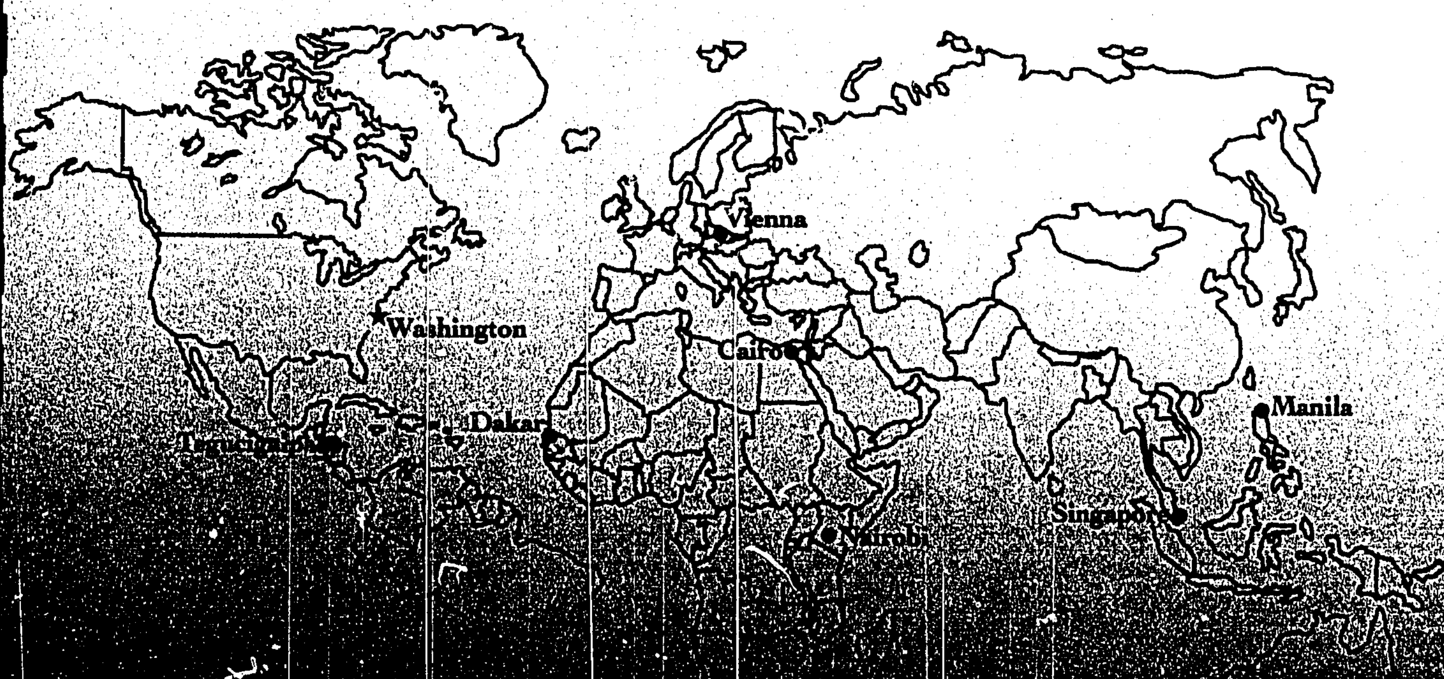
PD-ABF-101
80442

Regional Inspector General for Audit
Nairobi, Kenya

Audit of Zimbabwe Trust Under Natural Resources Management Project No. 690-0251-13

Report No. 3-613-93-04-N
December 07, 1992



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

UNITED STATES POSTAL ADDRESS
USAID/RIGA
UNIT 64102
APO AE 09831-4102

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

December 7, 1992

memorandum

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

FROM: for Everette B. Orr, RIG/A/Nairobi Joseph Farinella

SUBJECT: Audit of Zimbabwe Trust Under Natural Resources Management Project No. 690-0251-13, Audit Report No. 3-613-93-04-N

Attached are five copies of a mission-contracted financial audit report of Zimbabwe Trust Under Natural Resources Management Project No. 690-0251-13. The accounting firm of Ernst & Young, South Africa performed the audit.

In December 1989, USAID/Zimbabwe signed a grant agreement with Zimbabwe Trust - a Non-Governmental Organization - for $1,816,000 under the Natural Resources Management Project No. 690-0251-13. Additional funding was authorized to a total of $2,706,000 over the life of the project. The project is scheduled to end in September 1994. The purpose of the grant was to provide financial assistance to Zimbabwe Trust for community development work in support of the project. The project's goal is to increase income and enhance the capability to meet basic human needs through sustainable utilization and conservation of natural ecosystems. The audit covered expenditures totalling $555,601 for the period September 1989 through September 1991.

The objectives of the audit were to:

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;

- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and

- test the auditee's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement and report on any identified material instances of noncompliance.

The auditors issued an adverse opinion on the Fund Accountability Statement because of the significant amount of questioned costs totaling $146,071 (ineligible costs of $116,947 and unsupported costs of $29,124). The amount of questioned costs represents about 26 percent of the audited amount. Further, the auditors identified material internal control structure weaknesses. These included unsigned employment contracts, insufficient review of quarterly claims, missing documentation to support transactions, inadequate review of Bulawayo bank reconciliations and inadequate safeguarding of financial records. The report on compliance did not identify any material non compliance issues.

The draft audit report was submitted to the auditee and USAID/Zimbabwe for comments, and their comments (Appendix I and Appendix II) were incorporated in the final report by Ernst & Young. We agreed with Ernst & Young's response to the auditee comments as summarized in the report on pages 8 to 15. We are including the following recommendations in the Office of the Inspector General audit recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, the following questioned costs from Zimbabwe Trust:

1.1 ineligible costs of $116,947; and

1.2 unsupported costs of $29,124.

b

Recommendation No. 2: We recommend that USAID/Zimbabwe obtain from Zimbabwe Trust a correction of internal control structure procedures to ensure that:

2.1 employment contracts are signed by employees;

2.2 adequate review of quarterly claims are performed;

2.3 documents are retained to support transactions;

2.4 adequate Bulawayo bank reconciliations are done; and

2.5 financial records are properly safeguarded.

We consider Recommendation Nos. 1 and 2 unresolved. Recommendation No. 1 will be resolved upon receipt of a final determination of the allowability of the questioned costs. Recommendation No. 2 will be resolved upon receipt of a plan for corrective action. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendations.

Thank you for the cooperation extended to Ernst & Young and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

AUDIT OF
ZIMBABWE TRUST UNDER NATURAL RESOURCES MANAGEMENT PROJECT NO. 690-0251-13

ATTACHMENTS

Attachment I

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST UNDER NATURAL RESOURCES MANAGEMENT PROJECT NO. 690-0251-13

- 9

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

TABLE OF CONTENTS

4

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

TABLE OF CONTENTS (continued) PAGE NO.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

TABLE OF CONTENTS (continued) PAGE NO.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

TABLE OF CONTENTS (continued) PAGE NO.

N

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

1. INTRODUCTION

1.1 BACKGROUND

On December 5, 1989 USAID/Zimbabwe signed a grant agreement with Zimbabwe Trust totalling US$1,815,000 under the Natural Resources Management Project No. 690-0251-13. This amount represented the obligated amount at the time of signing the agreement and was budgeted to cover program expenditures for the period September 1989 through September 1991. Further, the agreement provided that additional funds will be obligated by AID up to a total estimated amount of US$2,706,000 over the life of the project funding period September 15, 1989 through September 15, 1994.

The purpose of the USAID/Zimbabwe grant was to provide financial assistance to Zimbabwe Trust for community development work in support of the Zimbabwe Component of the Natural Resources Management (NRM) Project. Zimbabwe Trust was established in the United Kingdom in 1980, upon attainment of Zimbabwe's independence. It is a registered charity in the United Kingdom and a registered welfare organization in Zimbabwe. It is also registered with AID/Washington as an overseas NGO. The Natural Resources Management project consists of assistance, within the framework of the Southern African Development Coordination Conference (SADCC), to facilitate regional cooperation among participating SADCC member states in managing and protecting the natural resource base of the SADCC region for purposes of sustainable social and economic development as well as protection of ecological diversity and to disseminate knowledge of community management of wildlife resources among SADCC member states. The goal of the Project is to increase income and enhance capability to meet human needs through sustainable utilization and conservation of natural ecosystems. The other SADCC member states in which the NRM Project is being implemented are Zambia and Botswana and the project will also involve the SADCC Sector Coordinating Unit for Forestry, Fisheries and Wildlife in Malawi.

USAID/Zimbabwe is the sole grantor to Zimbabwe Trust for the Zimbabwe component of the NRM Project. Zimbabwe Trust is managed by a Board of Trustees which has its head office in London. It has two offices in Zimbabwe, one in Harare (main office) and one in Bulawayo (sub office). The original accounting records are located in Harare and Bulawayo, Zimbabwe. Zimbabwe Trust is managing the Institutional and Community Development Component of the project in Binga, Plumtree, Hwange and Tsholotsho districts. As such, expenses are incurred in these areas. Approval and payment of expenses rests with Zimbabwe Trust's Harare and Bulawayo offices.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

1.2 AUDIT OBJECTIVES AND SCOPE

Ernst & Young was contracted under Indefinite Quantity Contract, 645 000-I-00-1051-00 to perform a mission contracted financial audit of the Zimbabwe Trust under NRM Project in accordance with generally accepted auditing standard and the U.S. Comptroller General's Government Auditing Standards (1988 Revision). The principal objective was to determine whether the costs claimed by the auditee are adequately supported in accordance with the Grant Agreement and are allowable, allowable and reasonable.

The objectives of this engagement were to :

- audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report the use of funds in accordance with the contract/grant agreement;

- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and

- test the auditee's compliance with the terms of the contract/grant agreement, as part of obtaining reasonable assurance account whether the Fund Accountability Statement is free of material misstatement and report on any identified material instances of noncompliance.

The audit report should analyze problem areas in need of improvement and propose recommendations.

Ernst & Young was also requested to audit the actual overhead rate applicable to the grant for the Trust's financial years (Grant inception to May 31, 1990 and May 31, 1991) and establish a provisional overhead rate to be used from June 1, 1991 to the end of the Grant

The period covered by the audit was from September 15, 1989 to September 30, 1991.

Due to Mission concerns, Ernst & Young was asked to review

- High vehicle maintenance costs on new vehicles for which spare parts were provided by USAID

- Abnormal fluctuations in salary costs

- Office and staff accommodation or rents
- Private use of USAID vehicles
- Field allowances and lack of supporting documentation
- Financing of ineligible costs (eg teas and refreshments and Bulawayo administrative costs)
- Consulting fees paid to DNPWLM employees
- Interest income on bank accounts
- Nepotism
- Foreign currency gains

1.3 AUDIT METHODOLOGY

Ernst & Young conducted an initial survey of the accounting records and internal control systems from November 27, to November 29, 1991 and found the control environment to have the characteristics of a small business with "owner/ manager" control being performed by the Campfire Manager. In addition the volume of transactions was low and it was decided to adopt a substantive approach, covering 85% of expenditure, to obtain the most effective and efficient audit.

The principal audit steps performed included :

- An examination of the terms and conditions of the Grant Agreement with Zimbabwe Trust, applicable standard provisions and regulations and other project documentation as deemed necessary to gain a knowledge and understanding of the (a) goals and objectives of the project and grant, (b) activities being financed by USAID, (c) types of costs, (d) financial procedures and requirements and (e) results of completed financing reviews.
- An examination of the auditee's internal control structure and capability to properly identify and account for expenditures in accordance with SAS 55. However, this was limited due to the substantive nature of our audit approach, mentioned above.

- . A detailed test of payments and costs submitted to or in the process of submission to USAID, presented in the Fund Accountability Statement. This test included an examination of original supporting documentation to determine whether the amount was allowable, questioned or unsupported. Reference was made to the terms of the Grant Agreement, Standard Provisions and OMB Circular A-122 (Cost Principles for Non-profit Organizations) and other relevant documents.

- Reconciliation of claims submitted to USAID to determine if the financial submissions were accurate and supported by the accounting records.

- Reconciliation of claims submitted to USAID to MACS reports supplied by USAID.

- Examined bank accounts and reconciliation procedures to determine that they are reconciled on a timely basis and that transactions are appropriate.

- Audit procedures to evaluate the auditee's compliance with the Grant agreement and applicable laws and regulation.

- Detailed analytical reviews were performed on the major costs claimed and variances were examined and vouched to original documentation to identify costs as allowable, questioned or unsupported.

- Reviewed mission correspondence to auditee querying fluctuations in costs. Fluctuations were vouched to supporting documentation and classified as allowable, questioned or unsupported.

1.3.1 SCOPE LIMITATION OF NON-COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS ON EXTERNAL QUALITY CONTROL REVIEW

We have not complied with the Government Auditing Standards, General Standard, requiring our participation in an external Quality Control Review Program. In Southern Africa the auditor has a responsibility to comply with local generally accepted auditing statements, and he, as auditor, is subject to discipline by the appropriate professional bodies. These include general statements on quality control. Representatives of other practice areas participate in inter-office reviews.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

1.4 BRIEF SUMMARY OF AUDIT RESULTS

1.4.1 FUND ACCOUNTABILITY STATEMENT

Our audit tests revealed that of the $555 601, in total costs claimed by the Trust $116 947 were questioned costs and $29 124 were unsupported costs. A summary of questioned costs is as follows :

- Claiming of indirect management costs when the Grant did not provide for a negotiated overhead rate	50 107
- Administrative costs of Bulawayo office staff (for a detailed explanation see section 6.2.6)	25 603
- Expenditure greater than budget for operating costs	12 879
- Vehicle maintenance costs on Trust vehicles used on NRM project prior to receiving USAID vehicles are unallowable	7 528
- Local air travel incurred in the planning and design phase of the NRM project	11 466
- All other costs	9 364

	$116 947
	========

A summary of unsupported costs is as follows :

- Indirect management costs claimed in excess of general ledger amounts	7 810
- Relocation costs in excess of actual expenses incurred in relocating an employee	5 280
- Depreciation claimed but not reflected in general ledger and represents a notional costs (see section 6.2.1)	9 654
- All other costs	6 380

	$29 124
	=======

For a detailed explanation of questioned and unsupported costs, see Exhibit 1 and notes thereto. The Fund Accountability Statement is presented in section 2.

1.4.2. INTERNAL CONTROL STRUCTURE

Our evaluation of the internal control structure identified certain reportable weaknesses which are described in the independent Auditor's Report. (See section 3). These include improvements in :

- Review of fluctuations on quarterly claims submitted to USAID
- Cheque requisitions for all payments
- Review and approval of expenditure return sheets
- Retention of documentation to support transactions
- Unsigned contracts of employment
- Review of Bulawayo bank reconciliations
- Safeguarding of financial records

1.4.3 COMPLIANCE WITH GRANT AGREEMENT AND RELATED PROVISIONS

Our evaluation of Zimbabwe Trust' compliance with the Grant Agreement and related provision identified certain instances of immaterial non-compliance which are summarised below :

- **Claiming of management overheads when the grant officer had indicated that these were unallowable costs in terms of the authority bestowed in Aid Handbook 13 page 4D-1 paragraph 1(a).**

- Non-compliance with the standard provisions on payment - periodic advance, regarding maintenance of bank accounts solely for USAID funds and not commingling USAID funds with other funds.

  We did not consider the commingling of USAID funds with other funds to be an instance of material non-compliance. The commingling of funds did not cause us to conclude that the aggregation of misstatements, resulting from the commingling, was material to the Fund Accountability Statement.

- We have recommended that the Trust convert to the Payment-Cost Reimbursement method to avoid the commingling of funds or to request USAID's assistant in establishing a second non-resident account solely for the NRM project.

- Not obtaining written approval from USAID for international air travel as required in the standard provision on air travel and transportation.

- Claims in excess of amounts recorded in the general ledger.

- Claiming of depreciation for Trust vehicles used on the NRM project, prior to receiving USAID vehicles. The Grant only covers reimbursements of actual costs incurred and not notional costs, such as depreciation.

- Claiming amounts with no supporting documentation as required by the Grant Agreement (example field allowances indirect management costs)

- Salaries paid to employees paid in excess of their employment contracts.

- No interest was earned, on advances from USAID deposited in the Trust's non-resident bank account. This was confirmed by the Trust's Bankers.

- Certain Z$ foreign exchange gains arose due to timing differences between the dates on which expenditure were incurred and USAID reimbursements and advances. These gains do not affect our report because it is denominated in US$'s. These gains would have been realised gains if the Trust had received all its project funding from USAID in advance.

  This was not the case with most of the project costs being financed by the Trust and subsequently being reimbursed by USAID. Therefore the Trust would incur Z$x expenditure on a date which would equate to US$x on the date incurred. When the Trust was reimbursed for US$x they received Z$y resulting in a notional foreign exchange gain.

For a detailed explanation see section 4 and Exhibit 1.

1.4.4 PROVISIONAL OVERHEAD RATE

The delivery order required Ernst & Young to audit the actual overhead rate applicable to the grant for the Trusts's financial years (Grant inception to May 31, 1990 and May 31, 1991) and establish a provisional overhead rate to be used from June 1, 1991 to the end of the Grant.

This aspect of the delivery order has not been performed for the following reasons :

- The delivery order stated that "an indirect cost rate schedule will be prepared by Zimbabwe Trust for the fiscal years ended May 31, 1990 and May 31, 1991. The Trust had not prepared this schedule at the time of our audit.

- Secondly the Trust indicated that they intended including overheads relating to their London office. This was not given to us and therefore we were not in a position to audit these costs.

We have recommended, in section 4.2.1, that the Trust should prepare the necessary schedules on the indirect costs to be audited at a subsequent date.

1.4.5 FINANCIAL MANAGEMENT CAPABILITIES

Our review of the financial management capabilities of project personnel indicated that they are capable and competent to manage and account for USAID funds. (See section 5).

1.4.6 MISSION CONCERNS

Mission concerns raised in our delivery order have been addressed and items that were questioned or unsupported are fully documented in Exhibit 1. (See section 6).

1.5 SUMMARY OF ZIMBABWE TRUST COMMENTS

1.1 With reference to your comment that the original accounting records are held in Bulawayo and Harare, it should be noted that your report applies only to those costs which have been paid in Zimbabwe. Several other costs relating to the NRM Project arise in the UK and in the USA where the original documentation for these expenses is held. We acknowledge, however, that public service information costs arising at the USA office are not allowance as indirect costs to the NRM Project (as per AID Handbook 13 page 4D-2).

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

1.2 We are pleased to note that the scope for the audit ordered by the Grantor includes the actual overhead rate for the audit period and that it is the intention of the Grantor to negotiate and agree a provisional rate for the period to the end of the grant which shall include an appropriate allowance for UK costs incurred on the NRM project. In this regard, the Grantee has sent a copy of the last audited financial statement to the Grantor.

We submit respectfully that this independent audit of the Grantee's organisation should have been conducted during the Grantee's normal annual audit and not at the time it was actually carried out (see AID Handbook 13 Page No. 4D-2 para 2b). Under the terms of the Agreement it would appear that this audit should have taken place only after a review of the audit report, which, to the best of our knowledge, has not yet been conducted. However, we fully acknowledge that the Grantee willingly complied with the Grantor's request to conduct this audit and that such compliance constitutes a variation of the terms of the Agreement.

1.3 We have not yet received a copy of the MACS reports referred to in this paragraph which was requested in our last communication - are these reports available to the Grantee?

You will be interested to note that the date is missing in the second line of this paragraph - it is significant in that it appears, as the paragraph stands, as though the report covers only a two day period!

1.4.1 We note that the results of the audit of the Fund Accountability Statement detail $116,947 of questioned costs, and $29,124 unsupported costs. Apart from the obvious relevance of the observations above concerning questioned costs in the context of OMB Circular A-122, these are dealt with at length below.

1.4.2 The reportable weaknesses identified in the evaluation of the internal control structure are noted and are accepted as a constructive criticism of the Grantee's financial reporting procedures for management and control. These criticisms have resulted in changes to Trust procedures (in respect of its financial control and project reporting on all projects, not only those of the Grantor).

1.4.3 We are most concerned to note that the auditor's "evaluation of the Trust's compliance with the Grant Agreement and related provision identified a material instance of non-compliance relating to claiming management overheads, which were not provided for in the Grant".

- The Grantee finds it necessary to place on record that it cannot concur with the auditor's allegation that it "identified a material instance of non-compliance relating to the claiming of management overheads". The Grantee diligently complies with all terms of any agreement to which it is a party, and cannot allow the good name it has earned over the past 12 years to be tarnished by allegations that it believes are groundless. The Grantee is obliged to take this matter most seriously because, inter alia, it could provide grounds for termination and suspension of the NRM Project in terms of page 4D-2b of Attachment 3 of the Agreement. The Grantee has sought legal advice on the matter, and this advice confirms our opinion that the legal basis for the Auditor's allegation is, at best, questionable. The terms and conditions of the Grant Agreement provide no fair and reasonable basis to support the contention that a "material instance of non-compliance relating to the claiming of management overheads" has taken place.

We refer you to page 5, para 2 of Attachment 2 - "Program Description" which states that "Funding is also provided for technical support for the development of land-use plans, including procurement of aerial photographs, maps, transport and other inputs." Moreover, para 2.1.2. stipulates that there will be "at least 2 full-time Project Managers" ... who will "facilitate the planning decision-making processes," while the next paragraph states that "when additional expertise is required, the project manager will locate and hire non-local short-term assistance." Para 4 on page 5 states that "Funds are provided for Zimtrust project staff ..... This staff will be provided with vehicles, radios and housing in the districts .... The proposed housing will also act as accommodations for visiting Harare-based project staff from Zimtrust and CASS."

We submit that it is only reasonable to conclude from the above that the Program Description clearly anticipated that the Grantee's staff would be provided with vehicles, and also the need to hire non-local short-term assistance, thereby allowing both part-time and/or full-time management inputs from Harare (or elsewhere) and further, that provision was expressly made for visits from "Harare-based project staff from Zimbabwe Trust," for which accommodation was to be provided.

Page 8, para 2.1.4 states "Zimbabwe Trust will provide training to local institutions in the necessary skills for planning and implementing project activities.

Zimbabwe Trust staff will coordinate with other institutions .... Training will be conducted through several mechanisms, including informal discussions, presentations, workshops, seminars, conferences and field trips, among other activities." Page 14, para 1, Zimtrust's responsibilities under this agreement states explicitly that Zimtrust will be responsible for "providing advice on management, conducting training and assisting in administration" ...... providing "the professional human resource inputs necessary to establish, monitor, and operate the project .... Work will be carried out under the direction of the Director of the Trust, the General Secretary and the CAMPFIRE Programme Director .... Funds are provided for Zimtrust project staff ..... Staff will be provided with necessary logistical support and facilities consistent with Zimtrust personnel policies".

