of \$1 million)**

AS OF OCTOBER 18, 1991

<u>Project Name</u>	<u>TOTAL</u>	<u>OBLIGATIONS FOR</u>		<u>DISBURSEMENTS FOR</u>	
	<u>Obligated</u>	<u>Commodities</u>	<u>Grants/T.A.</u>	<u>Commodities</u>	<u>Grants/T.A.</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
1. Uganda Food Prod. Support 2/	11,999	7,745	3,125	7,610	3,100
2. Manpower for Agric. Dev.	23,500	3,393	12,975	2,261	10,598
3. Rehab. of Productive Entp.	29,900	26,517	3,150	12,752	1,303
4. Oral Rehydration Therapy	3,800	1,900	870	1,482	706
5. Rural Economic Recovery 2/	5,482	5,394		5,120	
6. West Nile Agric. Rehabi. 2/	4,362		4,362		4,118
7. Co-op. Agric. & Agribusiness	16,953	10,261	6,336	5,617	3,399
8. Agric. Non-tradit. Exports	38,000	32,861	4,698	24,654	931
9. Expanded Family H. Services	3,108		1,799		31
10. Physical Rehab of the Disa'ed	2,632		2,632		1,098
11. Action Prog. for the Environ.	3,000	3,000		0	
12. Action Prog. for the Environ.	3,115	440	2,350	0	0
13. AIDS Control and Prevention	12,500		12,500		65
14. Policy Analysis & Cap. Bldg.	4,250	180	1,900	0	4
15. West Nile Comm. S-Reliance	3,000		3,000		0
16. Child Survival of D D/Nutr.	2,000		2,000		0
17. HIV/AIDS Prev. & Control	<u>1,723</u>		<u>1,723</u>		<u>896</u>
<b>TOTAL</b>	<u>169,324</u>	<u>91,691</u>	<u>63,420</u>	<u>59,496</u>	<u>26,249</u>

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1/ Source: USAID/Uganda's MACS reports - UNAUDITED.

2/ Project numbers 1,5 and 6 were terminated at the time of our audit.

## APPENDIX IV

### Report Distribution

American Ambassador to Uganda	1
Administrator, AID	2
Mission Director, USAID/Uganda	5
AA/AFR	1
AFR/EA/U	1
AFR/CONT	1
XA/PR	1
LEG	1
GC	1
AA/OPS	1
FA/FM	1
AA/FA	1
AA/R&D	1
POL/CDIE/DI	1
FA/MCS	1
FA/FM/FPS	2
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM	12
AIG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RAO/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/EUR/W	1
RIG/A/V	1