An understanding of the primary objective of developing local institutional capacity through adaptive management, and the thousands of training days this entails, inevitably leads to an appreciation of the man-power needs for mounting such training. There is no reasonable basis for the Auditors to assert that this man-power input is to be supplied without recourse to the management capacity of the Grantee. The references in the preceding paragraph emphasise the Grantee's management inputs which have been properly supplied to the project at cost, and inevitably, must comprise an overhead charge. Such charge is consistent with the Trust's accounting policies on all other projects/programs. We find no basis under the terms and conditions of Attachment 3 to assert that these overhead charges cannot be defined as reasonable, allocable and allowable and therefore should not be defined as questioned costs under the Agreement.

It may be appropriate to draw attention to the fact that the original plan and project budget, as detailed, was developed with a view to implementing the project in only two Districts.

The Trust was persuaded, subsequently, to extend the scope of its implementation to include an additional two Districts. This significant amendment to the scope of the project was made, just prior to the formalization of the Agreement, resulting in a considerable increase in the geographic extent of the project without any alteration to either personnel or budget requirements. The Grantee was in a position to agree such changes because it believed that it had sufficient budget to procure the necessary management capacity, and should this have proved not to be the case, arrangements existed for it to apply for an increase in the amounts budgeted.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

This change in the scope of the project is evidenced by the reference on page 7 of the Program Description which anticipates that the "facilitator for women's activities" will work in the "two target communal lands."

At the time of signing the Agreement, and on subsequent occasions, the Grantee was informed that any justifiable increases in budgets or personnel could be agreed between the Grantee and Grantor as and when the need became apparent, and this would be encompassed in a Revision of the Financial Plans. The eleventh hour extension in the scope of the project explains the addition to the initial staff requirement for the management of the project (ie. more than at least two full-time project managers), as well as additional management requirements in the form of a substantially increased Zimtrust management involvement. It should be noted that the speed at which training and other inputs are supplied to communities should be determined by the communities themselves and not be the Grantor. There is no point in supplying inputs unless the communities, after establishing consensus amongst themselves, determine the basis upon which any such inputs are to be supplied and the evolving institution building process dictates the extent and pace at which such inputs are delivered. This process has effectively determined additional requirements which have been discussed with USAID personnel. This is not disputed by USAID and, in terms of the Agreement, any such changes may be viewed formally as variations under the Agreement. We draw your attention to AID Handbook 13, page 4D-2A para 4 (b) which states that "The Grantee shall immediately request approval from the grant officer when there is reason to believe that within the next 30 calendar days a revision of the approved grant budget will be necessary." However, as there is no formal requirement for the Grantee to present such a request in writing, and as no "costs in excess of the amount obligated under the grant" have been incurred, there is no requirement for the grant officer to notify approval in writing (para 4 [c]).

The Fund Accountability Statement in 1.4.1 and the evaluation in 1.4.3 identifies "a material instance of non-compliance relating to claiming management overheads." We dispute this on the grounds detailed in the relevant sections above. Moreover, even though we were not obliged, under the terms of the Agreement, to obtain prior approval in writing, we draw attention to a letter from our Financial Manager dated the 26th January 1991, which was written following discussions on this matter and requested the Grantor's prior approval of indirect management and overhead costs.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

The Grantor's response of 22nd February 1991 states that these costs can be allowed, provided that such expenditures are verifiable and distinguishable as costs incurred in carrying out the grant and subject to the availability of funds. As these conditions are met, the Grantee's overhead costs audited, a rate for such overheads established, and financial claims, which included these overheads, were paid, the Grantee proceeded on the reasonable assumption that this was acceptable to the Grantor. In the light of such tacit acceptance, we find the charge of non-compliance with the Grant Agreement wholly unacceptable.

Some confusion has arisen, in the offices of both the Grantor and Grantee, concerning the overhead claims of the Trust. In this regard, the Trust has claimed only a portion of its actual overheads incurred on the project, and only those relating to the Zimbabwe offices, not those of the UK and USA offices. The status of any UK and USA claims, as the Grantee understood it, is one of the purposes of the non-federal audit.

The allegation of non-compliance is a most serious matter, and we are obliged to treat it as such. At a recent meeting of representatives of the auditors, the Grantor and the Grantee in Johannesburg, the matter of overheads was discussed at length, and the parties agreed that this could be settled amicably through negotiation, particularly as the Grantor accepted the principle of financing the Grantee's overheads for the project. In this regard, the Grantee would like to record its appreciation of the spirit of mutual co-operation that exists between the two parties, and to record that it is the Grantee's intention to continue in this manner. The spirit of amicable co-operation which exists between the two parties notwithstanding, the Grantee cannot allow such unqualified assertions to stand on record when it is convinced that grounds for such assertions do not in fact exist. The importance of this written submission to your fourth draft report, therefore is to inform you that we seriously contest the legal basis for your opinion, and ask you to reconsider. For your information, we enclose a letter from the Trust's lawyers which formally records the basis upon which we challenge your allegations.

Other allegations of non-compliance, which were not considered material, are also challenged. These are dealt with in the appropriate paragraphs below, where they are reported in some detail.

1.4.4 The Grantee emphasises the fact that it has not claimed any UK or USA office expenses, because of confusion that has arisen as a result of the General Secretary's letter of the 23rd June 1989, following a workshop where the Grantee estimated a contribution in kind amounting to $120 000. This letter predates the Agreement and does not constitute a variation to the Grant Agreement, and representations and assertions made prior to the Agreement do not form part of it. This is the view of the Grantee's legal counsel and, accordingly, the Grantee challenges the claim that any administrative, secretarial, and accounting staff costs incurred in the Bulawayo office or elsewhere are unallowable under the terms of the Grant Agreement. The Grantee believes that this is an issue which the non-federal audit should resolve. It should be noted that the Grantee did not seek approval from its Board of Trustees for any such contribution on the basis that it was never part of the Agreement. The Grantee believes that the indirect and overhead charges against the project are substantially less than cost and welcomes the opportunity to reach agreement with the Grantor on an appropriate negotiated overhead.

The indirect cost schedule for fiscal years ended May 31 1990 and 1991 in Zimbabwe are those indirect costs which have been part of this non-federal audit.

We are pleased to note the Auditor's delivery order includes a requirement to audit an indirect cost schedule applicable for the Grantee's overheads for the 1990 and 1991 financial years, and to establish a provisional overhead rate to be used from 1st June 1991 to the end of the Grant. Whilst we remain of the opinion that we are within our rights in claiming our overheads, we intend to co-operate fully in this matter, and, in order to enable an audit of the overhead rate claimed, we have contracted our auditors in Zimbabwe, KPMG Peat Marwick, to prepare the required schedule and reassess the existing basis for allocating overheads to projects. This report will be forwarded to the Auditor as soon as it is complete. Similar arrangements are being made in the UK. The demands on the Trust management in carrying out its project obligations are such that the Trust does not have sufficient resources to carry out this task itself, and for this reason we have contracted out the work.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

In order to minimise the disruptions and extra work load caused by additional audits we request that, in future, the Grantor adheres to the terms of AID Handbook 13, page 4D-2 item 2(b) so that should an independent audit be required, such audit is conducted during the Grantee's normal annual audit. In this regard we take the opportunity to place on record that the Grantee's annual audit for the year ended 31st of May 1992 is due to commence shortly. As far as any UK audit is concerned, it would be appropriate for the Grantor to obtain confirmation and justification of costs from Arthur Andersen & Co. in the UK rather than require original documents to be forwarded to Auditors either in South Africa or elsewhere. We propose this because we are obliged, under the terms of Grant Agreements with other Governmental agencies, to retain original documentation for inspection.

1.4.5 We are pleased to note the Auditors' conclusion that the Trust is "capable and competent to manage and account for USAID funds."

1.4.6 The Mission concerns raised and documented in this report are noted and dealt with in the appropriate sections below.

1.6 SUMMARY OF USAID/ZIMBABWE TRUST

"USAID concurs in all the audit findings and has requested Zimtrust to make the necessary corrections or adjustments to their accounting records and management systems based on the audit report. It should be noted in the report, however, that USAID took exception to the Trust billing overhead type costs for two reasons :

1.6.1 The grant did not provide for overhead and therefore such costs could not be charged to the grant and;

1.6.2 The grantee had, during the project design phase, indicated they would absorb such costs.

In fact, the original basis for the audit was to establish an overhead rate which could be approved and included in a future grant amendment.

The audit has focused on the need for USAID, as well as Zimtrust, to improve their monitoring and management systems and better define each parties' roles and responsibilities via a grant amendment".

Thank you for the time and effort devoted to completing this audit report. We look forward to receiving the final report from RIG/Nairobi.

Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000

Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

2. FUND ACCOUNTABILITY STATEMENT

2.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement of Zimbabwe Trust under the Zimbabwe Component of the Natural Resources Management Project No. 690-0251.13 for the period September 15, 1989 through September 30, 1991. The Fund Accountability Statement is the responsibility of Zimbabwe Trust's Management. Our responsibility is to express an opinion of the Fund Accountability Statement based on our audit.

We have not complied with the Government Auditing Standards, General Standard, requiring our participation in an external Quality Control Review Program. In Southern Africa the auditor has a responsibility to comply with local generally accepted auditing statements, and he, as auditor, is subject to discipline by the appropriate professional bodies. These include general statements on quality control. Representatives of other practice areas participate in inter-office reviews.

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

As discussed in the notes to the Fund Accountability Statement, the statement was prepared on the basis of generally accepted accounting principles.

With respect to incurred expenditures, the results of our audit includes $116 947 in questioned costs and $29 124 in unsupported costs.

A C B O'Flaherty (Managing Partner)
A full list of Partners is available from this office.

■ Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000

■ Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

In our opinion, because of the significance of questioned and unsupported costs referred to in the preceding paragraph, the Fund Accountability Statement does not fairly present, in conformity with the basis of accounting described in note 1, the revenues and costs incurred for the period September 15, 1989 to September 30, 1991.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of Zimbabwe Trust and the Agency for International Development but this is not intended to limit the distribution of the report if it is a matter of public record.

Ernst & Young

CHARTERED ACCOUNTANTS
JOHANNESBURG
FEBRUARY, 18 1992

MISSION CONTRACTED AUDIT OF ZIMBABWE TRUST
UNDER NATURAL RESOURCES MANAGEMENT
PROJECT NUMBER : 690-0251-13

2.2 FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD SEPTEMBER 15, 1989 THROUGH SEPTEMBER 30, 1991

	BUDGET	ACTUAL	CLAIMED	ACCEPTED	QUESTIONED	UNSUPPORTED	NOTES
TOTAL REVENUE US$	1 816 000	580 982	580 982				1
EXPENDITURES							1
Project Management	255 000	268 882	271 388	178 024	80 473	12 891	Exhibit 1
Operating costs	126 000	171 646	177 410	126 000	36 474	14 936	Exhibit 1
Service	85 000	16 104	16 104	16 104	-	-	
Small Enterprise Development	120 000	194	194	194	-	-	Exhibit 1
Wildlife Translation	30 000	-	-	-	-	-	
District Council Inputs	1 200 000	85 481	86 778	85 481	-	1 297	Exhibit 1
Capital Costs	-	3 727	3 727	3 727	-	-	2
TOTAL EXPENDITURE US$	1 816 000	546 034	555 601	409 530	116 947	29 124	

8

2.3 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1. BASIS OF ACCOUNTING

The basis for the statement is the general ledger prepared by Zimbabwe Trust which records expenditure and income in accordance with generally accepted accounting principles on the historical cost basis.

All amounts are shown in United States of America Dollars (US$). Revenue comprises the receipts from the quarterly claims submitted to USAID to August 1991 and an advance of US$ 75 000 on September 26, 1991.

"Actual" expenditure in US$ was arrived at by converting the Zimbabwe Dollars (Z$) reflected in the general ledger at the average exchange rate used on each quarterly claim submitted to USAID. Expenditure in September 1991 was converted to US$ at, US $1 = Z$ 3.867, the exchange rate on September 26, 1991 when USAID advanced US$ 75 000 to the Trust.

"Claimed" expenditure in US$ was arrived at by aggregating the costs per claims submitted to USAID plus costs incurred in September 1991 per the general ledger converted to US$ at US$ 1 = Z$ 3.867 the exchange rate on September 26, 1992 when USAID advanced US$ 75 000 to the Trust.

2. CAPITAL COSTS

Capital costs represent the cost of Citizen Band Radios purchased for NRM project vehicles, supplied by USAID.

2.4 SAMPLE SELECTION AND AUDIT COVERAGE

As mentioned in our report on compliance the Trust has commingled USAID funds with other project funds and pays certain costs from a general Trust bank account which are allocated to the various projects undertaken. Consequently our audit approach could not be restricted to selecting payments greater that a pre-determined amount to obtain sufficient audit coverage because certain costs are the result of payments from non-NRM project designated bank accounts.

Our approach therefore encompassed selecting 130 payments from three NRM project designated bank accounts. In addition detailed analytical reviews were performed on the major costs categories and variances were examined and vouched to original documentation to identify costs as allowable, questioned or unsupported.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

The sample profile was as follows :

Costs Claimed	Sample Selected	Coverage	Not reviewed
Z$ 1 514 659	1 290 839	85%	223 820
Original Documents	826 045	55%	
Corrobative analytical review	464 794	30%	
US$ 555 601	473 480	85%	82 121
Original Documents	302 993	55%	
Corrobative analytical review	170 487	30%	

"Costs claimed" comprise the quarterly claims and include costs incurred in September 1991 to be claimed in the quarter ended November 1991.

2.5 SUMMARY AUDIT RESULTS

Our audit results are summarised as follows :

Costs Claimed	Accepted	Questioned	Unsupported
Z$ 1 514 659	1 135 454	303 631	75 574
US$ 555 601	409 530	116 947	29 124

. Five items account for the majority of the questioned costs :

- Claiming of indirect management costs when the Grant did not provide for a negotiated overhead rate	50 107
- Administrative costs of Bulawayo office staff (for a detailed explanation see section 6.2.6)	25 603
- Expenditure greater than budget for operating costs	12 879
- Vehicle maintenance costs on Trust vehicles used on a NRM project prior to receiving USAID vehicles are unallowable	7 528
- Local air travel incurred in the planning and design phase of the NRM project	11 466
- All other costs	9 364
	$116 947

Three items account for the majority of unsupported costs :

- Indirect management costs claimed in excess of general ledger amounts	7 810
- Relocation costs in excess of actual expenses incurred in relocating an employee	5 280
- Depreciation claimed but not reflected in general ledger and represents a notional costs (see section 6.2.1)	9 654
- All other costs	6 380
	$ 29 124

For a detailed explanation of questioned and unsupported costs, see Exhibit 1 and notes.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

Recommendation No 1

The questioned costs of US$ 116 947 and unsupported costs of US$ 29 124 should be reviewed and refunded to USAID/Zimbabwe as appropriate.

Trust Comments

2.1 The first sentence in the third paragraph is ambiguous. It is not clear whether the independent auditor has conducted this audit in accordance "with generally accepted auditing standards, issued by the Comptroller General of the United States". Whichever interpretation is intended, we note that the audit has been conducted, and the report produced to accord with Government Auditing Standards, issued by the Comptroller General of the United States. This paragraph is repeated verbatim under the "Internal Control Structure" in the third section on page 21 and under "Compliance with Agreement Terms and Applicable Laws and Regulations" under the fourth section on page 34. We draw attention to Aid Handbook 13 page 4D-2 para 2 which states "The Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant." We fail to comprehend the relevance of conducting the audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and seek an explanation as to how, and in what way, we are bound to its terms.

The "generally accepted auditing standards", irrespective of their source, require that an independent Auditor obtains "reasonable assurance about whether the Fund Accountability Statement is free of material mis-statement", and, in the light of our submission concerning overheads as outlined in the first section above, we submit the Auditor is bound to report that the Fund Accountability Statement is, in fact, free of material mis-statement.

2.3 The notes to the Fund Accountability Statement cover only those funds that have been expended directly by the Trust in Zimbabwe and, accordingly, the statement excludes any reference to the project's UK management overheads as well as the significant number of capital items procured directly by the Grantor and debited to project expenditure.

2.4 The Grantee challenges the claim that it has co-mingled USAID funds as reported in the Auditor's report on non-compliance. As the Auditors are aware, following a meeting on the 20th December 1989 between the Grantor and the Grantee where the Grantee sought clarification on aspects of the Agreement, the Grantor agreed to effect payments under the Grant in US Dollars into the Grantee's non-resident bank account.

This payment procedure, together with other matters agreed at the meeting, was recorded in the Grantee's subsequent letter of 27th December 1989 and acknowledged in writing by the Grantor in terms of its letter of the 7th March 1990. No restriction was placed on how this bank account was operated, and any commingling that arose as a result did not constitute non-compliance with the Grant Agreement and subsequent variations. As you may know, the Reserve Bank is particularly circumspect regarding approval for non-resident accounts for international NGOs and only approved the opening of such an account for the Grantee following representations from the Ministry of Finance. We know of no instance where an international NGO is privileged to operate two non-resident accounts in Zimbabwe.

2.5 The summary audit results are dealt with in the appropriate sections below. The Grantee acknowledges that unsupported costs, amounting to $2 427.99, and questioned cost of $14 824.08, the bulk of which were for local air travel incurred in the planning and design phase of the NRM project. The Grantee accepts that this $11 466 cost is unallowable under the agreement as the cost was incurred prior to 15th September 1989. Those costs which the Grantee acknowledges to have claimed in error are listed in the conclusion (para 6.3) below.

In the light of the above the Grantee cannot accept this recommendation in its present form as it relates to both questioned and unsupported costs which are disputed.

ERNST & YOUNG
■ Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000
■ Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

3. INTERNAL CONTROL STRUCTURE

3.1 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the Fund Accountability Statement of Zimbabwe Trust under the Zimbabwe Component of the Natural Resources Management Project No. 690-0251.13 for the period September 15, 1989 through September 30, 1991 and have issued our report thereon dated February 18, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of Zimbabwe Trust, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of Zimbabwe Trust is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Fund Accountability Statement in accordance with the basis of accounting described in Note 1 to the Fund Accountability Statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

■ A C B O'Flaherty (Managing Partner)

ERNST & YOUNG
■ Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000
■ Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

For the purpose of this report, we have classified the significant internal control structure policies and procedures as they relate to the Natural Resources Management Project in the following categories :

Control Environment

- Management Philosophy and Operating Style
- Organisational Structure
- Methods of Assigning Authority and Responsibility
- Management Control Methods
- Personnel Policies and Practices

Accounting Systems and Control Procedures

- Cash Disbursements and Bank Reconciliations
- Procurement Policies
- Maintenance of Inventory System

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

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

ERNST & YOUNG

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

The following reportable conditions were observed :

- Unsigned contracts of employment

- Insufficient review of fluctuations in quarterly claims submitted to USAID

- Missing documentation to support transactions

- Inadequate review of Bulawayo bank reconciliations

- Inadequate safeguarding of financial records

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses as defined above. The reportable conditions described above is a material weakness in view of the fact that $146 071 of expenditure selected for testing was questioned or unsupported costs.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of Zimbabwe Trust and the Agency for International Development but this is not intended to limit the distribution of the report if it is a matter of public record.

Ernst & Young

CHARTERED ACCOUNTANTS
JOHANNESBURG
FEBRUARY 18, 1992

A C B O'Flaherty (Managing Partner)
A full list of Partners is available from this office

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

3.2 INTRODUCTION

3.2.1 DEFINITION

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

- the control environment

- the accounting system

- control procedures

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organisation's resources.

In sections 3.3 and 3.4 below, we have classified our findings and recommendations.

FINDINGS AND RECOMMENDATIONS

3.3 CONTROL ENVIRONMENT

3.3.1 MANAGEMENT PHILOSOPHY AND OPERATING STYLE

Findings

Zimbabwe Trust is a small enterprise and management is dominated by a few individuals who exhibit a keen interest in their work and a good understanding of the various projects being undertaken. The emphasis and attitude toward financial reporting is positive and steps have been taken to improve the financial reporting. This is evidenced by defining the role of the Honorary Treasurer in detail and the conversion of the record keeping from manual to computerised.

3.3.2 ORGANISATIONAL STRUCTURE

Findings

The organisational structure provides an overall framework for planning, directing and controlling operations.
The structure also assigns authority and accountability within the entity in an appropriate manner.

3.3.3 METHODS OF ASSIGNING AUTHORITY AND RESPONSIBILITY

Findings

Employee job descriptions outline each employee's authority and responsibilities. Reporting relationships are also included in the job descriptions. Job descriptions prevent employees working for similar bodies to avoid conflicts of interest. The job descriptions have a broad code of conduct that states that employees must always act in the best interest of the Trust. Job descriptions form a part of each employees' contract of employment and are renewed annually. It was noted that various contracts of employment were not signed by the employer or employee. This can lead to a situation where employees are unaware of their responsibilities and authority.

Recommendation No. 2

All contracts of employment and job descriptions should be reviewed and updated annually and should be signed by the employee and employer. This will overcome any difficulties that may arise from employees not been fully aware of their responsibilities and authority.

Trust Comments

3.1 It should be noted that prior to the signing of the Agreement the Grantor contracted a firm of accountants to investigate and report on the Grantee's accounting systems and control procedures. The Grantee was not shown this report, but was informed that the Grantor was fully satisfied with its conclusions.

We note that the Auditors have found it necessary to state expressly that while they "have not complied with the Government Auditing Standards, General Standard, requiring (their) participation in an External Quality Control Review Program" they have, nevertheless, "conducted (their) audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States." Again we draw attention to the terms of the Agreement viz Aid Handbook 13 page 4D-2 para 2 which states "The Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant." We submit that the purpose behind the investigation referred to above was to establish,to the Grantor's satisfaction, the acceptability of the Grantee's accounting and control systems. It is thus inappropriate to introduce the requirement of a new standard which does not comply with Aid Handbook 13, that "The Grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant".

We view the reportable conditions in this context, but, nevertheless, have provided explanations and responses in the appropriate sections below.

Ernst & Young Comments

Paragraph 3.1 raises the significance of "section 319" to the Trust. Section 319 merely provides a description of the components of an internal control structure which we have described in paragraph 3.2.1 of our report.

3.2 Further to the above, the Grantee notes that the basis of the independent audit of the internal control structure is defined in accordance with "the American Institute of Certified Public Accountants Codification of Auditing Standards, section 319." Whilst the findings and recommendations on this basis are positive, their relevance to an audit under terms of the Agreement is questioned because the auditors do not detail which parts of section 319 are relevant to local auditing standards and comply with the requirements of Aid Handbook 13. We question the merit and relevance of confining the audit to the narrow dictates of this US standard because, by definition, local standards are not as specific as those applicable to the section 319 standard.

3.3.3 The Grantee was concerned to note that unsigned contracts existed. This is regarded as a serious management oversight which is being addressed. As noted in the auditor's report, however, these contracts are subject to annual review, are invariably signed upon formal appointment, and are updated after a three month probationary period. These unsigned contracts were contracts that were due for renewal. As the terms for renewal are essentially the same as those signed by those same employees upon appointment, they were fully aware of the terms and conditions of their employment and, accordingly, this has not led to a "situation where employees are unaware of their responsibilities and authority".

Recommendation No 2.

We agree with this recommendation although it should be noted that all employment contracts have since been reviewed and discussed with each member of project staff.

3.3.4 The Grantee notes the comment concerning insufficient analysis of fluctuating quarterly claims but does not concur with the view that this reflects inadequate analysis of these claims. Such claims are analyzed periodically by the CAMPFIRE Manager, the Financial Manager, the General Secretary and the Director. While the Grantee acknowledges that explanations of such variances may not be recorded in writing, variances are explained by either the NRM Project Manager, the CAMPFIRE Manager, or both, to the Financial Manager who in turn, reports any significant variances to the General Secretary and the Director for internal control purposes.Owing to severe pressure of work, these analytical reports are of necessity verbal, and therefore records are not kept for audit purposes, nor are they required under the terms of the Agreement.

As will have been noted, from verbal discussions between the Grantee and the Grantor concerning such variances, items such as the rate at which tyres are used constitute unavoidable cost variances, and our own investigations confirmed that these arose from the proper use of the vehicles. As these tyres are not available locally they cannot be supplied on demand but have to be imported.

They must, therefore, be purchased well in advance of their being required in the field to ensure that project staff are properly equipped and able to meet their planned field responsibilities on schedule. Accordingly, as such items are purchased periodically, fluctuations are only to be expected.

Many fluctuations arise as a result of known project activities which are part of the project plan. For example, for the period December to February, little or no training takes place because this is the rainy season. Not only are roads frequently impassable, but project beneficiaries are all fully involved in ploughing, planting and cultivating their crops. At the end of the season the area is accessible by road and project activities, particularly training, accelerate significantly and the concomitant fluctuations occur.

"Misallocations", with perhaps a few understandable exceptions, are probably better described as differences of opinion on appropriate budget lines (Project Management or Operating Costs). When the present CAMPFIRE manager replaced the previous incumbent, the basis for compiling several such expenses was altered. The Grantee fully acknowledges that this does display some inconsistency, but it should be noted that in the project preparation stage, prior to the formulation of the Agreement, the Grantor acknowledged the prospective Grantees' (Zimtrust, CASS and DNPWLM) recommendation for a minimal number of budget line items so as to allow expenditure flexibility in accordance with adaptive management principles. Acceptance of this recommendation is reflected in the Grant Agreement and it was therefore understood that the Grantor was not concerned with the make-up of such budget lines. Moreover, it should be noted that the Grantor stated, soon after the commencement of the Agreement, and on subsequent occasions, that it was not concerned with the allocations of expenditure to particular budget lines, but rather with the total amount of all such lines. These discussions constitute a variation of the Agreement and it is inappropriate to include, under questioned costs, expenditure greater than budget for operating costs, amounting to $12 879. The budget lines have been discussed at some length and have never been a matter of concern to either party, particularly as these changes in the make-up of such budget lines represent an improvement in the accuracy of the Grantee's financial reporting.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

Under the terms of the Agreement, Aid Handbook 13, para 4 states that "the Grantee shall immediately request approval from the grant officer when there is reason to believe that within the next 30 calendar days a revision of the approved Grant budget will be necessary for any of the following reasons" and under 4 (b) 1 "to change the scope or the objectives of the project and/or revise the funding allocated among project objectives" and under 4 (b) 4 where "the Grantee plans to transfer funds budgeted for indirect costs to absorb increases in direct costs or vice versa." The Grantee fully adhered to the terms of the Grant Agreement by advising the grantor that it was reallocating certain budget lines. The Grantor accepted the reasons for such changes and no further action was taken as there is no requirement to present the same in writing to the Grantor. Accordingly, we submit that the amount of $12 879 be withdrawn as a questioned costs and be reallocated as an accepted cost.

3.3.4 MANAGEMENT CONTROL METHODS

Findings

Management control methods are adequate and should improve substantially with the computerisation of the financial records in the 1992 calender year. This is highlighted in the Honorary Treasurer's job description as follows :

"The Financial Manager shall present to the Honorary Treasurer quarterly financial statements where such statements shall include a comparison between budgeted and actual costs for each and every Trust project as well as a statement comparing actual and budgeted costs for all the Trust management overhead expenses which are included in project expenditure".

It was noticed that expenses on the quarterly claims submitted to USAID often fluctuated considerably and that there was insufficient analysis of these variances at the time of occurrence. These variances were sometimes the result of misallocations or abnormally large transactions occurring in one quarter.

Recommendation No. 3

Expenses on the quarterly claims that vary by 10% or more from the preceding quarter should be analyzed with a written explanation. This procedure will eliminate misallocations, provide better management information, improve the claims submitted to USAID and reduce the number of queries received from USAID.

Trust Comments

The Grantee agrees that it would be fitting for written explanations, where appropriate, to be submitted to the Grantor to improve the information available to them, thereby reducing the number of queries which may arise from each quarterly report. However, in order to avoid unnecessary and additional administrative work the Grantee considers a variance of 25% in excess to the previous quarterly claim to be a more appropriate level of trigger any written explanation, given the high level of inflation (36%) that currently exists.

Ernst & Young Comments

Paragraph 3.3.4 states that the Trust and USAID verbally agreed that USAID " was not considered with the allocations of expenditure to particular budget lines, but rather with the total amount of all such lines". We are unaware of this agreement, it is contrary to what USAID told us and therefore costs in excess of budget lines are still treated as questioned.

3.3.5 PERSONNEL POLICIES AND PRACTICES

Findings

The Trust employs sufficient competent personnel to accomplish its goals and objectives. Hiring of employees is done by advertising vacancies and requesting applicants to submit resumes. These resumes are then reviewed and narrowed down, to select candidates for interviewing. Interviews are conducted by the General Secretary who is assisted by the department head of the relevant department with the vacancy.

Ongoing training of staff is also considered to be an important part of the personnel policies. This is evidenced by the financial manager being sent to the Trust's, London Office, to receive training on the computerisation of the financial record keeping and reporting.

3.4 ACCOUNTING SYSTEMS AND CONTROL PROCEDURES

3.4.1 GENERAL

Findings

The accounting systems and control procedures were reviewed to obtain an understanding of the principal types of transactions that impact on the USAID grant. We reviewed the systems and procedures for :

- Cash Disbursements and Bank Reconciliations
- Procurement Policies
- Maintenance of Inventory System

3.4.1.1 CASH DISBURSEMENTS AND BANK RECONCILIATIONS

. Findings

Our review of the accounting systems and control procedures over cash noted that the Trust operated three bank accounts in connection with the NRM project. All bank accounts are reconciled on a monthly basis and reconciliations and cashbooks are reviewed by the Honorary Treasurer.

Disbursements are made after examining supporting documentation for agreement with cheque details and allowability in terms of the Grant Agreement. Two signatories, either two senior signatories or a senior and junior signatory sign all Harare cheques.

Bulawayo cheques are signed by one senior signatory. However all Bulawayo expenditure and supporting documentation are forwarded to the Harare Office on a monthly basis using standard documentation (ie Expenditure Return Sheets and Cash Reconciliation Sheets).

This documentation is reviewed and approved in Harare prior to posting to the general ledger.

It should be pointed out that the Trust has commingled USAID funds with non-USAID funds in contravention of the standard provisions applicable to the Grant. This is fully dealt with in section 4.2.2 dealing with compliance with agreement terms and applicable laws and regulations.

3.4.1.2 PROCUREMENT POLICIES

Findings

All major purchases (items costing more than Z$1000 per item) are co-ordinated through the Project Manager. Three competitive quotes are required for purchases over Z$1000 prior to the Project Manager authorising an order.

It was noted that a solar powered electric fence was purchased with only one quote being received. On enquiry we were informed that only one company responded to the tender and that only one company was capable of erecting a solar powered fence in Zimbabwe.

This contract was for an amount greater than US$10 000 and therefore the standard provision on Procurement of Goods and Services was applicable. Paragraph (VI) states that "all proposed sole source contracts or where only one proposal is received in which the aggregate expenditure is expected to exceed $10 000 shall be subject to prior approval by an appropriate official within the grantee's organization". This requirement and other requirements for contracts greater than US$ 10 000 were complied with.

3.4.1.3 MAINTENANCE OF INVENTORY SYSTEM

Findings

Inventory purchased or received from USAID is stored in Bulawayo in a secure storeroom. Control over inventory is maintained by using a Kardex system and pre-numbered receipts and issues notes.

Issues are authorised by the Project Supervisor and not the storeman.

Annual physical counts are carried out by the Harare staff who investigate any discrepancies between theoretical and physical stock.

Our review did not indicate any reportable conditions in the control procedures and systems. We did not perform compliance testing to see if the procedures operated as planned because a substantive audit approach was considered more efficient and effective. During our substantive testing certain matters came to our attention which impacted on the accounting systems and control procedures that we consider to be reportable conditions (See section 3.4.2 to 3.4.6).

3.4.2 CHEQUE REQUISITIONS

Findings

It was observed that some payments were processed without using a cheque requisition. This can cause potential errors in posting due to insufficient detail supporting a payment, or raise unnecessary queries. For example if a payment is for groceries it may be queried whether it is allowable in terms of the grant. Yet if it was supported by a cheque requisition stating "groceries purchased for workshop participants to be held in Binga on December 12, 1991," this would clearly indicate that the payment was in terms of the grant and would ensure that it was allocated to "workshop and training" and not "general office expenses".

Recommendations No. 5

All payments should be processed with a cheque requisition with details of the payment, allocation and authorization.

Trust Comments

3.3.5 For the record, it should be noted that numerous candidates for the NRM project were interviewed by a Zimbabwe Trust team in Bulawayo comprising the Director, the CAMPFIRE Manager, a CAMPFIRE Association representative, the NRM Project Manager and a District Area Manager, and not only by the General Secretary and a Department Head as reported.

3.4.1.1 Co-mingling of funds has been dealt with above.

3.4.1.2 During meetings between senior officers of the Grantee and the Grantor in October 1991, a matter which had caused considerable delays and an immense amount of unnecessary work within the Trust was discussed - viz - that any purchase above $10 000 required a PIL (Project Implementation Letter) to be issued by the Grantor before the purchase could be authorised. In this regard, senior Grantor officers acknowledged that the Grantor appointed NRM Project Supervisor had erred in imposing this requirement on the Trust, as it was relevant only to host government contracts.

We feel it incumbent upon ourselves to point out that this matter created serious problems in the implementation of the project, effectively suppressing the consultation process with communities at grass-roots level and jeopardising the credibility of staff on the ground.

Accordingly, community participation is fundamental to this project and full participation through consultation is very time consuming, considering that project beneficiaries have to reach a consensus (despite differing vested interests within their community) as well as earn their livelihoods. Delays in the provision of capital items must be studiously avoided if the project's credibility is to be maintained. Therefore, it is vital that capital procurement takes place in accordance with the terms that the community has so painstakingly agreed. The Campfire Manager found himself in a position in which he was obliged to anticipate community needs and apply for a PIL in advance in order to ensure delivery of capital inputs within a reasonable time, a procedure which undermined community participation in the determination of their own needs. This led to criticism of the Campfire Manager within the Trust management structure, for adopting a procedure for procuring and not at a rate at which they could be absorbed by the community. This fundamental problem was so serious that the Trust's Director undertook a thorough investigation of the matter, only to discover that the PIL requirement imposed by the Grantor was not part of the Grant Agreement.

We respectfully draw attention to the fact that Trust staff are fully engaged in the implementation of CAMPFIRE initiatives throughout Zimbabwe, as well as other projects not related to CAMPFIRE, and existing capacity is insufficient to cope with such bureaucratic confusion. The extra work load arising from a second extensive external audit, together with the matter outlined above, has resulted in serious capacity difficulties and created backlogs in other vital areas of the Grantee's work. We feel, accordingly, that the overhead charges levied thus far are fully justified.

3.4.2 The Grantee acknowledges that the purchase requisition system, which operates well at the Harare office, did not operate in the Bulawayo office. This system has now been introduced to the Bulawayo office and involves a purchase order book which details the goods ordered, the price agreed and the delivery date. These are forwarded to the Financial Manager for authorization and payment (prior approval is required for purchases in excess of $100).

Recommendation No. 5

The Grantee agrees with recommendation no. 5, that the Harare system which has been operating successfully for several years should be implemented at the Bulawayo office for management control purposes.

3.4.3 MISSING DOCUMENTATION

Findings

During our payments test it was discovered that supporting documentation was not available for certain payments. These costs totalling $3 372 (Exhibit 1 notes 2.1 - 2.3, 2.13 - 2.19) have been shown as unsupported on Exhibit 1. In order to maintain the accounting systems and control procedures, supporting documentation should be available for all payments.

Recommendation No. 6

Supporting documentation should be attached to the cheque requisition and filed in numerical sequence. Returned paid cheques should be separately filed in numerical sequences.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

Trust Comments

3.4.3 Apropos missing supporting documents for certain payments, the Grantee is confident that existing management control systems do not allow any payment, by cheque or by cash, to be made without supporting vouchers. The "unsupported project management costs" are all costs incurred by the Bulawayo office for expenses which were inspected and approved by the Financial Manager in Harare where each invoice is attached to the expenditure return sheet which is then checked before it is approved, and the total payments under the expenditure return sheet are reconciled with the nominal ledger balance.

It is relevant to note that the missing supporting documents have not only been the subjected of an internal audit (as above), but they have also been subject to an external audit by KPMG Peat Marwick. No queries arose during that audit because, presumably, no documents were missing. The Grantee remains confident that all returned paid up cheques were supported by appropriate documentation, and that either the external auditor failed to re-file the cheques in correct numerical sequence or the vouchers have been lost by the Grantee's staff. Perhaps the Financial Manager can be criticised for not re-filing the supporting documents after the audit, but he presumed, quite reasonably, that it was unnecessary, as the external audit was complete.

Should there be any unsupported cheque payments we can only assume that the supporting document has been misfiled or lost subsequent to the date of the relevant external audit. The Grantee suggests that the Auditor verifies with KPMG Peat Marwick that their audit did not uncover any payment having been made without supporting documents.

All documents reported missing during the second external audit have been either located or replaced with duplicates, except for a till slip amounting to Z$105.38 issued by Haddon and Sly in March 1990 for groceries used during a training course and an office subscription cash slip amounting to Z$84.60 issued by The Chronicle newspaper.

Should the Grantor refuse to acknowledge the validity of these two claims, after conferring with KPMG Peat Marwick, the costs shall be met by the Trust fund and refunded.

We acknowledge, however, that the following amounts were claimed twice in error :-

i) Tax payments made in respect of J. Moyo ($212.42), M. Sparrow ($39.89) and S. Ndlovu ($300.30) in March 1990, and further payments for J. Moyo for June ($199.79) and July ($263.56) 1990. These payments were made twice because the Bulawayo office unwittingly paid PAYE for each employee despite the fact that this had been paid already by the Harare office. As the payments were made to the Department of Taxes, they were not vouchered against invoice. These double payments were later discovered by Trust staff and are being recovered from the Department of Taxes and shall be repaid to the Grantor in due course.

ii) Postage ($22.90) and bank charges ($10.69) - these shall be repaid to the Grantor through deductions against future expenditure claims.

Apropos the payment of $660 to J. Moyo, described as "a cost claimed but not incurred", the critical question concerns the duties, not that the amount was claimed, but not incurred. Our records show that during January, 1990, he was engaged in the NRM project but working out of Harare and was officially seconded to the project, to work out of Bulawayo, the following month. It follows then, that this is a cost incurred by the Trust on the project in accordance with the Grant Agreement.

Ernst & Young Comments

Paragraph 3.4.3 insinuates that Ernst & Young could be responsible for losing original documentation. We reject this insinuation and state that we did not lose or remove original documentation from the Trust's premises. You go on to state that "duplicates" have been obtained for certain missing documentation. Copies of original documentation do <u>not</u> provide sufficient audit evidence as required under generally accepted auditing standards and therefore costs without original documentation are still treated as unsupported.

Apropos the $660 claimed from USAID as a salary for J. Moyo, indicated as "a cost claimed but not incurred". The matter here is not whether J. Moyo was employed by the Trust but that the Trust could not provide evidence that a payment was actually made.

3.4.4 EXPENDITURE RETURN SHEETS (ERS) AND CASH RECONCILIATION SHEETS (CRS)

Findings

ERS and CRS are submitted on a monthly basis from the Bulawayo office to the Head Office in Harare. These documents summarise the expenses incurred by Bulawayo and are required to be reviewed and approved before posting to the general ledger.

Our tests indicated that not all ERS's and CRS's were signed as authorised by the accounting department in Harare. As mentioned above, supporting documentation was also not always available which could result from not receiving the documentation from Bulawayo. The Bulawayo office is similar to a one man business and lacks segregation of duties between initiation and authorization of transactions. As a result of this the review and approval of the ERS's and CRS's is a crucial control procedures to ensure that expenses are valid, authorised, correctly valued and allocated correctly.

Recommendation No. 7

ERS's and CRS's should be reviewed and authorised by the Financial Manager prior to posting to the general ledger. In addition this review should not only be evidenced by a signature but should document queries and answers when they arise.

Trust Comments

3.4.4 The Grantee is most surprised and concerned to discover that not all Expenditure Return Sheets (ERS) and Cash Reconciliation Sheets (CRS) were signed as authorised by the Financial Manager. The Trust's procedures are that ERS are compiled in the Bulawayo Office by an administrative secretary. They are checked and signed as correct by the Project Manager prior to being sent to Harare. Upon arrival in Harare, the ERS are checked by the Accountant to ensure all claims are fully documented prior to final approval and signature by the Financial Manager. These procedures are designed to ensure that only expenses with supporting documents are accepted and processed. This procedural system has operated smoothly over the past year and there have been no instances of unsupported claims. However, we acknowledge that in the early stages of the project, when new and untrained staff were in place in the Bulawayo office, several such instances did occur, and where expenses were submitted without supporting documents, they were disallowed.

The value of any such unsupported claims was then added back to the CRS until such time as supporting documents were submitted. This provided the necessary control to ensure that the unsupported documents were submitted.

The Grantee agrees with recommendation no.7. As stated above,the ERS and CRS are already reviewed and authorised by the Financial Manager prior to posting to the General Ledger but queries have been dealt with verbally. The Grantee agrees that all such queries should be documented, and in future a hand written note will be required in support of a query.

3.4.5 BANK RECONCILIATIONS

Findings

Bank reconciliations are prepared monthly and reviewed by the Honorary Treasurer who signs the reconciliations. Our review of bank reconciliations did not identify any unusual or long outstanding reconciling items. However it was noted that the Bulawayo reconciliations were seldom reviewed. As mentioned above, the lack of segregation of duties in Bulawayo makes this an important control procedure.

Recommendation No. 8

The Honorary Treasurer should review all bank reconciliations for unusual and/or long outstanding items and sign the reconciliation as evidence of review.

Trust Comments

3.4.5 The comments made on the Bulawayo account reconciliations are noted. However, the post of Hon. Treasurer is an unpaid voluntary position, and the use of the Hon. Treasurer's time is designed to maintain an independent overview of the Trust's transactions on a selective basis. Accordingly, the Hon. Treasurer expends his time primarily checking the bank reconciliations of the main accounts of the Trust, where the material assets are held. The Bulawayo bank account by comparison, is small, and operates on an imprest system with relatively low balances, equivalent to around US$4,000.

We agree with recommendation no.8 and shall request the Hon. Treasurer to travel to Bulawayo more frequently to review NRM Project matters.

3.4.6 SAFEGUARDING OF FINANCIAL RECORDS

Finding

All financial records are currently stored in one room and are not protected from fire A loss of these records could severely jeopardise the Trust's operations.

Recommendation No. 9

Books of prime entry (general ledgers, cashbooks, journals) and other crucial documents (example legal contracts) should be stored in a secure area each evening. A small fireproof safe would be sufficient to protect the records.

Trust Comments

3.4.7 We agree with recommendation no.9 and acknowledge that a fireproof safe would be appropriate in the circumstances. Such a safe will be installed in due course and debited to the project. In addition, special security arrangements have been made to store back-up computer records.

ERNST & YOUNG
■ Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000
■ Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

4.1 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the Fund Accountability Statement of Zimbabwe Trust under the Zimbabwe Component of the Natural Resources Management Project No. 690-0251.13 for the period September 15, 1989 through to September 30, 1991 and have issued our report thereon dated February 18, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to Zimbabwe Trust is the responsibility of Zimbabwe Trust's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of Zimbabwe Trust's compliance with certain provisions, Grant Agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement.

The result of our tests indicate that, with respect to the items tested, Zimbabwe Trust complied, in all material respect, with the provisions referred to in the third paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Zimbabwe Trust had not complied, in all material respects, with these provisions.

Other minor matters of non compliance were noted and are included in the subsequent pages.

■ A C B O'Flaherty (Managing Partner)
A full list of Partners is available from this office.

ERNST & YOUNG
■ Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000
■ Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

This report is intended solely for the use of Zimbabwe Trust and the Agency for International Development but this is not intended to limit the distribution of the report if it is a matter of public record.

Ernst & Young

CHARTERED ACCOUNTANTS
JOHANNESBURG
FEBRUARY 18, 1992

4.2 FINDINGS AND RECOMMENDATIONS

4.2.1 OVERHEADS

Findings

A portion of the costs of the Campfire Manager, Financial Manager, Assistant Accountant and Institutional Development Manager have been allocated to the NRM Project and claimed from USAID. These amounts have been treated as questioned ($50 107) and unsupported ($7 810) in Exhibit 1, notes 1.11 and 2.12. These amounts have been allocated judgementally by apportioning the total cost of each staff member by the time estimated to be spent on the NRM Project over the total time worked in each quarter.

The Grant Agreement did not specifically identify these costs as unallowable costs although the grant officer has indicated that the "Grant did not provide for a negotiated or provisional overhead rate" in a letter dated November 4, 1991 after the period covered by our audit report.

Aid Handbook 13 page 4D-1 paragraph 1(a) states that "the grantee shall be reimbursed for costs incurred in carrying out the purposes of this grant which are determined by the grant officer to be reasonable, allocable, and allowable in accordance with the terms of this grant and the applicable cost principles in effect on the date of this grant, which are attached".

According to the grantee's representations OMB Circular A-122 was not attached to the Grant Agreement when it was signed on December 5, 1989 and therefore does not form part of the Grant Agreement.

As a result of the above the claiming of the above costs is not considered to be material non-compliance with the Grant Agreement because the grant did not classify these costs as unallowable.

The claiming of these costs is considered to be immaterial non-compliance because the grant officer has indicated that they are unallowable in terms of the authority bestowed in Aid Handbook 13 page 4D-1 paragraph 1(a).

In order for these costs to be considered for reimbursement by USAID, a grant amendment will be required.

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

Recommendation No 10

The Trust should request a grant amendment and submit an indirect cost proposal, to USAID, for negotiation and approval. Guidance can be obtained by reference to OMB Circular No. A-122, cost principles for non-profit organizations.

Trust Comments

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

4.1 The general observation that the independent auditor "performed tests of Zimbabwe Trust's compliance with certain provisions, Grant Agreement terms and laws and regulations" causes concern. This concern arises because these "certain provisions" and "laws and regulations" are not referenced to demonstrate clearly that they do not fall outside the scope of the Agreement. The Grantee is alarmed by the independent auditor's statement that their objective was not to provide an opinion on overall compliance with such provisions." This, as we understand it, is the purpose of the audit, viz to determine material instances of non-compliance that cause the independent auditor to conclude that the aggregation of mis-statements is material to the Fund Accountability Statement. The independent auditor's reluctance to give "an opinion on overall compliance with such provisions" presumably arises from their not knowing what "certain provisions" and "laws and regulations" may apply.

As their specific task is to determine that the Fund Accountability Statement is a true and fair reflection of the costs incurred on the NRM project, and this necessitates such qualification, we wonder how the Grantee is expected to proceed with the implementation of the project and both understand and adhere to the terms and conditions of these "certain provisions" and "laws and regulations!". As stated above, it is required that these tests be applied only within the terms of the Grant Agreement.

4.2.1 As far as the findings on indirect or overhead costs are concerned, $50,107 is treated as questioned and $7,810 is treated as unsupported by the Auditor. As stated above, the Grantee does not concur with the auditor's view that these costs are unallowable because "the Grant Agreement did not provide for a negotiated or provisional overhead rate." The Grantee has nonetheless submitted a paper for consideration by yourselves (dated 1/4/1992) in response to the Grantor's request for a proposal to amend the Grant to cover overheads of Trust personnel indirectly involved with the management, administration, accounting and reporting under the Grant Agreement. The finalisation of this matter has been delayed for the following reasons:

a) The suggested overhead format schedule submitted to the Grantee by the Grantor cannot be easily transformed to represent the Grantee's overheads, and require a review of project accounting and implementation procedures, which is currently in progress.

b) The Grantee recognises the need to restructure project implementation procedures to promote institutional development as opposed to infrastructural development. The original project design, and the accompanying budgets, place unwarranted emphasis on infrastructural costs such as game management fences and water points, which, while undoubtedly important, are not as important as institutional development. The Grantee believes the relatively small budget allocation to training is a flaw in the project design which will no doubt be confirmed by the independent review of the project. The rectification of this will have a significant impact on the management overhead cost as well as certain other costs which are currently regarded as indirect.

c) The Grantor is in the process of a project design review, the focus of which is to investigate constraints on implementation, which may have been brought about by weaknesses in the project design. This review will have a bearing on the appropriate level of indirect costs and the overhead rate to be agreed.

The Grantee submits that "reference to OMB Circular No.A-122" is not relevant to the Grant Agreement except in terms of AID Handbook 13, App 4D page 4D-1 and the list on page 4D-7 which covers mandatory standard provisions for Non-US, Nongovernmental Grantees. Accordingly, we submit that no Grant amendment is required to recover the Grantee's overheads claimed and paid to date. However, the Grantee will readily enter into discussions with the Grantor for a Grant Amendment to determine a mutually agreed overhead and indirect cost charge to apply for the duration of the project.

Ernst & Young Comments

We have amended our draft report to exclude any material non-compliance with the Grant Agreement terms and applicable laws and regulations in section 4.1.

Paragraph 4.1 questions the applicable laws and regulations that have a bearing on the Grant and the Trust. We are not solicitors, but nevertheless have a duty to be aware of certain laws. This is demonstrated in paragraph 6.2.5 of our report where it was noted that the Trust had failed to reflect field allowances on the employee's P6 forms as required by the Zimbabwe Income Tax Act.

4.2.2 TRUST BANK ACCOUNTS

Findings

The Payment-Periodic Advance standard provision states that "AID funds shall not be commingled with grantee owned or controlled funds. The grantee shall deposit all AID cash advances in a separate bank account and shall make all disbursements for goods and services from this account."

The Trust is presently commingling USAID funds and NON-USAID funds for a number of reasons.

We did not consider the commingling of USAID funds with other funds to be an instance of material non-compliance. The commingling of funds did not cause us to conclude that the aggregation of misstatements, resulting from the commingling, was material to the Fund Accountability Statement.

All USAID receipts are deposited in a "non-resident" bank account. A Non-Resident account can only accept foreign currency deposits and is used to pay for imports for all of the Trust's projects. The balance in the account represents the Trust's foreign currency allocation that may be used to pay for imports. If an enterprise does not have a non-resident account it has to apply to the Reserve Bank for a foreign currency allocation. Due to severe foreign currency shortages in Zimbabwe, it is extremely difficult to get an allocation of foreign currency for imports. In addition, non-profit organisations rank at the bottom of the list after manufacturers and commercial enterprises when foreign currency is allocated.

As a result of this the Trust uses funds from other sources to finance the NRM project. The Trust transfers money from its call account with Standard Chartered Merchant Bank to two current accounts designated to the NRM project. Certain centralised functions such as salaries are paid out of the Trust's main account and debited to the various projects. As a result of the above the Fund Accountability Statement balance could not be reconciled to the bank balances.

Recommendation No. 11

a) The Trust should request a Grant Agreement to convert to the Payment-Cost Reimbursement method. Under this method the Trust would finance all project expenditures and have them reimbursed by USAID at a later date. The Payment-Cost Reimbursement method has no restrictions on the commingling of funds. The Trust should also convert to monthly reporting to USAID to avoid undue strains on its cashflow and minimise foreign currency fluctuations.

b) The Trust could retain the Payment-Periodic Advance method and seek USAID assistance in obtaining a second non-resident account solely for the NRM project.

Trust Comments

4.2.2 The Grantee is pleased to note that the independent auditor "did not consider the co-mingling of USAID funds with other funds to be an instance of material non-compliance" and that this was not "material to the Fund Accountability Statement."

a) This recommendation is helpful in that it states that the Payment-Cost Reimbursement method "has no restriction on the co-mingling of funds." As can be seen from the fax sent to the auditors (and forwarded to the Grantor) on the 11th of February 1992, the Grantee operated under the Payment-Cost Reimbursement method in the first, second, third, sixth and seventh quarterly periods.

The Auditor's assessment thus indicates that no restriction on co-mingling of funds existed for those periods, and, should this have been the only relevant consideration, then non compliance could have applied during those periods. This observation, however, should be read in conjunction with the submissions made in 2.4 above. The payment cost reimbursement method resulted in negative cash flows which caused forex losses and resulted in a loss of interest income to the Grantee. For these reasons the Grantee would prefer to operate in terms of recommendation 11(b).

b) The Grantee is unlikely to obtain authority to open a second non-resident account under its own auspices and would be most grateful to receive the Grantor's offer of assistance in obtaining a second non-resident account solely for the NRM project.

Ernst & Young Comments

Your response to recommendation number 11 that because the Trust financed the project from its' own resources and subsequently claimed the amounts from USAID it had converted from the Payment-Periodic Advance method to the Payment - Cost Reimbursement method is unjustified in our opinion. The Trust's non-compliance with the Grant does not convert the agreement from one basis to another and the Trust continued to utilise the standard documentation for the Payment-Period Advance method.

The fact USAID agreed to pay amounts into the Trust's non-resident account does not imply that USAID also agreed to the Trust commingling USAID funds.

4.2.3 INTERNATIONAL AIR TRAVEL

Findings

The standard provision on Air Travel and Transportation states that "the grantee is required to present to the project officer for written approval an itinerary for each planned international trip financed by this grant".

NRM project staff members were flown to Namibia, in July 1991, to attend the Environmental Education Association of Southern Africa conference. It appears that as a result of an oversight no written approval was obtained from USAID but Trust personnel informed us that USAID had given verbal approval.

Recommendation No. 12

Trust personnel involved in the NRM project should review the grant agreement and applicable standard provisions to ensure that they comply with all USAID requirements.

The Trust should request written approval for the air travel to Namibia.

Trust Comments

4.2.3 The verbal approval given by the Grantor qualifies legally as a variation to the Grant Agreement. Perhaps the Grantee should have insisted on written confirmation of this approval, but given the spirit of mutual cooperation that existed, and continues to exist in relations between the two parties, it was deemed unnecessary.

In October, 1991 the Grant Agreement was reviewed with the Grantor and the matter of international travel was raised, with the result that the Administrative Manager was specifically charged by the Director to ensure that the procedures required by the Grantor under the terms of the Agreement are applied in future.

The Grantee accepts the recommendation.

5. FINANCIAL MANAGEMENT CAPABILITY

5.1 INTRODUCTION

USAID requested that we review the job descriptions and qualifications of all financial management personnel hired under the NRM project to determine whether the financial personnel have the ability to manage and account for USAID funds.

5.2 FINDINGS

Job descriptions were adequate and specific enough in detailing financial personnel responsibilities and authority. Qualifications of the financial personnel are considered adequate and staff are currently furthering their accounting and management skills by studying for diplomas, by correspondence. Experience of the staff was also reviewed and it was established that the Financial Manager, had five years' experience with another non-profit organisation. It was apparent from discussions with the financial personnel that they understood their work and requirements under the USAID grant.

5.3 CONCLUSION

The financial personnel of the Trust are capable and competent to manage and account for USAID funds.

6. MISSION CONCERNS

6.1 INTRODUCTION

USAID had certain areas of concern that we were requested to audit, including :

- High vehicle maintenance costs on new vehicles for which spare parts were provided by USAID.
- Abnormal fluctuations in salary costs.
- Office and Staff accommodation or rents.
- Maintenance of an inventory system for all equipment, spare parts, vehicles and materials provided by USAID.
- High vehicle maintenance costs on new vehicles for which spare parts were provided by USAID
- Office and staff accommodation or rents
- Private use of USAID vehicles
- Field allowances and lack of supporting documentation
- Financing of ineligible costs (eg teas and refreshments and Bulawayo administrative costs)
- Consulting fees paid to DNPWLM employees
- Interest income on bank accounts
- Nepotism
- Foreign currency gains

6.2 FINDINGS AND RECOMMENDATIONS

6.2.1 High Vehicle Maintenance Costs

Findings

USAID expressed concerns over high vehicle maintenance cost on new vehicles for which spare parts were provided by USAID.

At the outset it should be mentioned that the majority of USAID vehicles due under the Grant were only received in October 1990 and registered and licensed thereafter.

As a result the Trust had to utilise its own vehicles for the first year of the NRM project implementation. USAID was also not prepared to reimburse the Trust for depreciation on its own vehicles used for the first year even though wear and tear must have taken place (see Exhibit 1 note 4.3).

It appears that the Trust and USAID should have clarified the issue regarding motor vehicle costs (Fuel, maintenance, depreciation) incurred by Trust vehicles used on the NRM project while awaiting delivery of the USAID vehicles.

We performed a detailed analytical review of vehicle maintenance costs and substantiated significant fluctuations to supporting documentation to establish allowability in terms of the Grant Agreement.

Period	Z$ Claimed	Fuel	Dep	Maint
9/89 - 2/90	-			
3/90 - 5/90	6 086	(2 709)		3 377
6/90 - 8/90	29 366	(2 384)	(23 546)	3 436
9/90 - 11/90	11 727			11 727 N3
12/90 - 2/91	23 438			23 438 N4
3/91 - 5/91	39 193			39 193 N5
6/91 - 8/91	20 139			20 139 N6
Z $	129 949	(5 093)	(23 546)	101 310
		N1	N2	
US $	45 519	(2 169)	(9 654)	33 696

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

N1	Motor vehicles fuel costs were misallocated on the claims and are therefore removed to arrive at actual maintenance costs.	
N2	Depreciation has been treated as an unsupported cost (see Exhibit 1 note 4.3)	
N3	Included the replacement of a damaged gearbox on a Trust vehicle used on the NRM project.	7 554
N4	The principal components of the maintenance cost was the fitting of bullbars, stone guards and bumpers to recently acquired USAID vehicles by Four x Four Systems : January 1991	8 800
	February 1991	4 887
N5	This includes :	
	- Spares for Trust vehicle involved in an accident on the NRM Project in September 1990. Z$ 6974 treated as questioned cost (see Exhibit 1 note 3.5)	12 934
	- Replacement of tyres for USAID vehicles due to very rough roads and high mileage.	7 939
	- Replacement of 15 inch rims with 16 inch rims on two Landcruisers supplied by USAID becaus e the rims were too small for the heavy Landcruisers. The 15 inch rims are stored in Bulawayo as spares for the Toyota Hiluxs' supplied by USAID.	5 375
N6	This includes :	
	- Spare tyres for USAID vehicles. (The average cost works out to Z$ 323 per tyre including the cost of tyres in N5 above). According to information obtained from the Trust's management the old tyres are stored in Bulawayo and have not been sold.	11 500
	- Assembly and road testing of motorbikes supplied by USAID.	2 145
	Total vouched to supporting documentation	Z$ 61 134
		US$ 20 333

60% of total vehicle cost vouched and 89% found to be allowable and 11% treated as a questioned cost (see Exhibit 1 note 3.5)

The Grant Agreement did not provide USAID with the authority to reimburse the Trust for maintenance on Trust vehicles. USAID has also not amended the grant in writing to enable the Trust to claim maintenance costs incurred on Trust vehicles. As a consequence of this all maintenance costs, even though supported by third party documentation, up to November 1990 have been treated as questioned costs, totalling Z$ 18 540 (US$ 7 528).

Recommendation No 13

The Trust must obtain a grant amendment from USAID/Zimbabwe's Mission Director to authorise USAID to reimburse the maintenance costs, as an overhead cost, for maintenance on Trust vehicles used on the NRM project before the USAID vehicles were received.

Trust Comments

5. **FINANCIAL MANAGEMENT CAPABILITY**

We agree with the Auditor's conclusion that financial personnel of the Trust are capable and competent to manage and account for USAID funds.

6. **MISSION CONCERNS**

The Mission concerns itemised below have been the subject of numerous discussions with the Grantor.

6.2.1 **High Vehicle Maintenance Costs**

N1: The mis-allocated vehicle fuel costs are noted. They are presumed to have been allocated to maintenance instead of fuel and, of course, do not comprise a questioned cost.

N2: Depreciation is not claimed in the ledger because, under the Grantee's normal accounting policy, vehicles are written off against expenditure in the year of purchase. This is a normal accounting procedure for British NGOs and is quite admissible under the Grant Agreement. In this regard, we draw attention to Aid Handbook 13 page 4D-2 para 2 which states "The Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant."

Given that the project vehicles procured through the Grantor were not supplied for some eighteen months, it is unreasonable to suggest that this is not "an actual cost incurred" because the value of the Grantee's own vehicles which were used on the project was reduced as a direct result. This reduction in the value of several vehicles used exclusively on the project, estimated at $9,653.77, is a real cost. The accounting procedure adopted by the Grantee involved a journal entry to reflect this charge, but such depreciation charges could not be entered into the ledger because the vehicles had already been written off against expenditure on other projects. A more appropriate accounting entry would have provided for a ledger credit to be entered to those projects against which the vehicle had been written off. We reject the independent auditor's suggestion that this is a "notional cost" - the exact cost will become apparent upon the sale of the Grantee's vehicles used on the project.

N3: This is an additional actual cost incurred following the use of the Grantee's own vehicles on the project and is allowable under the Agreement. Please explain the basis upon which the determination has been made to support a claim that this cost is unallowable in terms of the Grant Agreement.

N4: Bullbars, stoneguards and bumpers have been fitted to numerous vehicles including USAID vehicles as a standard procedure to improve safety for project staff and to protect project vehicles. It is unclear whether these costs are deemed allowable or unallowable. Should they be deemed unallowable, please explain the basis upon which the determination is made to support the claim that this costs is questioned/unallowable in terms of the Grant Agreement.

N5: The spares for the grantee's vehicle were ordered following advice from a vehicle repair agency, which subsequently discovered that some of the parts ordered were not required. The Grantee ordered only those parts which were indicated as additional spares. All such repairs had to be carried out using imported parts because of acute shortages in the country. It is clear that an under-estimation of required spares would result in prolonged and costly loss of transport. The Grantor was well aware, at the time the cost was reimbursed, that the vehicle belonged to the Grantee for these and other costs included under this section. The eighteen month period between the date the cost was reimbursed and the date upon which it is deemed to be a questioned cost is unreasonably long.

N6: The tyres have been dealt with above and the assembly of the USAID supplied motorbikes are allowable costs under the Agreement.

It is noted that 89% of these vehicle maintenance costs have been found to be allowable, and 11% (Z$6,974) is treated as a questioned cost. In note 3.5 of exhibit 1, other maintenance costs of $7,527.98 incurred prior to the arrival of Grantor supplied vehicles are questioned. The Grantee ordered the vehicles, prior to the commencement of the project, on the understanding that the Grantor could procure the vehicles more cheaply and more expeditiously than the Grantee.

The Grantor, however, took 18 months to deliver the vehicles, with the result that the Grantee, in pursuit of its objectives and obligations under the Grant Agreement, deployed its own vehicles to ensure that staff employed under the project were not unproductive until such time as the vehicles arrived. As far as the accident involving a Grantee vehicle is concerned, the project vehicle maintenance account was credited with the amount recovered from the insurance company, and only the net cost ($2,032.36) was charged to vehicle maintenance. Surplus spares, if used on another project or resold, will be credited to the NRM project vehicle maintenance account. It should be noted that the insurance premiums paid on the vehicles used exclusively on the NRM project were not debited to the account although we believe reasonable grounds exist for so doing. The Grantee challenges the recommendation on the basis that, inter alia, under Attachment 2, the provision of transport facilities is necessary for the Grantee to meet its obligations under the project which explicitly includes provision for staff being "provided with necessary logistical support and facilities" and " vehicles."

It may be appropriate to postulate the inevitable consequence of the Grantee not having supplied its own vehicles to the project, and the Grantor being required to meet, under the terms of the Grant Agreement, the salary costs and the Bulawayo office costs of the NRM project staff who would have been unproductive for 18 months while waiting for delivery of the Grantor procured vehicles. The Grantor was well aware of the need for, and the use of, the grantee's own vehicles.

. This is a de facto variation of the Grant Agreement, albeit temporary, that the Grantee's vehicles could be used until such time as the Grantor supplied vehicles arrived. It is thus reasonable to conclude that the payments made for maintenance, depreciation and spares were made by the Grantor on the grounds that they were allowable, allocable and reasonable.

Ernst & Young Comments

Paragraph 6.2.1 deals with the vehicle maintenance costs, particularly costs incurred on Trust vehicles prior to receiving USAID vehicles. Without debating the merits of each agreement the costs have been treated as questioned because the grant officer has indicated that they are unallowable and the grant officer is given the authority to decide which costs are allowable in terms of AID Handbook 13 page 4D-1 paragraph 1(a). Private use of USAID vehicles can not be considered necessary to the grant under any circumstances.

6.2.2 FLUCTUATIONS IN SALARY COSTS

Findings

Period	Z$ Claimed	Indirect Management Cost	Balance	% Fluct.	
9/89 - 2/90	29 277	-	29 277		N1
3/90 - 5/90	59 224	(30 335)	28 889	(1.3%)	N1
6/90 - 8/90	61 670	(30 335)	31 335	8.5%	N2
9/90 - 11/90	33 366	-	33 366	6.5%	N3
12/90 - 2/91	106 558	(33 112)	73 446	120.1%	N4
3/91 - 5/91	128 995	(43 621)	85 374	16.2%	N5
6/91 - 8/91	104 748	(23 580)	81 168	(4.9%)	N6
		Z$(160 983)			N7
		US$(57 917)			

N1 The first period covers 6 months with a weighted average of 1.83 employees on an average salary of Z$ 2666pm. The second period covers 3 months with 4 employees for the period at an average salary of Z$2407pm.

N2 Increase due to hiring of a "general hand" and a salary increase for J.Moyo.

N3 Increase due to payments to Mr M. Jones which have been treated as questioned and unsupported (see section 6.2.7)

N4 The increase of Z$40 080 is primarily attributable to the following factors :

- Christmas bonuses for 5 existing employees representing ± 50% of their average monthly salary. — 9 200

- Hiring of 3 new project staff members in December 1990.
  - V. Ncube - Women's Officer
  - M. Manala - Training & Information Officer
  - T. Dube - Tsholotsho Area Manager

  Average monthly salary of Z$ 2300 x 3 months x 3 employees — 20 700

  - Hiring of 3 new project staff members in January 1991
  - B. Fowlds - Technical & Resources Officer
  - N. Zondo - Hwange Area Manager
  - J. Muzumba - Binga Area Manager

  Average monthly salary of Z$ 2150 x 2 months x 3 employees — 12 900

Z$ 42 800

=========

N5 Increase due to 11 staff members being employed for a full 3 months at an average salary of Z$ 2587pm after salary increases in April 1991.

N6 Decrease due to the retrenchment of 1 administrative staff member in June 1991.

N7 The claiming of indirect management costs is fully explained in Exhibit, 1 note 1.11 and 2.12.

6.2.3 OFFICE AND STAFF ACCOMMODATION OR RENTS

Findings

The Bulawayo office was originally rented from a Ms Walker at Z$ 1000 pm. The Trust considered these premises unsuitable for their requirements and purchased their own premises with non-grant funds. The Trust wanted to charge the Grant with a rental on their property based on the fact that the Bulawayo office was solely established for the NRM project. USAID was not prepared to reimburse the Trust for any rental on a property owned by the Trust.

A relocation allowance of Z$12 000 paid to Mr A. Sparrow to relocate to Bulawayo was also questioned by USAID. We concur with this because only actual costs incurred in relocating Mr Sparrow are allowable in terms of the Grant Agreement and OMB Circular A 122. We have treated this as a questioned cost (see Exhibit 1 note 4.1).

6.2.4 PRIVATE USE OF USAID VEHICLES

Findings

Our audit work on the vehicle log sheets (district councils and other) showed that the log sheets were correctly prepared and indicated "Official Business" or "Other authorised" use. Certain of the USAID vehicles received by the Trust were allocated to the District Councils in terms of the NRM project. The only costs which the Trust claims from USAID on these vehicles are insurance and licence costs. The logs for the District Councils did not show any private use although it is believed to be taking place. On further enquiry it was pointed out that NRM project staff were supposed to have been provided with houses in the target areas in terms of the Grant Agreement. Due to problems with securing land from the District Councils and lack of adequate cost effective contractors no houses have been built. As a result NRM project staff perform their duties from a base in Bulawayo. This results in high vehicle mileage. Field staff use USAID vehicles when visiting the areas and return to the Bulawayo office where they also perform NRM project activities. Staff frequently arrive back in Bulawayo after normal working hours and as result of poor transport facilities they use the USAID vehicles to get home. The distances between the Bulawayo office and their homes are insignificant when compared to the distance travelled from the Bulawayo office to the areas. We could not quantify a value for private vehicle use. Employees are not paying for this private use. The cost of such a calculation would not justify the benefit.

Recommendation No. 14

The Trust should introduce stricter controls over private use of USAID vehicles. Of particular importance would be procedures to minimise private use such as locking up the vehicles on the Bulawayo premises at night.

If USAID vehicles are used for private purposes the log books should record such private use. On a monthly basis employees should be charged for such use at a USAID rate per kilometre.

District Councils must regularly be informed that USAID vehicles are not to be used for private purposes.

Trust Comments

6.2.2 Fluctuations in Salary Costs : Most of these fluctuations arose from staff being recruited as and when required. They are a result, therefore, of responsible recruitment where staff were only recruited according to the demands of the project as they arose. The significant fluctuation (120.1%) arises in period N4, when new staff members were hired exclusively for the project in terms of its adaptive management requirements, and staff bonuses were paid to all staff "consistent with Zimtrust personnel policies.

6.2.3 Office and Staff Accommodation and Rents : Whilst the report notes that "the Trust considered these premises unsuitable for their requirements and purchased their own premises with non-grant funds," it does not take into consideration that the landlord, Mrs Walker, could not offer security of tenure beyond the first year, with the result that the Trust was obliged to secure other, more permanent premises.

The Grantee's Trustees have a responsibility to husband the Trust's resources. After noting the difficulty in securing long-term rented office space, as well as the rapidly escalating costs of such space, the Trustees decided that it was appropriate, under the circumstances, to purchase a house using Trust resources to minimise office costs. Savings arising from a constant rental over the period of the project could then be used for the benefit of beneficiary communities.

The Grantee considers it reasonable to charge the project a rental equivalent to the opportunity cost of capital (the interest forgone), on the capital invested in the building. We understand that the Grantor has difficulty in recognising this because the cost cannot be substantiated with vouchers. In order, both for the Grantor to meet its requirement and for the Grantee to be seen to be husbanding its resources, it would appear that the Grantee must either dispose of the property and rent alternative office accommodation (at very high cost to the project), or secure an interest-only mortgage loan against the building (at cost) in order to demonstrate the real cost to the Grantee of such accommodation. It would be most regrettable if the Trustees found that they were obliged, under the Trustee Act, to rent the property to a third party, or to dispose of it altogether, and add the burden of significantly more expensive office rental to the project cost. Accordingly the Grantee seeks a variation to the Agreement which would resolve this problem.

The $12,000 paid to Mr Sparrow was a relocation expense required to persuade him to accept the position in Bulawayo. As this involved considerable disruption to himself and his family in Harare, it was considered a reasonable expense because of his relevant linguistic abilities and work experience in the project area. The payment of a relocation expense in the form of a one-off payment rather than the higher annual salary was considered to be a significant saving on the incentive required to make the position suitably attractive. This payment was a real cost incurred by the Grantee, and not a notional cost. We submit that, in the circumstances, it is consistent with Grantee personnel policies and is a reasonable cost which would be incurred by an ordinarily prudent person in the conduct of normal business and should not be treated as a questioned cost.

6.2.4 Private use of USAID Vehicles; Motor vehicles are very expensive to purchase and operate in Zimbabwe. Few, if any, of the NRM Project staff have their own vehicles, and locking up the project vehicles over the weekend would result in their being without transport over that period.

The Grantee has a policy on motor vehicles which recognises staff's acute need for transport and the inadequate public transport service available in Zimbabwe. It also recognises the tax efficient way in which a staff incentive can be provided at nominal cost to the Grantee. This policy is to make available to staff any vehicle that is not being used for project work in the evenings and over week-ends. No staff member has a right to any vehicle, and any vehicle may be withdrawn, at any time and without notice, to be reallocated for project work. This policy ensures that Trust work takes priority over any private use of vehicles.

We agree with the assessment that the cost of quantifying private use of the vehicles would not justify the benefit to the project. In this regard, staff are entitled to use Trust vehicles for private purposes during their leave, subject to conditions described above, and in these circumstances a charge is easily calculated and the benefit to the Trust Fund fully justifies the cost of calculating and raising such a charge. We refer to Attachment 2 page 15, the penultimate paragraph, which states that "Staff will be provided with necessary logistical support and facilities consistent with Zimtrust personnel policies."

Given that the Grantee's staff on projects other than the NRM Project are allowed limited private use of project vehicles, recommendation no.14 creates an internal management problem by denying only NRM Project staff this facility. Accordingly, while the Grantee would readily adhere to a Grantor directive to lock up all vehicles at the Bulawayo office over weekends, we anticipate that additional monthly payments will be required to compensate any NRM Project staff members for the loss of this facility. It should be understood that this policy was implemented as a cost effective benefit, and that any such compensation payment will be comparatively expensive to the project, as staff would have to make use of taxi services to get to and from work.

The computerisation of the Trust accounts includes a software package that is being written to enable the Trust to manage its fleet of vehicles including those used on the NRM Project. This software calculates kilometres per litre, fuel usage, maintenance costs and monitor the frequency of vehicle servicing. This will ensure a tighter control of all vehicles. It is anticipated that this particular software will be in use by the end of this year.

6.2.5 FIELD ALLOWANCES

Findings

USAID raised the matter that field allowances were being paid to NRM project staff and that the money was used to buy rural residents drinks and food and that no supporting vouchers were presented to substantiate this expenditure. We discussed this with Trust personnel who stated that the field allowance served two purposes :

- The first Z$ 100 pm was to be spent on rural residents and that they did not require staff members to substantiate this expenditure. The reason for not requesting vouchers is because the amounts are very insignificant and obtaining vouchers in the target areas is not always possible.

- Any amounts paid over Z$ 100 pm represented a structuring of the employee's salary package to make it more tax efficient.
  The field allowance is specified in each employee's contract of employment and is an important item in attracting and retaining good calibre staff.

We have treated the first Z$100pm as unsupported due to lack of vouchers (Exhibit 1 note 2.13 to 2.19).

Amounts above Z$ 100pm have been treated as allowable salary costs on a substance over form basis.

Our audit work also indicated that the Trust was not deducting Pay As You Earn (PAYE) on the monthly field allowances nor reflecting the amount on the employees' P6 forms (form employer submits to the tax authorities showing all remuneration paid to an employee during a tax year).

Recommendation No. 15

The Trust should redraft contracts of employment to reflect a gross salary broken down into its constituent parts. Example :

Basic		2 000
Field Allowance		350
Travel Allowance		200

Gross salary	Z$ or US$	2 550
		=====

The above is purely for illustrative purposes and no employees receive travel allowances.

The Trust should work with the USAID Regional Legal Advisor to structure the wording of employment contracts so that gross salaries are allowable costs in terms of the grant and to minimise the adverse tax consequence for NRM project staff.

Trust Comments

6.2.5 Field Allowances : we acknowledge recommendation no.15 but draw your attention to the fact that this matter was discussed with the tax department of KPMG Peat Marwick, who advised that staff provided they could demonstrate that expenses equivalent to the amount of the allowance had been incurred by the staff concerned in pursuit of their duties, over the relevant financial year.

This advice was subsequently confirmed by the Inspector of Taxes. In this regard, we have letters on file to staff members explaining this situation. We should also submit that we were advised that the Grantee would not carry any liability for any personal tax due and payable by any staff member in respect of these allowances.

Following our own investigation of the matter of personal allowances the Grantee had discovered that our Financial Manager had not disclosed these allowances on the P6 for the returns in the last few months of the 1990/1991 financial year. However, similar allowances have been paid by the Trust for a number of years and these allowances have been fully disclosed in the P6 submissions of previous years and most of the 1990/1991 year. The Trust shall ensure that full disclosure is made in future and that the error indicated above is corrected.

The Grantee has no objection to redrafting the contracts of employment as recommended. However, the first Z$100 per month for each employee which has been deemed unsupported by the Auditors is challenged because such costs have been paid by the Trust Fund and signed for by the staff concerned as funds received. Such documentation provides the required supporting vouchers.

The Grantee's staff policy, several years ago, required that all such expenses in the field had to be accounted for by means of vouchers. This, however, was not cost effective because it took a great deal of management time to collate and administer, particularly because staff were unable to obtain receipts from many rural stores. As a result, the Grantee's policy was modified and the requirements of receipts for every item purchased in the field was dropped, and staff were restricted to the allocated allowance. The question of whether staff have supporting vouchers to demonstrate their expenditure then became a matter between them and their tax inspector. In our opinion, the unsupported costs reported are allowable under the Grant Agreement as they are consistent with the Grantee's personnel policies.

6.2.6 ADMINISTRATIVE, SECRETARIAL AND ACCOUNTING STAFF COSTS, TEAS AND REFRESHMENTS

Findings

USAID expressed concern that the Trust was claiming the above costs being incurred in the Bulawayo office. USAID contends that the costs are unallowable in terms of a Trust letter, dated June 23, 1989 sent to USAID.
The Trust letter concerned the Trust's "contribution in kind" and included "agency support services" totalling US$ 65 000 for the entire period of the Grant.

Agency support services include secretarial, administrative, accounting, reporting, office consumables, vehicle running costs, subsistence, etc.

We have treated the costs of teas and refreshments (office consumables) and salary costs of Ms S Ndlovu & Ms M. Sparrow (administrative, secretarial and accounting) as questioned (see Exhibit 1 note 1.10, 1.17 and 1.18).

The costs dealt with in 6.2.6 only refer to the Bulawayo office which is solely dedicated to the NRM project.

We draw your attention to the following :

- The Grant Agreement dated December 5, 1989, attachment 2 page 15, specifically states that "funds are provided for Zimtrust project staff, including a project supervisor, project managers, and a facilitator for women's activities". Our interpretation of this is that funds are provided for all staff employed by the Trust who work on the NRM project in a full-time capacity.

- The Grant Agreement does not refer to the Trust having to contribute in kind or to the Trust's letter dated 23 June, 1989 which is some five months prior to signing of the Grant Agreement. Whether the Trust's letter dated 23 June 1989 forms part of a legal contract between the Trust and USAID is unclear.

- The Trust's letter dated June 23, 1989 was written prior to the Trust determining the necessity of a separate office in Bulawayo solely for the implementation of the NRM project. As a result of this it appears that the Trust's "contribution in kind" could have only referred to the Harare and UK administrative and secretarial costs etc.

Recommendation No. 16

The Trust in conjunction with USAID should reach an agreement as to the allowability of administrative, secretarial, accounting, reporting, office consumables, subsistence, vehicles running costs, etc, incurred in the Bulawayo office.

Trust Comments

6.2.6 Administrative, Secretarial, and Accounting Staff Costs, Teas and Refreshments: the contention that "the costs incurred in the Bulawayo office are unallowable in terms of a Trust letter dated June 23rd 1989 sent to USAID" is without substance. The letter does not constitute a variation to the Grant Agreement because it predates the Agreement, and representations and assertions made prior to the Agreement do not form part of it

This is the view of the Grantee's legal counsel and, accordingly, the Grantee challenges the claim that any administrative, secretarial, and accounting staff costs incurred in the Bulawayo office or elsewhere are unallowable under the terms of the Grant Agreement.

On the issue of teas and refreshments, (Exhibit 1, Note 10) we are of the opinion that such costs should be allowable for the reason that they are incurred directly in the course of project implementation. In many cases, teas and light lunches are provided at planning meetings for staff and other participants. Such meetings are always day-long affairs and are part of staff training workshops. In the interests of team-building and to save time, lunches are provided. We regard this as a perfectly legitimate expense which furthers the interests of the project and is consistent with the Grantee's normal accounting and personnel policies.

The salary costs of Ms Ndlovu ($16,105.88 and Ms Sparrow ($9,496.81) Exhibit 1, Notes 17 and 18, constitute amounts paid to Ms Ndlovu over a period of 14 months for full time services as Office Administrator and, subsequently, as marketing officer for small-enterprise development in the project area and to Ms Sparrow over a period of 21 months for part-time services, firstly as a bookkeeper, subsequently as Office and Accounts Administrator. Ms Ndlovu's contract was terminated in 1991. Both these salary costs were incurred directly in the Bulawayo office as a result of work exclusively on the NRM Project, and are clearly part of the reasonable, allowable and allocable project costs.

The Grantee concurs with this recommendation.

6.2.7 CONSULTANT FEES AND COSTS

Findings

USAID expressed concern over amounts paid to Department of Nature Parks and Wildlife Management (DNPWLM) employees as consulting fees indicated as questioned and unsupported in our report. USAID considered these costs as unallowable because they represented "salary supplements"

We have treated these costs as questioned (see Exhibit 1 note 1.15, 1.16 and 2.3).

We draw your attention to the following :

- The Grant Agreement dated December 5, 1989 specifically mentioned that "when additional expertise is required, the project manager will locate and hire non-local and/or local short term assistance".

- The Trust has indicated that DNPWLM employees were contracted to provide conservation expertise necessary for the education and training aspects of the Trust's responsibilities under the Grant.

- OMB circular A-122 on "Professional Services Costs" states that consultant services are allowable if numerous relevant factors are considered. One of the relevant factors concerns the "adequacy of the contractual agreement for the service (example : description of the services, estimate of time required, rate of compensation, and termination provision)". The circular does not state whether a written or verbal contract is required.

Recommendation No. 17

The Trust and USAID should clarify the procedures to be adhered to regarding the contracting of consultants, particularly employees of organisations involved in the NRM project, and negotiate the questioned costs (see Exhibit 1 note 1.15, 1.16).

Trust Comments

6.2.7 Consultant Fees and Costs : In the case of the DNPWLM official we concur with the references made in the Auditor's report to the Grant Agreement which states that "when additional expertise is required, the project manager will locate and hire local or non-local short-term assistance" and further that the official was "contracted to provide conservation expertise necessary for the education and training aspects of the Trust's responsibilities under the Grant." We do not see the relevance of OMB Circular A-122 in this context.

It is noted that the Grantor was concerned that these costs represented "salary supplements" and were therefore unallowable, and for this reason, the costs are questioned. We draw attention to the fact that the contract was agreed because the official concerned had many departmental responsibilities in addition to his NRM Project functions, and was forced to work over weekends and outside normal office hours. Three consultancy fee payments were made, each one for a specific project related job carried out outside normal office hours, or during leave periods. They related to the drawing up of implementation plans which required inputs on resource management. Such inputs are cost-effective and the Grantee believes it is necessary to maintain the option of retaining such services for the NRM Project in future. As far as the salary supplement is concerned, we note that the Public Service Commission does allow civil servants to earn consultancy fees outside normal working hours.

With reference to the questioned amount of Z$1,291,76 (Exhibit 1.3), this cost was incurred by the project, being air fairs for Dr B. Child, a DNPWLM employee and the national Campfire Coordinator, who undertook certain activities (attendance at meetings and workshops) which were directly related to and required for project implementation, and were considered by management to be essential inputs.

We agree with recommendation no. 17, that the Trust and USAID should clarify procedures for the contracting of consultants, although we submit that the Grant Agreement provides adequate measurers for such eventualities, which we have adhered to.

6.2.8 INTEREST EARNED ON BANK ACCOUNT

Findings

USAID queried whether any interest had been earned by the Trust on funds advanced by USAID. All USAID advances, have to be denominated in US $ and deposited into the Trusts Non Resident bank account.

We examined the Non Resident bank statements for the period and no interest was earned by the Trust which was confirmed by the bank. As mentioned in our report on compliance with agreement terms and applicable laws and regulations (see section 4.2.2) the Trust has commingled USAID funds with other non-USAID funds.

It should be mentioned that if the USAID advances were deposited in an interest bearing account interest would be earned by the Trust.

Recommendation No. 18

Recommendation number 11 should be implemented. Interest earned on the NRM designated current accounts should be remitted to USAID on a regular basis or set-off against expenditures claimed from USAID.

Trust Comments

6.2.8 Interest on Banks : we refer you to our letter of 27th December 1989 where it was agreed, as confirmed in the Grantor's letter of the 7th March 1990, that all payments were to be made in US Dollars, and banked in our non-resident account. The Reserve Bank of Zimbabwe does not pay interest on such accounts, with the result that no interest was earned. In this regard it should be noted that for the first, second, third, sixth and seventh expenditure quarter periods, the Grantee, in effect, funded the NRM Project from its own resources, thereby suffering an effective interest cost which has never been the subject of a claim against the NRM Project.

The Grantee submits that the NRM Project would benefit if interest was paid on the amounts received and, accordingly, proposes that future US dollar payments are made to its Head Office account at Barclays Bank Plc, Slough International Branch, Epsom UK which is an interest bearing account and will ensure that NRM Project funds are not commingled with other project funds.

6.2.9 NEPOTISM

Findings

USAID expressed concern about the application of Trust or US Government regulations or policies on personnel. Of particular concern was nepotism involving husbands' and wives' working together. We have reviewed the Trust personnel policies which do not prevent both a husband and wife working for the Trust.

The standard provision on "Regulations Governing Employees" which is applicable to the Grant only addresses grantee employees who are not citizens of the co-operating country and does not address nepotism.

Mrs M Sparrow, the wife of Mr A Sparrow, is employed in an administrative post in the Bulawayo office on the NRM project. The circumstances surrounding her employment are as follows :

Ms S Ndlovu was originally employed to perform the administrative functions but it became apparent that she was not performing as expected and a replacement was required. Mrs Sparrow had previously worked for the Trust in Harare and her competency to perform the administrative functions was already known by the Trust's management. The Trust's management then offered Mrs Sparrow the post at a competitive remuneration. The employment procedures detailed in section 3.3.5 were consequently not followed, for good reason.

We are unaware of any US Government Laws or regulations that may impact on the Trusts' personnel policies.

It should be stated that nothing came to our attention that caused us to question the integrity and honesty of Trust personnel. In addition suitably qualified personnel are difficult to find.

Recommendation No 19

The Trust should document the reason for employing staff, their competence and that their remuneration is competitive in the employee's personal file.

Trust Comments

6.2.9 The Grantor's concern of nepotism as a husband and wife are both working in the Bulawayo office is not shared by the Grantee. The wife of the Project manager is efficient and a cost-effective input which furthers the interests of the project. We cannot find any reference in the Grant Agreement which restricts the Grantee from employing husbands and wives, particularly as this is consistent with the Grantee's personnel policies. Two other wives (or, conversely, two other husbands) are employed by the Grantee and have worked satisfactorily for the Grantee over the past twelve years. It may be of interest to note that the Project Manager has since left the employ of the Grantee with the result that there are no husband and wife teams working in the Bulawayo office at present.

6.2.10 FOREIGN CURRENCY GAINS

Findings

We noted certain gains resulting from timing differences between the date of expenditures, advances and reimbursements.

These gains do not affect our report because it is denominated in US$ and expenditure has been calculated at the average exchange rates used on the quarterly claims. The gains are only in Z$ and resulted from a continual devaluation of the Z$ over the period of the Grant with the biggest gain arising after the large devaluation of the Z$ in late 1991.

Period	US$ Claimed	Z$ Claimed	Z$ Banked	Z$ Gain
Sep 89-Feb 90	41 571	94 480	100 504	6 024
Mar 90-May 90	38 500	87 500	93 078	5 578
Jun 90-Aug 90	75 012	181 468	189 078	7 560
Sep 90-Aug 90	153 773	389 200	392 251	3 051
Dec 90-Feb 91	60 082	163 158	180 562	17 404
Mar 91-May 91	69 357	202 800	208 252	5 422
Jun 91-Aug 91	67 687	233 404	331 650	98 246
Sep 91 Advance	75 000	290 700	290 700	-
				Z$ 143 315

These gains would have been realised gains if the trust had received all costs project funding from USAID in advance. This was not the case with most of the project costs being financed by the Trust and subsequently being reimbursed by USAID. Therefore the Trust would incur Z$x expenditure on a date which would equate to US$x on the date incurred. When the Trust was reimbursed for US$x they received Z$y resulting in a notional foreign exchange gain.

Trust Comments

6.2.10 The Grantee refers the Auditors to its fax of 11th February 1992 which demonstrates that the foreign exchange gain detailed in the schedule represents the Zimbabwe dollar value as at the dates of payments, most of which were made in arrears. These gains are notional as they are measured in Zimbabwe dollars, which when re-converted to US dollars, equal the amounts actually expended by the Grantee in US dollars.

6.3 CONCLUSION

Mission concerns have been adequately addressed and all unallowable costs are fully documented in Exhibit 1 and notes thereto.

Trust Comments

As will be noted from the foregoing and the notes to Exhibit 1 below, our assessment is that $17.252.07 of the total costs of $555,601 which were claimed by the Grantee comprise costs which remain either questioned or unsupported management costs under the Grant Agreement. These questioned and unsupported management costs are significantly less material than the total contained in the fourth draft of the report, as they represent 3.1% of the total costs claimed. We acknowledge that these costs have been claimed in error and we intend to repay them to the Grantor; they comprise the following:-

MISSION-CONTRACTED AUDIT OF ZIMBABWE TRUST

UNDER NATURAL RESOURCES MANAGEMENT

PROJECT NUMBER : 690-0251-13

QUESTIONED COSTS

1.5	Speciss College	$ 19.00	
3.3	Sherwood Export	$ 1 307.20	
3.5	Imported Spares	$ 2 032.36	
3.7	Local air travel	$11 465.52	$14 824.08

Balance brought forward $14 824.08

UNSUPPORTED COSTS

2.1	Haddon and Sly	$ 46.37	
2.4	The Chronicle	$ 33.43	
2.5	J. Moyo (cost claimed twice)	$ 212.42	
2.6	J. Moyo (cost claimed twice)	$ 199.79	
2.7	J. Moyo (cost claimed twice)	$ 263.56	
2.8	M. Sparrow (cost claimed twice)	$ 39.89	
2.9	S. Ndlovu (cost claimed twice)	$ 300.30	
2.10	Postage	$ 22.90	
2.11	Bank charges	$ 10.69	
4.2	Furniture and Equipment	$ 2.06	
5.1	District Council Inputs	$ 1 296.58	$ 2 427.99
	TOTAL QUESTIONED AND UNSUPPORTED COSTS		$17 252.07

All costs queried in this fourth draft report as either questioned or unsupported management costs are listed together with appropriate explanations in the Grantee's response to Exhibit 1 on the following four pages.

EXHIBIT 1

QUESTIONED AND UNSUPPORTED COSTS

ZIMBABWE TRUST GRANT UNDER THE ZIMBABWE COMPONENT OF THE NATURAL RESOURCES MANAGEMENT PROJECT NO. 690-0251-13 PROJECT COSTS THE PERIOD SEPTEMBER 15, 1989 THROUGH SEPTEMBER 30, 1991

		AMOUNT RECOMMENDED TO BE				
	CLAIMED	ACCEPTED	QUESTIONED	NOTE	UNSUPPORTED	NOTE
PROJECT MANAGEMENT	271 388	178 024	80 473	1	12 891	2
OPERATING COSTS	177 410	126 000	36 474	3	14 936	4
SERVICE	16 104	16 104	-		-	
SMALL ENTERPRISE DEVELOPMENT	194	194	-		-	
WILDLIFE TRANSLOCATION	-	-	-		-	
DISTRICT COUNCIL INPUTS	86 778	85 481	-		1 297	5
CAPITAL COSTS	3 727	3 727	-		-	
TOTAL EXPENDITURE US$	555 601	409 530	116 947		29 124	

NOTE

CLAIMED = Aggregation of costs per claims submitted to USAID plus costs incurred in September 1991 per the general ledger converted to US$ at US$ 1 = Z$ 3.867 the exchange rate on September 26, 1992 when USAID advanced US$ 75 000 to the Trust.

77

NOTES TO EXHIBIT 1

1. QUESTIONED PROJECT MANAGEMENT COSTS

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST QUESTIONED
1. Davis Granite	Mar 90	155.10	68.24	Gravel for Bulawayo office driveway considered unnecessary to the grant
2 Lynne Russel	Mar 90	68.00	29.92	Cheque payment 821 621 made payable to L Russel when invoice was from Top Flvte Employment Consultants
3. L Keyser	Sep 90	100.00	39.51	Repairs to borehole on Bulawayo property owned by Trust considered capital improvement
4. Biddulphs Removals	Dec 90	125.00	47.50	Furniture removal for Mr M Jones a DNPWLM employee
5. Speciss College	Jan 91	50.00	19.00	Payment for a course attended by Mr P Sibanda involved on the National Council for the Disabled Persons project
6. Appex Garden Centre	Feb 91	203.50	77.33	Gravel and stone for driveway on Trust property in Bulawayo considered capital improvement to Trust property.
7. The Cattleman	Sep 91	68.30	17.62	Entertainment costs are unallowable.
8. Banff Lodge	Sep 91	164.55	46.07	Accommodation and meals for L Rihoy not an NRM project member.
9. Truckit Transportation	Jan 91	670.00	254.60	Transport cost relating to stone. river sand and pit sand for Bulawayo driveway mentioned in 6 above.
10. Teas and refreshments	Period	1 115.80	410.34	Office consumables. See section 6.2.6
11. Indirect management costs	Period	139 274.51	50 106.60	These costs represent an allocation of the Campfire Manager, Financial Manager, Assistant Accountant and Institutional Development Manager costs for the time spent on the NRM project. These overheads are unallowable because the grant does not provide for a negotiated overhead rate. It is recommended that a grant amendment should be requested by the Trust, to enable USAID to reimburse these costs.
12. Lions Den	Aug 90	460.00	188.60	Invoice indicates that the Forestry Commission is the debtor and not the Trust.
13. Office machine repairs	Jan 91	3 500.00	1 330.00	Repairs to Mr A Sparrow's private computer unallowable under the grant.
14. Kitchen equipment	Mar 90	2 606.96	1 147.06	Kitchen equipment is not necessary to the grant.
	C/f	14[illegible] 561.72	53 782.39	

NOTES TO EXHIBIT 1

1. QUESTIONED PROJECT MANAGEMENT COSTS (CONTINUED)

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST QUESTIONED
	B/f	148 561.72	53 782.39	
15. M Jones	Feb 90	1 125.00	495.00	Consultant fee. See section 6.2.7
16. M Jones	Sep 90	1 500.00	592.65	Consultant fee. See section 6.2.7
17. Mrs M Sparrow	Dec 89 to Sep 91	26 056.50	9 496.81	Bulawayo administrative costs. See section 6.2.6
18. Ms S Ndlovu	Dec 89 to Feb 91	30 032.60	16 105.88	Bulawayo administrative costs. See section 6.2.6
		207 275.82	80 472.73	

79

NOTES TO EXHIBIT 1

2. UNSUPPORTED PROJECT MANAGEMENT COSTS

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST UNSUPPORTED
1. Haddon & Sly	Mar 90	105.38	46.37	No supporting documents for cheque 821609
2. The Chronicle	Sep 90	84.60	33.43	" " 826990
3. M Jones	Nov 90	3 000.00	1 185.30	" " 869553 Consultant fee. See section 6.2.7
4. J Mayo Salary	Jan 90	1 500.00	660.00	Cost claimed but not incurred.
5. J Mayo Salary	Mar 90	482.78	212.42	Withholding tax duplicated and claimed twice.
6. J Mayo Salary	Jun 90	487.30	199.79	Amounts paid in excess of contract of employment.
7. J Mayo Salary	Jul 90	642.83	263.56	" "
8. M Sparrow Salary	Mar 90	90.65	39.89	" "
9. S Ndlovu Salary	Mar 90	682.50	300.30	" "
10. Postage	Qtr 5	60.27	22.90	Amounts claimed in excess of general ledger amount.
11. Bank charges	Qtr 3	26.08	10.69	" "
12. Indirect costs	Qtr 6	21 708.15	7 809.93	" "
	C/f	28 870.58	10 784.58	

08

NOTES TO EXHIBIT 1

2. UNSUPPORTED PROJECT MANAGEMENT COSTS

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST UNSUPPORTED
	B/f	28 870.58	10 784.58	
13. J Moyo	June 90 - Sept 91	1 600.00	555.80	Field allowance, no vouchers. See section 6.2.5
14. J Muzamba	Jan 91 - Sep 91	900.00	276.00	Field allowance, no vouchers. See section 6.2.5
15. T Dube	Jan 91 - Sep 91	900.00	276.00	Field allowance, no vouchers. See section 6.2.5
16. N Zondo	Jan 91 - Sep 91	900.00	276.00	Field allowance, no vouchers. See section 6.2.5
17. V Ncube	Jan 91 - Sep 91	900.00	276.00	Field allowance, no vouchers. See section 6.2.5
18. M Manala	Jan 91 - Sep 91	900.00	276.00	Field allowance, no vouchers. See section 6.2.5
19. B Fowlds	Apr 91 - Sep 91	600.00	171.00	Field allowance, no vouchers. See section 6.2.5
		35 570.5[illegible]	12 891.38	

8

NOTES TO EXHIBIT 1

3. QUESTIONED OPERATING COSTS

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST QUESTIONED
1. Barons Motor Spares	Jul 90	127.04	52.09	Could not identify if the spares purchased were for vehicles used on NRM project.
2. Budget Tours	Sep 91	1 291.76	70.38	Airfare for Mr B Child not an NRM staff member. See section 6.2.7
3. Sherwood Export	Jun 90	3 188.30	1 307.20	Motor vehicle radio and tape decks purchased for Landcruiser, considered unnecessary to grant.
4. Amity	Jan 91	1 144.10	434.76	Repairs to Forestry Commission Landcruiser
5. Imported spares	Apr 91	6 974.47	2 032.36	Z$12 934.51 of spares were imported to repair a Trust vehicle that was involved in an accident while working on the NRM project. Of these spares, Z$5 960.34 was used in repairing the vehicle. Z$5 960.34 were recovered from the insurance company and credited to motor vehicle maintenance. The balance was transferred to Bulawayo and claimed from USAID. This is considered unnecessary to the grant and only resulted from importing too many spares.
6. Office furniture	Dec 90	1 855.93	705.25	Office furniture purchased for Mr M Jones a DNPWLM employee.
7. Local air travel	Qtr 1	26 057.99	11 465.52	These costs relate to the NRM project design and planning. They involved National Parks and Trust employees visiting the four areas that were incorporated in the NRM project. These costs were initially charged to the Campfire project and then transferred to the NRM project after the grant agreement had been signed. We have questioned these costs because the grant agreement does not cover costs incurred in planning and designing the NRM project.
8. Vehicle maintenance	Mar 90-Nov 90	18 540.00	7 527.98	Maintenance costs incurred on Trust vehicles, prior to receiving USAID vehicles, are unallowable in terms of the grant agreement.
9. Expenditure greater than budget	Period	37 175.56	12 879.44	Accepted costs before this item where $12 879 greater than budgeted. This reduces accepted costs to budgeted $126 000.
		96 355.15	36 474.98	

NOTES TO EXHIBIT 1

4. UNSUPPORTED OPERATING COSTS

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST UNSUPPORTED
1. Staff accommodation	Qtr 1	12 000.00	5 280.00	No supporting documents and relocation costs are only allowable to the extent of the employee's actual expenses in relocating (in terms of OMB Circular A-122).
2. Furniture and equipment	Qtr 7	8.00	2.06	Cost claimed in excess of general ledger amount.
3. Depreciation	Qtr 3	23 545.77	9 653.77	Depreciation claimed but not in general ledger. The grant only covers reimbursements of actual costs incurred and not notional costs, such as depreciation.
		35 553.77	14 935.83	

23

NOTES TO EXHIBIT I

5. UNSUPPORTED DISTRICT COUNCIL INPUTS

DETAILS	DATE	AMOUNT Z$	AMOUNT US$	REASON WHY COST UNSUPPORTED
1. District Council inputs	Qtr 6	4 449.50	1 296.58	Amounts claimed in excess of general ledger amounts.
		4 449.50	1 296.58	

EXHIBIT 2

RECONCILIATION OF FUND ACCOUNTABILITY STATEMENT TO CLAIMED AMOUNTS

	A ACTUAL PER F.A.S.	B CLAIMED COSTS	C = A-B C = D+E DIFFERENCE	D UNDERCLAIMS INCLUDED IN ACCEPTED	E OVERCLAIMS INCLUDED IN UNSUPPORTED
Project Management	268 882	271 388	(2 506)	5 338	(7 844)
Operating Costs	171 646	177 410	(5 764)	3 892	(9 656)
Service	16 104	16 104	-	-	-
Small Enterprise Development	194	194	-	-	-
Wildlife Translocation	-	-	-	-	-
District Council Inputs	85 481	86 778	(1 297)	-	(1 297)
Capital costs	3 727	3 727	-	-	-
TOTAL EXPENDITURE US$	546 034	555 601	(9 567)	9 230	(18 797)

NOTES

A = Actual costs recorded in the general ledger converted to US$ at the average quarterly exchange rates used on claims submitted to USAID plus the accrual of costs incurred in September 1991 converted to US$ at 1US$ = 3,867 Z$ the exchange rate on September 26, 1991 when USAID advanced US$75 000 to the Trust.

C = Aggregation of costs per claims submitted to USAID plus costs incurred in September 1991 per the general ledger converted to US$ as in (A) above.

ZIMBABWE TRUST

U.K. Registered Charity No: 279854
Zimbabwe Welfare Organization No: W.O: 40/81

President: The Lady Soames, DBE.
UK Head Office: The Old Lodge, Christchurch Road, Epsom, Surrey KT19 8NE
Telephone: Epsom (0372) 743930 & 741237
Fax: Epsom (0372) 725604

ZIMBABWE
Regional Office: 4 Lanark Road, Belgravia, PO Box 4027 Harare.
Telephone: Harare (4) 730543 & 722957
Fax: Harare (4) 795150

For Attention: Brian Hawksworth and Jeremy Wood

ERNST AND YOUNG
Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000

8th July 1992

Fax Number:010 2711 4981687 (and by Courier)
Deliver to the 14th floor please

Dear Sirs,

ZIMBABWE TRUST RESPONSE TO NON-FEDERAL AUDIT (NFA) OF ZIMBABWE TRUST UNDER NRM PROJECT NO. 690-0251-13

We, the Zimbabwe Trust ("the Grantee"), hereby acknowledge receipt of the fourth draft of your report detailing the non-federal audit of Zimbabwe Trust under the Natural Resources Management ("NRM") Project Number 690-0251-13. We apologise for the time taken in preparing this response, but you will appreciate the difficulties we have had in absorbing and responding to all the changes arising from each of the drafts forwarded, particularly as these changes were not marked in the subsequent drafts. This has necessitated our re-reading each draft, line by line, in order to discover what new changes have been made. In addition, we have serious difficulty in allowing certain fundamental criticisms made in your report. Consequently, we have obtained professional advice which confirms our position, and this has added further to the time taken in preparing our response.

Your report refers to SAS 55, SAS 62, and SAS 63. We refer you to our fax of the 31st March 1992 asking for these documents, and note that they have still not been received. We would be most grateful if you would forward copies at your earliest convenience.

The importance of the principal objective of determining whether the costs claimed by the Grantee are adequately supported in accordance with the Grant Agreement and are allowable, allocable and reasonable, is recognised and fully supported by the Grantee. The detailed examination by the auditors of payments and costs submitted to the Grantor in the Fund Accountability Statement have been assessed to determine whether each amount is allowable, questioned or unsupported.

We note that this determination has been made by reference to "the terms of the Grant Agreement, Standard Provisions, OMB Circular A-122 (Cost Principles for Non-profit Organisations) and other relevant documents."

Firstly, we draw your attention to the Grant Agreement itself which expressly states that "this Grant is made to Zimtrust on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, entitled 'the Schedule,' Attachment 2, entitled 'Program Description,' and attachment 3, entitled 'Standard Provisions,' which have been agreed by your organization." In this regard, we note that AID Handbook 13, App 4D page 4D-1 covers mandatory standard provisions for Non-US, Nongovernmental Grantees and in clause 1(a) states: "The Grantee shall be reimbursed for costs incurred in carrying out the purposes of this grant which are determined by the Grant Officer to be reasonable, allocable and allowable in accordance with the terms of this grant and the applicable* cost principles in effect on the date of this grant, which are attached". The asterisk after the word applicable, is a note to serve merely as a reminder to the compiler of how to complete the agreement and constitutes the one and only reference to OMB Circular A-122 in all the documentation which comprises the Agreement. It is clear from the Agreement that "the applicable cost principles in effect on the date of this grant" are those "which are attached" and which comprise extracts from the appropriate portions of OMB Circular A-122. We have always worked on the basis that the check-list on page 4D-7, headed "Required As Applicable Standard Provisions For Non-US. Non-governmental Grantees" (comprising an extract from Aid Handbook 13) contains the "applicable cost principles" relevant to the Grant. This extract also expressly states that "only those standard provisions which have been checked off are included within the Grant". Clearly, no basis exists for any representations in the report to be made referencing a specific document entitled OMB Circular A-122 (Cost Principles for Non-profit Organisations) to the extent that that specific document or portions of it do not comprise part of the Agreement documentation "attached". If what is "attached" does comprise the whole of OMB Circular A-122 then there should be no confusion. However, we are concerned that by your referencing a specific document when there is no need to (because it comprises part of the agreement) you are basing your report upon terms and conditions that are not included in the form of the Agreement as forwarded to us and signed. If the Agreement is to be varied to include further extracts from OMB Circular A-122 or amendments to those parts of that circular that presently comprise part of the Agreement, then those variations will necessarily have to be made by mutual consent. However, it is essential that your report is based on the terms and extent of the Agreement as we have it, and we therefore request that you re-draft your report after having re-examined carefully any conclusions which are based on references to parts of the abovementioned circular which do not presently comprise part of the agreement. Obviously, it is totally understandable that assertions of "a material instance of non-compliance" can be made when you are working from a different rule book.

Secondly, may we suggest that you list the documents referred to as "other relevant documents" in order that the terms of reference upon which the report is based is clear to both parties.

Our comments for inclusion in any final report compiled for submission to USAID (the Grantor) are based on the terms and conditions of the Agreement as (defined by Attachments 1, 2 and 3) and are presented below. They have been made in accordance with the numbering system adopted in the latest draft.

1. INTRODUCTION

1.1 With reference to your comment that the original accounting records are held in Bulawayo and Harare, it should be noted that your report applies only to those costs which have been paid in Zimbabwe. Several other costs relating to the NRM Project arise in the UK and in the USA where the original documentation for these expenses is held. We acknowledge, however, that public service information costs arising at the USA office are not allowable as indirect costs to the NRM Project (as per AID Handbook 13 page 4D-2).

1.2 We are pleased to note that the scope of the audit ordered by the Grantor includes the actual overhead rate for the audit period and that it is the intention of the Grantor to negotiate and agree a provisional rate for the period to the end of the grant which shall include an appropriate allowance for UK costs incurred on the NRM project. In this regard, the Grantee has sent a copy of the last audited financial statement to the Grantor.

We submit respectfully that this independent audit of the Grantee's organisation should have been conducted during the Grantee's normal annual audit and not at the time it was actually carried out (see AID Handbook 13 Page No. 4D-2 para 2b). Under the terms of the Agreement it would appear that this audit should have taken place only after a review of the Grantee's audit report, which, to the best of our knowledge, has not yet been conducted. However, we fully acknowledge that the Grantee willingly complied with the Grantor's request to conduct this audit and that such compliance constitutes a variation of the terms of the Agreement.

1.3 We have not yet received a copy of the MACS reports referred to in this paragraph which was requested in our last communication - are these reports available to the Grantee?

You will be interested to note that the date is missing in the second line of this paragraph - it is significant in that it appears, as the paragraph stands, as though the report covers only a two day period!

1.4.1. We note that the results of the audit of the Fund Accountability Statement detail $116,947 of questioned costs, and $29,124 unsupported costs. Apart from the obvious relevance of the observations above concerning questioned costs in the context of OMB Circular A-122, these are dealt with at length below.

98

1.4.2. The reportable weaknesses identified in the evaluation of the internal control structure are noted and are accepted as a constructive criticism of the Grantee's financial reporting procedures for management and control. These criticisms have resulted in changes to Trust procedures (in respect of its financial control and project reporting on all projects, not only those of the Grantor).

1.4.3 We are most concerned to note that the auditor's "evaluation of the Trust's compliance with the Grant Agreement and related provision identified a material instance of non-compliance relating to claiming management overheads, which were not provided for in the Grant".

The Grantee finds it necessary to place on record that it cannot concur with the auditor's allegation that it "identified a material instance of non-compliance relating to the claiming of management overheads". The Grantee diligently complies with all terms of any agreement to which it is a party, and cannot allow the good name it has earned over the past 12 years to be tarnished by allegations that it believes are groundless. The Grantee is obliged to take this matter most seriously because, inter alia, it could provide grounds for termination and suspension of the NRM Project in terms of page 4D-2b of Attachment 3 of the Agreement. The Grantee has sought legal advice on the matter, and this advice confirms our opinion that the legal basis for the Auditor's allegation is, at best, questionable. The terms and conditions of the Grant Agreement provide no fair and reasonable basis to support the contention that "a material instance of non-compliance relating to the claiming of management overheads" has taken place.

We refer you to page 5, para 2 of Attachment 2 - "Program Description" which states that "<u>Funding is also provided for</u> technical support for the development of land-use plans, including procurement of aerial photographs, maps, transport <u>and other inputs.</u>" Moreover, para 2.1.2 stipulates that there will be "<u>at least 2 full-time</u> Project Managers"...who will "facilitate the planning and decision-making processes", while the next paragraph states that "when additional expertise is required. the project manager will <u>locate and hire non-local short-term assistance</u>". Para 4 on page 6 states that "Funds are provided for <u>Zimtrust project staff</u> .... This staff will be provided with vehicles, radios and housing in the districts ...The proposed housing will also act as accommodations <u>for visiting Harare-based project staff from Zimtrust and CASS.</u>"

We submit that it is only reasonable to conclude from the above that the Program Description clearly anticipated that the Grantee's staff would be provided with vehicles, and also the need to hire non-local short-term assistance, thereby allowing both part-time and/or full-time management inputs from Harare (or elsewhere) and further, that provision was expressly made for visits from "Harare-based project staff from Zimbabwe Trust," for which accommodation was to be provided.

99

Page 8, para 2.1.4 states "Zimbabwe Trust will provide training to local institutions in the necessary skills for planning and implementing projet activities. Zimbabwe Trust staff will coordinate with other institutions .... Training will be conducted through several mechanisms, including informal discussions, presentations, workshops, seminars, conferences and field trips, among other activities." Page 14, para 1, Zimtrust's responsibilities under this agreement states explicitly that Zimtrust will be responsible for "providing advice on management, conducting training and assisting in administration".... providing "the professional human resource inputs necessary to establish, monitor, and operate the project....Work will be carried out under the direction of the Director of the Trust, the General Secretary and the CAMPFIRE Programme Director.....Funds are provided for Zimtrust project staff.......Staff will be provided with necessary logistical support and facilities consistent with Zimtrust personnel policies".

An understanding of the primary objective of developing local institutional capacity through adaptive management, and the thousands of training days this entails, inevitably leads to an appreciation of the man-power needs for mounting such training. There is no reasonable basis for the Auditors to assert that this man-power input is to be supplied without recourse to the management capacity of the Grantee. The references in the preceding paragraph emphasise the Grantee's management inputs which have been properly supplied to the project at cost and, inevitably, must comprise an overhead charge. Such charge is consistent with the Trust's accounting policies on all other projects/programs. We find no basis under the terms and conditions of Attachment 3 to assert that these overhead charges cannot be defined as reasonable, allocable and allowable and therefore should not be defined as questioned costs under the Agreement.

It may be appropriate to draw attention to the fact that the original plan and project budget, as detailed, was developed with a view to implementing the project in only two Districts. The Trust was persuaded, subsequently, to extend the scope of its implementation to include an additional two Districts. This significant amendment to the scope of the project was made, just prior to the formalization of the agreement, resulting in a considerable increase in the geographic extent of the project without any alteration to either personnel or budget requirements. The Grantee was in a position to agree such changes because it believed that it had sufficient budget to procure the necessary management capacity, and should this have proved not to be the case, arrangements existed for it to apply for an increase in the amounts budgeted. This change in the scope of the project is evidenced by the reference on page 7 of the Program Description which anticipates that the "facilitator for women's activities" will work in the "two target communal lands".

At the time of signing the agreement, and on subsequent

90

occasions, the Grantee was informed that any justifiable increases in budgets or personnel could be agreed between the Grantee and Grantor as and when the need became apparent, and this would be encompassed in a Revision of the Financial Plans. The eleventh hour extension in the scope of the project explains the addition to the initial staff requirement for the management of the project (ie. more than at least two full-time project managers), as well as additional management requirements in the form of a substantially increased Zimtrust management involvement. It should be noted that the speed at which training and other inputs are supplied to communities should be determined by the communities themselves and not by the Grantor. There is no point in supplying inputs unless the communities, after establishing consensus amongst themselves, determine the basis upon which any such inputs are to be supplied and the evolving institution building process dictates the extend and pace at which such inputs are delivered. This process has effectively determined additional requirements which have been discussed with USAID personnel. This is not disputed by USAID and, in terms of the agreement, any such changes may be viewed formally as variations under the agreement. We draw your attention to AID Handbook 13, page 4D-2A para 4(b) which states that "The Grantee shall immediately request approval from the grant officer when there is reason to believe that within the next 30 calendar days a revision of the approved grant budget will be necessary". However, as there is no formal requirement for the Grantee to present such a request in writing and, as no "costs in excess of the amount obligated under the grant" have been incurred, there is no requirement for the grant officer to notify approval in writing (para 4[c]).

The Fund Accountability Statement in 1.4.1. and the evaluation in 1.4.3. identifies "a material instance non-compliance relating to claiming management overheads." We dispute this on the grounds detailed in the relevant sections above. Moreover, even though we were not obliged, under the terms of the agreement, to obtain prior approval in writing, we draw attention to a letter from our Financial Manager dated the 26th January, 1991, which was written following discussions on this matter and requested the Grantor's prior approval of indirect management and overhead costs. The Grantor's response of 22nd February 1991 states that these costs can be allowed, provided that such expenditures are verifiable and distinguishable as costs incurred in carrying out the grant and subject to the availability of funds. As these conditions were met, the Grantee's overhead costs audited, a rate for such overheads established, and financial claims, which included these overheads, were paid, the Grantee proceeded on the reasonable assumption that this was acceptable to the Grantor. In the light of such tacit acceptance, we find the charge of non-compliance with the Grant Agreement wholly unacceptable.

Some confusion has arisen, in the offices of both the Grantor and Grantee, concerning the overhead claims of the Trust. In this regard, the Trust has claimed only a portion of its actual overheads incurred on the project, and only those relating to the Zimbabwe offices, not those of the UK and USA offices. The status of any UK and USA claims, as the Grantee understood it, is one of the purposes of the non-federal audit.

The allegation of non-compliance is a most serious matter, and we are obliged to treat it as such. At a recent meeting of representatives of the auditors, the Grantor and the Grantee in Johannesburg, the matter of overheads was discussed at length, and the parties agreed that this could be settled amicably through negotiation, particularly as the Grantor accepted the principle of financing the Grantee's overheads for the project. In this regard, the Grantee would like to record its appreciation of the spirit of mutual co-operation that exists between the two parties, and to record that it is the Grantee's intention to continue in this manner. The spirit of amicable co-operation which exists between the two parties notwithstanding, the Grantee cannot allow such unqualified assertions to stand on record when it is convinced that grounds for such assertions do not in fact exist. **The importance of this written submission to your fourth draft report, therefore, is to inform you that we seriously contest the legal basis for your opinion, and ask you to reconsider. For your information, we enclose a letter from the Trust's lawyers which formally records the basis upon which we challenge your allegations.**

Other allegations of non-compliance, which were not considered material, are also challenged. These are dealt with in the appropriate paragraphs below, where they are reported in some detail.

1.4.4. The Grantee emphasises the fact that it has not claimed any UK or USA office expenses, because of confusion that has arisen as a result of the General Secretary's letter of the 23rd of June, 1989, following a workshop where the Grantee estimated a contribution in kind amounting to $120,000. This letter predates the Agreement and does not constitute a variation to the Grant Agreement, and representations and assertions made prior to the Agreement do not form part of it. This is the view of the Grantee's legal council and, accordingly, the Grantee challenges the claim that any administrative, secretarial, and accounting staff costs incurred in the Bulawayo office or elsewhere are unallowable under the terms of the Grant Agreement. The Grantee believes that this is an issue which the non-federal audit should resolve. It should be noted that the Grantee did not seek approval from its Board of Trustees for any such contribution on the basis that it was never part of the Agreement. The Grantee believes that the indirect and overhead charges against the project are substantially les than cost and welcomes the oportunity to reach agreement with the Grantor on an appropriate negotiated overhead.

The indirect cost schedule for fiscal years ended May 31 1990 and 1991 in Zimbabwe are those indirect costs which have been part of this non-federal audit.

We are pleased to note the Auditor's delivery order includes a requirement to audit an indirect cost schedule applicable for the Grantee's overheads for the 1990 and 1991 financial years, and to establish a provisional overhead rate to be used from 1st of June, 1991 to the end of the Grant. Whilst we remain of the opinion that we are within our rights in claiming our overheads, we intend to co-operate fully in this matter, and, in order to enable an audit of the overhead rate claimed, we have contracted our auditors in Zimbabwe, KPMG Peat Marwick, to prepare the required schedule and reassess the existing basis for allocating overheads to projects. This report will be forwarded to the Auditor as soon as it is complete. Similar arrangements are being made in the UK. The demands on the Trust management in carrying out its project obligations are such that the Trust does not have sufficient resources to carry out this task itself, and for this reason we have contracted out the work.

In order to minimise the disruptions and extra work load caused by additional audits we request that, in future, the Grantor adheres to the terms of AID Handbook 13, page 4D-2 item 2(b) so that should an independent audit be required, such audit is conducted during the Grantee's normal annual audit. In this regard we take the opportunity to place on record that the Grantee's annual audit for the year ended 31st of May 1992 is due to commence shortly. As far as any UK audit is concerned, it would be appropriate for the Grantor to obtain confirmation and justification of costs from Arthur Andersen & Co. in the UK rather than require original documents to be forwarded to Auditors either in South Africa or elsewhere. We propose this because we are obliged, under the terms of Grant Agreements with other Governmental agencies, to retain original documentation for inspection.

1.4.5 We are pleased to note the Auditors' conclusion that the Trust is "capable and competent to manage and account for USAID funds."

1.4.6 The Mission concerns raised and documented in this report are noted and dealt with in the appropriate sections below.

2. FUND ACCOUNTABILITY STATEMENT

2.1. The first sentence in the third paragraph is ambiguous. It is not clear whether the independent auditor has conducted this audit in accordance "with generally accepted auditing standards" or in accordance "with generally accepted auditing standards, issued by the Comptroller General of the United States". Whichever interpretation is intended, we note that the audit has been conducted, and the report produced to accord with Government Auditing Standards, issued by the Comptroller General of the United States. This paragraph is repeated verbatim under the "Internal Control Structure" in the third section on page 21 and under "Compliance with Agreement Terms and Applicable Laws and Regulations" under the fourth section on page 34. We draw attention to Aid Handbook 13 page 4D-2 para 2 which states "The

Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant." We fail to comprehend the relevance of conducting the audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and seek an explanation as to how, and in what way, we are bound to its terms.

The "generally accepted auditing standards", irrespective of their source, require that an independent Auditor obtains "reasonable assurance about whether the Fund Accountability Statement is free of material mis-statement", and, in the light of our submission concerning overheads as outlined in the first section above, we submit that the Auditor is bound to report that the Fund Accountability Statement is, in fact, free of material mis-statement.

2.3. The notes to the Fund Accountability Statement cover only those funds that have been expended directly by the Trust in Zimbabwe and, accordingly, the statement excludes any reference to the project's UK management overheads as well as the significant number of capital items procured directly by the Grantor and debited to project expenditure.

2.4. The Grantee challenges the claim that it has co-mingled USAID funds as reported in the Auditor's report on non-compliance. As the Auditors are aware, following representations made at the meeting on the 20th December 1989, a variation of the Grant Agreement was agreed requiring the Grantor to make US dollar payments into the Grantee's non-resident bank account. This variation is recorded in the letter of the 27th December 1989. No restriction was placed on how this bank account was operated, and any commingling that arose as a result did not constitute non-compliance with the Grant Agreement and subsequent variations. As you know, Reserve Bank rules prevent the Grantee from establishing a second Non-resident account, and the Grantor is aware, or should be aware, of this stipulation. Furthermore, in an attempt to ensure that the NRM Project benefitted from any interest which may have accrued as a result of payments received in advance of expenditures, the Grantee requested a further variation to the Agreement requiring Grant payments to be made into the Grantee's UK dollar account. This would have had the advantage of obviating any problem of commingling of funds, as no restrictions exist on the number of accounts held by the Grantee in the UK, but the proposal was not agreed by the Grantor.

2.5. The summary audit results are dealt with in the appropriate sections below. The Grantee acknowledges unsupported costs amounting of $2,427.99, and questioned costs of $14,824.08, the bulk of which comprises $11,466 for local air travel incurred in the planning and design phase of the NRM project are unallowable under the agreement on the grounds that the cost was incurred prior to 15th September 1989. These acknowledged costs are listed in the conclusion (para 6.3) below.

Recommendation No.1

In the light of the above the Grantee cannot accept this recommendation in its present form as it relates to both questioned and unsupported costs, which are disputed.

3. INTERNAL CONTROL STRUCTURE

3.1. It should be noted that prior to the signing of the Agreement the Grantor contracted a firm of accountants to investigate and report on the Grantee's accounting systems and control procedures. The Grantee was not shown this report, but was informed that the Grantor was fully satisfied with its conclusions.

We note that the Auditors have found it necessary to state expressly that while they "have not complied with the Government Auditing Standards, General Standard, requiring (their) participation in an External Quality Control Review Program" they have, nevertheless, "conducted (their) audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States." Again we draw attention to the terms of the Agreement viz Aid Handbook 13 page 4D-2 para 2 which states "The Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant." We submit that the purpose behind the investigation referred to above was to establish, to the Grantor's satisfaction, the acceptability of the Grantee's accounting and control systems. It is thus inappropriate to introduce the requirement of a new standard which does not comply with Aid Handbook 13, that "The Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant."

We view the reportable conditions in this context, but, nevertheless, have provided explanations and responses in the appropriate sections below.

3.2. Further to the above, the Grantee notes that the basis of the independent audit of the internal control structure is defined in accordance with "the American Institute of Certified Public Accountants Codification of Auditing Standards, section 319." Whilst the findings and recommendations on this basis are positive, their relevance to an audit under terms of the Agreement is questioned because the auditors do not detail which parts of section 319 are relevant to local auditing standards and comply with the requirements of Aid Handbook 13. We question the merit and relevance of confining the audit to the narrow dictates of this US standard because, by definition, local standards are not as specific as those applicable to the section 319 standard.

3.3.3 The Grantee was concerned to note that unsigned contracts existed. This is regarded as a serious management oversight which has since been corrected. As noted in the auditor's report, however, these contracts are subject to annual review,

95

are invariably signed upon formal appointment, and are updated after a three month probationary period. These unsigned contracts ware contracts that were due for renewal. As the terms for renewal are essentially the same as those signed by those same employees upon appointment, they were fully aware of the terms and conditions of their employment and, accordingly, this has not led to a "situation where employees are unaware of their responsibilities and authority".

Recommendation No 2.

We agree with this recommendation although it should be noted that all employment contracts have since been reviewed, discussed with each member of project staff and signed.

3.3.4 The Grantee notes the comment concerning insufficient analysis of fluctuating quarterly claims but does not concur with the view that this reflects a lack of analysis of these claims. Such claims are analyzed periodically by the CAMPFIRE Manager, the Financial Manager, the General Secretary and the Director. While the Grantee acknowledges that explanations of such variances may not be recorded in writing, variances are explained by either the NRM Project Manager, the CAMPFIRE Manager, or both, to the Financial Manager who in turn, reports any significant variances to the General Secretary and the Director for internal control purposes. Owing to severe pressure of work, these analytical reports are of necessity verbal, and therefore records are not kept for audit purposes, nor are they required under the terms of the Agreement.

As will have been noted, from verbal discussions between the Grantee and the Grantor concerning such variances, items such as the rate at which tyres are used constitute unavoidable cost variances, and our own investigations confirmed that these arose from the proper use of the vehicles. As these tyres are not available locally they cannot be supplied on demand but have to be imported. They must, therefore, be purchased well in advance of their being required in the field to ensure that project staff are properly equipped and able to meet their planned field responsibilities on schedule. Accordingly, as such items are purchased periodically, fluctuations are only to be expected.

Many fluctuations arise as a result of known project activities which are part of the project plan. For example, for the period December to February, little or no training takes place because this is the rainy season. Not only are roads frequently impassable, but project beneficiaries are all fully involved in ploughing, planting and cultivating their crops. At the end of the season the area is accessible by road and project activities, particularly training, accelerate significantly and the concomitant fluctuations occur.

"Misallocations", with perhaps a few understandable exceptions, are probably better described as differences of opinion on appropriate budget lines (Project Management or Operating

96

costs). When Mr Julian Sturgeon took over the responsibilities of CAMPFIRE Manager from Mr Simon Metcalfe, the basis for compiling several such expenses was altered. The Grantee fully acknowledges that this does display some inconsistency, but it should be noted that the Grantor stated, at the commencement of the Agreement, and on subsequent occasions, that it was not concerned with the allocations of expenditure to particular budget lines, but rather with the total amount of all such lines. These discussions constitute a variation of the Agreement and it is inappropriate to include, under questioned costs, expenditure greater than budget for operating costs, amounting to $12,879. The budget lines have been discussed at some length and have never been a matter of concern to either party, particularly as these changes in the make-up of such budget lines represent an improvement in the accuracy of the Grantee's financial reporting. Under the terms of the Agreement, Aid Handbook 13, para 4 states that "the Grantee shall immediately request approval from the grant officer when there is reason to believe that within the next 30 calendar days a revision of the approved Grant budget will be necessary for any of the following reasons" and under 4(b)1 "to change the scope or the objectives of the project and/or revise the funding allocated among project objectives" and under 4(b)4 where "the Grantee plans to transfer funds budgeted for indirect costs to absorb increases in direct costs or vice versa." The Grantee fully adhered to the terms of the Grant Agreement by advising the Grantor that it was reallocating certain budget lines. The Grantor accepted the reasons for such changes and no further action was taken as there is no requirement to present the same in writing to the Grantor. Accordingly, we submit that the amount of $12,879 be withdrawn as a questioned cost and be reallocated as an accepted cost.

Recommendation No 3

The Grantee agrees that it would be fitting for written explanations, where appropriate, to be submitted to the Grantor to improve the information available to them, thereby reducing the number of queries which may arise from each quarterly report. However, in order to avoid unnecessary and additional administrative work the Grantee considers a variance of 25% in excess of the previous quarterly claim to be a more appropriate level to trigger any written explanation, given the high level of inflation (45%) that currently exists.

3.3.5 For the record, it should be noted that numerous candidates for the NRM project were interviewed by a Zimbabwe Trust team in Bulawayo comprising the Director, the CAMPFIRE Manager, a CAMPFIRE Association representative, the NRM Project Manager and a District Area Manager, and not only by the General Secretary and a Department Head as reported.

3.4.1.1 Co-mingling of funds has been dealt with above.

3.4.1.2 During meetings between senior officers of the Grantee and the Grantor in October 1991, a matter which had caused

91

considerable delays and an immense amount of unnecessary work within the Trust was discussed - viz - that any purchase above $10,000 required a PIL (Project Implementation Letter) to be issued by the Grantor before the purchase could be authorised. In this regard, senior Grantor officers acknowledged that the Grantor appointed NRM Project Supervisor had erred in imposing this requirement on the Trust, as it was relevant only to host government contracts.

We feel it incumbent upon ourselves to point out that this matter created serious problems in the implementation of the project, effectively suppressing the consultation process with communities at grass-roots level and jeopardizing the credibility of staff on the ground.

Given that community participation is fundamental to this project, and that full participation through consultation is very time consuming considering that project beneficiaries have to reach a consensus (despite differing vested interests within their community) as well as earn their livelihoods. Delays in the provision of capital items must be studiously avoided if the project's credibility is to be maintained. Therefore, it is vital that capital procurement takes place in accordance with the terms that the community has so painstakingly agreed. The Campfire Manager found himself in a position in which he was obliged to anticipate community needs and apply for a PIL in advance in order to ensure delivery of capital inputs within a reasonable time, a procedure which undermined community participation in the determination of their own needs. This led to criticism of the Campfire Manager within the Trust management structure, for adopting a procedure for procuring capital inputs at a rate determined by the budgets and PILs, and not at a rate at which they could be absorbed by the community. This fundamental problem was so serious that Trust's Director undertook a thorough investigation of the matter, only to discover that the PIL requirement imposed by the Grantor was not part of the Grant Agreement.

We respectfully draw attention to the fact that Trust staff are fully engaged in the implementation of a difficult and complex nationwide project, and that existing capacity is insufficient to cope with such bureaucratic confusion. The extra work load arising from a second extensive external audit, together with the matter outlined above, has resulted in serious capacity difficulties and created critical backlogs in other vital areas of the Grantee's work. We feel, accordingly, that the overhead charges levied thus far are fully justified.

3.4.2 The Grantee acknowledges that the purchase requisition system, which operates well at the Harare office, did not operate in the Bulawayo office. This system has now been introduced to the Bulawayo office and involves a purchase order book which details the goods ordered, the price agreed and the delivery date. These are forwarded to the Financial Manager for authorization and payment (prior approval is required for purchases in excess of $100).

Recommendation No.5

The Grantee agrees with recommendation no. 5, that the Harare system which has been operating successful for several years should be implemented at the Bulawayo office for management control purposes.

3.4.3 Apropos missing supporting documents for certain payments, the Grantee is confident that existing management control systems do not allow any payment, by cheque or by cash, to be made without supporting vouchers. The "unsupported project management costs" are all costs incurred by the Bulawayo office for expenses which were inspected and approved by the Financial Manager. Each month the invoices for expenditure incurred by the Bulawayo Office are submitted to the Financial Manager in Harare where each invoice is attached to the expenditure return sheet which is then checked before it is approved, and the total payments under the expenditure return sheet are reconciled with the nominal ledger balance.

It is relevant to note that the missing supporting documents have not only been the subjected of an internal audit (as above), but they have also been subject to an external audit by KPMG Peat Marwick. No queries arose during that audit because, presumably, no documents were missing. The Grantee remains confident that all returned paid up cheques were supported by appropriate documentation, and that either the external auditor failed to re-file the cheques in correct numerical sequence or the vouchers have been lost by the Grantee's staff. Perhaps the Financial Manager can be criticised for not re-filing the supporting documents after the audit, but he presumed, quite reasonably, that it was unnecessary, as the external audit was complete.

Should there be any unsupported cheque payments we can only assume that the supporting document has been misfiled or lost subsequent to the date of the relevant external audit. The Grantee suggests that the Auditor verifies with KPMG Peat Marwick that their audit did not uncover any payment having been made without supporting documents.

All documents reported missing during the second external audit have been either located or replaced with duplicates, except for a till slip amounting to Z$105.38 issued by Haddon and Sly in March 1990 for groceries used during a training course and an office subscription cash slip amounting to Z$84.60 issued by The Chronicle newspaper. Should the Grantor refuse to acknowledge the validity of these two claims, after conferring with KPMG Peat Marwick, the costs shall be met by the Trust fund and refunded.

We acknowledge, however, that the following amounts were claimed twice in error:-

i) Tax payments made in respect of J. Moyo ($212.42), M. Sparrow ($39.89) and S. Ndlovu ($300.30) in March y1990, and further payments for J. Moyo for June ($199.79) and July ($263.56) 1990. These payments were made twice because a new member of staff paid PAYE for each employee despite the fact that this had been paid already by the Harare Office. As the payments were made to the Department of Taxes, they were not vouchered against invoice. These double payments were later discovered by Trust staff and are being recovered from the Department of Taxes and shall be repaid to the Grantor in due course.

ii) Postage ($22.90) and bank charges ($10.69) - these shall be repaid to the Grantor through deductions against future expenditure claims.

Apropos the payment of $660 to J. Moyo, described as "a cost claimed but not incurred", the critical question concerns the date upon which this member of staff commenced full-time USAID duties, <u>not that the amount was claimed, but not incurred</u>. Our records show that during January, 1990, he was fully involved in the USAID project but was not seconded to the project on full-time basis until the following month. It follows then, that this is a cost incurred by the Trust on the project in accordance with the Grant Agreement.

3.4.4 The Grantee is most surprised and concerned to discover that not all ERS and CRS were signed as authorised by the Financial Manager. The Trust's procedures are that ERS are compiled in the Bulawayo Office by an administrative secretary. They are checked and signed as correct by the Project Manager prior to being sent to Harare. Upon arrival in Harare, the ERS are checked by the Accountant to ensure all claims are fully documented prior to final approval and signature by the Financial Manager. These procedures are designed to ensure that only expenses with supporting documents are accepted and processed. This procedural system has operated smoothly over the past year and there have been no instances of unsupported claims. However, we acknowledge that in the early stages of the project, when new and untrained staff were in place in the Bulawayo office, several such instances did occur, and where expenses were submitted without supporting documents, they were disallowed. The value of any such unsupported claims was then added back to the CRS until such time as supporting documents were submitted. This provided the necessary control to ensure that the unsupported documents were submitted.

<u>Recommendation No.7</u>

The Grantee agrees with recommendation no.7. As stated above, the ERS and CRS <u>are already reviewed and authorised</u> by the Financial Manager prior to posting to the General Ledger but queries have been dealt with verbally. The Grantee agrees that all such queries should be documented, and in future a hand written note will be required in support of a query.

100

3.4.5 The comments made on the Bulawayo account reconciliations are noted. However, the post of Hon. Treasurer is an unpaid voluntary position, and the use of the Hon. Treasurer's time is designed to maintain an independent overview of the Trust's transactions on a selective basis. Accordingly, the Hon. Treasurer expends his time primarily checking the bank reconciliations of the main accounts of the Trust, where the material assets are held. The Bulawayo bank account by comparison, is small, and operates on an imprest system with relatively low balances, equivalent to around US$4,000.

Recommendation No.8

We agree with recommendation no. 8, and shall request the Hon. Treasurer to travel to Bulawayo more frequently to review NRM Project matters.

3.4.7 Recommendation No.9

We agree with recommendation no. 9 and acknowledge that a fireproof safe would be appropriate in the circumstances. Such a safe will be installed in due course and debited to the project. In addition, special security arrangements have been made to store back-up computer records.

4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

4.1 The general observation that the independent auditor "performed tests of Zimbabwe Trust's compliance with certain provisions, Grant Agreement terms and laws and regulations" causes concern. This concern arises because these "certain provisions" and "laws and regulations" are not referenced to demonstrate clearly that they do not fall outside the scope of the Agreement. The Grantee is alarmed by the independent auditor's statement that their "objective was not to provide an opinion on overall compliance with such provisions." This, as we understand it, is the purpose of the audit, viz to determine material instances of non-compliance that cause the independent auditor to conclude that the aggregation of mis-statements is material to the Fund Accountability Statement. The independent auditor's reluctance to give "an opinion on overall compliance with such provisions" presumably arises from their not knowing what "certain provisions" and "laws and regulations" may apply. As their specific task is to determine that the Fund Accountability Statement is a true and fair reflection of the costs incurred on the NRM project, and this necessitates such qualification, we wonder how the Grantee is expected to proceed with the implementation of the project and both understand and adhere to the terms and conditions of these "certain provisions" and "laws and regulations!" As stated above, it is required that these tests be applied only within the terms of the Grant Agreement.

4.2.1 As far as the findings on indirect or overhead costs are concerned, $50,107 is treated as questioned and $7,810 is

101

treated as unsupported by the Auditor. As stated above, the Grantee does not concur with the auditor's view that these costs are unallowable because "the Grant Agreement did not provide for a negotiated or provisional overhead rate." The Grantee has nonetheless submitted a paper in response to the Grantor's request for a proposal to amend the Grant to cover overheads of Trust personnel indirectly involved with the management, administration, accounting and reporting under the Grant Agreement. The finalisation of this matter has been delayed for the following reasons:

a) The suggested overhead format schedule submitted to the Grantee by the Grantor cannot be easily transformed to represent the Grantee's overheads, and require a review of project accounting and implementation procedures, which is currently in progress.

b) The Grantee recognises the need to restructure project implementation procedures to promote institutional development as opposed to infrastructural development. The original project design, and the accompanying budgets, place unwarranted emphasis on infrastructural costs such as game management fences and water points, which, while undoubtedly important, are not as important as institutional development. The Grantee believes the relatively small budget allocation to training is a flaw in the project design which will no doubt be confirmed by the independent review of the project. The rectification of this will have a significant impact on the management overhead cost as well as certain other costs which are currently regarded as indirect.

c) The Grantor is in the process of a project design review, the focus of which is to investigate constraints on implementation, which may have been brought about by weaknesses in the project design. This review will have a bearing on the appropriate level of indirect costs and the overhead rate to be agreed.

Recommendation No 10.

The Grantee submits that "reference to OMB Circular No.A-122" is not relevant to the Grant Agreement except in terms of AID Handbook 13, App 4D page 4D-1 and the list on page 4D-7 which covers mandatory standard provisions for Non-US, Nongovernmental Grantees. Accordingly, we submit that no Grant amendment is required to recover the Grantee's overheads claimed and paid to date. However, the Grantee will readily enter into discussions with the Grantor for a Grant Amendment to determine a mutually agreed overhead and indirect cost charge to apply for the duration of the project.

4.2.2 The Grantee is pleased to note that the independent auditor "did not consider the co-mingling of USAID funds with other funds to be an instance of material non-compliance" and that this was not "material to the Fund Accountability Statement."

102

Recommendation No.11

a) This recommendation is helpful in that it states that the Payment-Cost Reimbursement method "has no restriction on the co-mingling of funds." As can be seen from the fax sent to the auditors (and forwarded to the Grantor) on the 11th of February 1992, the Grantee operated under the Payment-Cost Reimbursement method in the first, second, third, sixth and seventh quarterly periods! The Auditor's assessment thus indicates that no restriction on co-mingling of funds existed for those periods, and, should this have been the only relevant consideration, then no noncompliance could have applied during these periods. This observation, however, should be read in conjunction with the submissions made in 2.4 above. The payment cost reimbursement method resulted in negative cash flows which caused forex losses and resulted in a loss of interest income to the Grantee. For these reasons the Grantee would prefer to operate in terms of recommendation 11(b).

b) The Grantee is unlikely to obtain authority to open a second non-resident account under its own auspices and would be most grateful to receive the Grantor's offer of assistance in obtaining a second non-resident account solely for the NRM project.

4.2.3 The verbal approval given by the Grantor qualifies legally as a variation to the Grant Agreement. Perhaps the Grantee should have insisted on written confirmation of this approval, but given the spirit of mutual cooperation that existed, and continues to exist in relations between the two parties, it was deemed unnecessary. In October, 1991 the Grant Agreement was reviewed with the Grantor and the matter of international travel was raised, with the result that the Administrative Manager was specifically charged by the Director to ensure that the procedures required by the Grantor under the terms of the Agreement are applied in future.

Recommendation No.12

The Grantee accepts the recommendation.

5. FINANCIAL MANAGEMENT CAPABILITY

We agree with the Auditor's conclusion that financial personnel of the Trust are capable and competent to manage and account for USAID funds.

6. MISSION CONCERNS

The Mission concerns itemised below have been the subject of numerous discussions with the Grantor.

6.2.1. High Vehicle Maintenance Costs:

N1:The mis-allocated vehicle fuel costs are noted. They are presumed to have been allocated to maintenance instead of fuel and, of course, do not comprise a questioned cost.

N2:Depreciation is not claimed in the ledger because, under the Grantee's normal accounting policy, vehicles are written off against expenditure in the year of purchase. This is a normal accounting procedure for British NGOs and is quite admissible under the Grant Agreement. In this regard, we draw attention to Aid Handbook 13 page 4D-2 para 2 which states "The Grantee shall maintain books, records, documents, and other evidence in accordance with the Grantee's usual accounting procedures to sufficiently substantiate charges to the grant." Given that the project vehicles procured through the Grantor were not supplied for some eighteen months, it is unreasonable to suggest that this is not "an actual cost incurred" because the value of the Grantee's own vehicles which were used on the project was reduced as a direct result. This reduction in the value of several vehicles used exclusively on the project, estimated at $9,653.77, is a real cost. The accounting procedure adopted by the Grantee involved a journal entry to reflect this charge, but such depreciation charges could not be entered into the ledger because the vehicles had already been written off against expenditure on other projects. A more appropriate accounting entry would have provided for a ledger credit to be entered to those projects against which the vehicle had been written off. We reject the independent auditor's suggestion that this is a "notional cost" - the exact cost will become apparent upon the sale of the Grantee's vehicles used on the project.

N3:This is an additional actual cost incurred following the use of the Grantee's own vehicles on the project and is allowable under the Agreement. Please explain the basis upon which the determination has been made to support a claim that this cost is unallowable in terms of the Grant Agreement.

N4:Bullbars, stoneguards and bumpers have been fitted to numerous vehicles including USAID vehicles as a standard procedure to improve safety for project staff and to protect project vehicles. It is unclear whether these costs are deemed allowable or unallowable. Should they be deemed unallowable, please explain the basis upon which the determination is made to support the claim that this cost is questioned/unallowable in terms of the Grant Agreement.

N5:The spares for the Grantee's vehicle were ordered following advice from a vehicle repair agency, which subsequently discovered that some of the parts ordered were not required. The Grantee ordered only those parts which were indicated as necessary by the agent. There was no intention to acquire additional spares. All such repairs had to be carried out using imported parts because of acute shortages in the country. It

104

is clear that an under-estimation of required spares would result in prolonged and costly loss of transport. The Grantor was well aware, at the time the cost was reimbursed, that the vehicle belonged to the Grantee. In our opinion, in terms of the Grant Agreement, the Grantor has full authority to reimburse the Grantee for these and other costs included under this section. The eighteen month period between the date the cost was reimbursed and the date upon which it is deemed to be a questioned cost is unreasonably long.

N6:The tyres have been dealt with above, and the assembly of the USAID supplied motorbikes are allowable costs under the Agreement.

Recommendation No.13.

It is noted that 89% of these vehicle maintenance costs have been found to be allowable, and 11% (Z$6,974) is treated as a questioned cost. In note 3.5 of exhibit 1, other maintenance costs of $7,527.98 incurred prior to the arrival of Grantor supplied vehicles are questioned. The Grantee ordered the vehicles, prior to the commencement of the project, on the understanding that the Grantor could procure the vehicles cheaper and more expeditiously than the Grantee. The Grantor, however, took 18 months to deliver the vehicles, with the result that the Grantee, in pursuit of its objectives and obligations under the Grant Agreement, deployed its own vehicles to ensure that staff employed under the project were not unproductive until such time as the vehicles arrived. As far as the accident involving a Grantee vehicle is concerned, the project vehicle maintenance account was credited with the amount recovered from the insurance company, and only the net cost ($2,032.36) was charged to vehicle maintenance. Surplus spares, if used on another project or resold, will be credited to the NRM project vehicle maintenance account. It should be noted that the insurance premiums paid on the vehicles used exclusively on the NRM project were not debited to the account although we believe reasonable grounds exist for so doing. The Grantee challenges the recommendation on the basis that, inter alia, under Attachment 2, the provision of transport facilities is necessary for the Grantee to meet its obligations under the project which explicitly includes provision for staff being "provided with necessary logistical support and facilities."...and "vehicles." It may be appropriate to postulate the inevitable consequence of the Grantee not having supplied its own vehicles to the project, and the Grantor being required to meet, under the terms of the Grant Agreement, the salary costs and the Bulawayo office costs of the NRM project staff who would have been unproductive for 18 months while waiting for delivery of the Grantor procured vehicles. The Grantor was well aware of the need for, and the use of, the Grantee's own vehicles. This is a de facto variation of the Grant Agreement, albeit temporary, that the Grantee's vehicles could be used until such time as the Grantor supplied vehicles arrived. It is thus reasonable to conclude that the payments made for maintenance, depreciation and spares were made by the

105

Grantor on the grounds that they were allowable, allocable and reasonable.

6.2.2. Fluctuations in Salary Costs: Most of these fluctuations arose from staff being recruited as and when required. They are a result, therefore, of responsible recruitment where staff were only recruited according to the demands of the project as they arose. The significant fluctuation (120.1%) arises in period N4, when new staff members were hired exclusively for the project in terms of its adaptive management requirements, and staff bonuses were paid to all staff "consistent with Zimtrust personnel policies."

6.2.3 Office and Staff Accommodation and Rents: Whilst the report notes that "the Trust considered these premises unsuitable for their requirements and purchased their own premises with non-grant funds," it does not take into consideration that the landlord, Mrs Walker, could not offer security of tenure beyond the first year, with the result that Trust was obliged to secure other, more permanent premises.

The Grantee's Trustees have a responsibility to husband the Trust's resources. After noting the difficulty in securing long-term rented office space, as well as the rapidly escalating costs of such space, the Trustees decided that it was appropriate, under the circumstances, to purchase a house using Trust resources to minimise office costs. Savings arising from a constant rental over the period of the project could then be used for the benefit of beneficiary communities.

The Grantee considers it reasonable to charge the project a rental equivalent to the opportunity cost of capital (the interest forgone), on the capital invested in the building. We understand that the Grantor has difficulty in recognising this because the cost cannot be substantiated with vouchers. In order, both for the Grantor to meet its requirement and for the Grantee to be seen to be husbanding its resources, it would appear that the Grantee must either dispose of the property and rent alternative office accommodation (at very high cost to the project), or secure an interest-only mortgage loan against the building (at cost) in order to demonstrate the real cost to the Grantee of such accommodation. It would be most regrettable if the Trustees found that they were obliged, under the Trustee Act, to rent the property to a third party, or to dispose of it altogether, and add the burden of significantly more expensive office rental to the project cost. Accordingly the Grantee seeks a variation to the Agreement which would resolve this problem.

The $12,000 paid to Mr Sparrow was a relocation expense required to persuade him to accept the position in Bulawayo. As this involved considerable disruption to himself and his family in Harare, it was considered a reasonable expense because of his relevant linguistic abilities and work experience in the project area. The payment of a relocation expense in the form of a one-off payment rather than the higher

106

annual salary was considered to be a significant saving on the incentive required to make the position suitably attractive. This payment was a real cost incurred by the Grantee, and not a notional cost. We submit that, in the circumstances, it is consistent with Grantee personnel policies and is a reasonable cost which would be incurred by an ordinarily prudent person in the conduct of normal business and should not be treated as a questioned cost.

6.2.4 Private use of USAID Vehicles: Motor vehicles are very expensive to purchase and operate in Zimbabwe. Few, if any, of the NRM Project staff have their own vehicles, and locking up the project vehicles over the weekend would result in their being without transport over that period.

The Grantee has a policy on motor vehicles which recognises staff's acute need for transport and the inadequate public transport service available in Zimbabwe. It also recognises the tax efficient way in which a staff incentive can be provided at nominal cost to the Grantee. This policy is to make available to staff any vehicle that is not being used for project work in the evenings and over week-ends. No staff member has a right to any vehicle, and any vehicle may be withdrawn, at any time and without notice, to be reallocated for project work. This policy ensures that Trust work takes priority over any private use of vehicles.

We agree with the assessment that the cost of quantifying private use of the vehicles would not justify the benefit to the project. In this regard, staff are entitled to use Trust vehicles for private purposes during their leave, subject to conditions described above, and in these circumstances a charge is easily calculated and the benefit to the Trust Fund fully justifies the cost of calculating and raising such a charge. We refer to Attachment 2 page 15, the penultimate paragraph, which states that "Staff will be provided with necessary logistical support and facilities consistent with Zimtrust personnel policies".

Recommendation No.14.

Given that the Grantee's staff on projects other than the NRM Projects are allowed limited private use of project vehicles, recommendation no.14 creates an internal management problem by denying only NRM Project staff this facility. Accordingly, while the Grantee would readily adhere to a Grantor directive to lock up all vehicles at the Bulawayo office over weekends, we anticipate that additional monthly payments will be required to compensate any NRM Project staff members for the loss of this facility. It should be understood that this policy was implemented as a cost effective benefit, and that any such compensation payment will be comparatively expensive to the project, as staff would have to make use of taxi services to get to and from work.

The computerisation of the Trust accounts includes a software

c 107

package that is being written to enable the Trust to manage its fleet of vehicles including those used on NRM Project. This software calculates kilometres per litre, fuel usage, maintenance costs and monitors the frequency of vehicle servicing. This will ensure a tighter control of all vehicles. It is anticipated that this particular software will be in use by the end of the year.

6.2.5 Field Allowances: we acknowledge recommendation no.15 but draw your attention to the fact that this matter was discussed with the tax department of KPMG Peat Marwick, who advised that staff members would not be liable for tax on these allowances provided they could demonstrate that expenses equivalent to the amount of the allowance had been incurred by the staff concerned in pursuit of their duties, over the relevant financial year. In this regard, we have letters on file to staff members explaining this situation. We should also submit that we were advised that the Grantee would not carry any liability for any personal tax due and payable by any staff member in respect of these allowances.

Following our own investigation of the matter of personal allowances the Grantee has discovered that our Financial Manager had not disclosed these allowances on the P6 for the returns in the last few months of the 1990/1991 financial year. However, similar allowances have been paid by the Trust for a number of years and these allowances have been fully disclosed in the P6 submissions of previous years and most of the 1990/91 year. The Trust shall ensure that full disclosure is made in future and that the error indicated above is corrected.

Recommendation No.15.

The Grantee has no objection to redrafting the contracts of employment as recommended. However, the first Z$100 per month for each employee which has been deemed unsupported by the Auditors is challenged because such costs have been paid by the Trust fund and signed for by the staff concerned as funds received. Such documentation provides the required supporting vouchers. The Grantee's staff policy, several years ago, required that all such expenses in the field had to be accounted for by means of vouchers. This, however, was not cost effective because it took a great deal of management time to collate and administer, particularly because staff were unable to obtain receipts from many rural stores. As a result, the Grantee's policy was modified and the requirement of receipts for every item purchased in the field was dropped, and staff were restricted to the allocated allowance. The question of whether staff have supporting vouchers to demonstrate their expenditure then became a matter between them and their tax inspector. In our opinion, the unsupported costs reported are allowable under the Grant Agreement as they are consistent with the Grantee's personnel policies.

6.2.6 Administrative, Secretarial, and Accounting Staff Costs, Teas and Refreshments: The contention that "the costs incurred in

- 108

the Bulawayo office are unallowable in terms of a Trust letter dated June 23rd 1989 sent to USAID" is without substance. The letter does not constitute a variation to the Grant Agreement because it predates the Agreement, and representations and assertions made prior to the Agreement do not form part of it. This is the view of the Grantee's legal counsel and, accordingly, the Grantee challenges the claim that any administrative, secretarial, and accounting staff costs incurred in the Bulawayo office or elsewhere are unallowable under the terms of the Grant Agreement.

On the issue of teas and refreshments, (Exhibit 1, Note 10) we are of the opinion that such costs should be allowable for the reason that they are incurred directly in the course of project implementation. In many cases, teas and light lunches are provided at planning meetings for staff and other participants. Such meetings are always day-long affairs and are part of staff training workshops. In the interests of team-building and to save time, lunches are provided. We regard this as a perfectly legitimate expense which furthers the interests of the project and is consistent with the Grantee's normal accounting and personnel policies.

The salary costs of Ms Ndlovu ($16,105.88) and Ms Sparrow ($9,496.81) Exhibit 1, Notes 17 and 18, constitute amounts paid to Ms Ndlovu over a period of 14 months for full time services as Office Administrator and, subsequently, as marketing officer for small-enterprise development in the project area and to Ms Sparrow over a period of 21 months for part-time services, firstly as a bookkeeper, subsequently as Office and Accounts Administrator. Ms Ndlovu's contract was terminated in 1991. Both these salary costs were incurred directly in the Bulawayo office as a result of work exclusively on the NRM Project, and are clearly a part of the reasonable, allowable and allocable project costs.

Recommendation No.16.

The Grantee concurs with this recommendation.

6.2.7 Consultant fees and Costs: In the case of the DNPWLM official, we concur with the references made in the Auditor's report to the Grant Agreement which state that "when additional expertise is required, the project manager will locate and hire local or non-local short-term assistance" and further that the official was "contracted to provide conservation expertise necessary for the education and training aspects of the Trust's responsibilities under the Grant." We do not see the relevance of OMB Circular A-122 in this context.

It is noted that the Grantor was concerned that these costs represented "salary supplements" and were therefore unallowable, and for this reason, the costs are questioned. We draw attention to the fact that the contract was agreed because the official concerned had many departmental responsibilities in addition to his NRM Project functions, and was forced to work over weekends and outside normal office hours. Three consultancy fee payments were made, each one for a specific project related job carried out outside normal office hours, or during leave periods. They related to the drawing up of implementation plans which required inputs on resource management. Such inputs are cost-effective and the Grantee believes it is necessary to maintain the option of retaining such services for the NRM Project in future. As far as the salary supplement is concerned, we note that the Public Service Commission does allow civil servants to earn consultancy fees outside normal working hours.

With reference to the questioned amount of Z$1,291,76 (Exhibit 1.3), this cost was incurred by the project, being air fares for Dr B. Child, a DNPWLM employee and the national Campfire Coordinator, who undertook certain activities (attendance at meetings and workshops) which were directly related to and required for project implementation, and were considered by management to be essential inputs.

Recommendation No.17.

We agree with recommendation no.17, that the Trust and USAID should clarify procedures for the contracting of consultants, although we submit that the Grant Agreement provides adequate measures for such eventualities, which we have adhered to.

6.2.8 Interest on Banks: we refer you our letter of 27th December 1989 where it was agreed that all payments were to be made in US Dollars, and banked in our non-resident account. The Reserve Bank of Zimbabwe does not pay interest on such accounts, with the result that no interest was earned. In this regard it should be noted that for the first, second, third, sixth and seventh expenditure quarter periods, the Grantee, in effect, funded the NRM Project from its own resources, thereby suffering an effective interest cost which has never been the subject of a claim against the NRM Project.

The Grantee submits that the NRM Project would benefit if interest was paid on the amounts received and, accordingly, proposes that future US dollar payments are made to its Head Office account at Barclays Bank Plc, Slough International Branch, Epsom, UK which is an interest bearing account and will ensure that NRM Project funds are not commingled with other project funds.

6.2.9 The Grantor's concern of nepotism as a husband and wife are both working in the Bulawayo office is not shared by the Grantee. The wife of the Project manager is efficient and a cost-effective input which furthers the interests of the project. We cannot find any reference in the Grant Agreement which restricts the Grantee from employing husbands and wives, particularly as this is consistent with the Grantee's personnel policies. Two other wives are employed by the Grantee and have worked satisfactorily for the Grantee over the past twelve years. It may be of interest to note that the Project Manager has since left the employ of the Grantee with the result that there are no husband and wife teams working in the Bulawayo office at present.

6.2.10 The Grantee refers the Auditors to its fax of 11th February 1992 which demonstrates that the foreign exchange gain detailed in the schedule represents the Zimbabwe dollar value as at the dates of payments, most of which were made in arrears. These gains are notional as they are measured in Zimbabwe dollars which, when re-converted to US dollars, equal the amounts actually expended by the Grantee in US dollars.

6.3 CONCLUSION

As will be noted from the foregoing and the notes to Exhibit 1 below, our assessment is that $17,252.07 of the total costs of $555,601 which were claimed by the Grantee comprise costs which remain either questioned or unsupported management costs under the Grant Agreement. These questioned and unsupported management costs are significantly less material than the total contained in the fourth draft of the report, as they represent 3.1% of the total costs claimed. We acknowledge that these costs have been claimed in error and we intend to repay them to the Grantor; they comprise the following:-

QUESTIONED COSTS

1.5	Speciss College	$ 19.00	
3.3	Sherwood Export	$ 1 307.20	
3.5	Imported Spares	$ 2 032.36	
3.7	Local air travel	$11 465.52	$14 824.08

UNSUPPORTED COSTS

2.1	Haddon and Sly	$ 46.37	
2.4	The Chronicle	$ 33.43	
2.5	J. Moyo (cost claimed twice)............	$ 212.42	
2.6	J. Moyo (cost claimed twice)............	$ 199.79	
2.7	J. Moyo (cost claimed twice)............	$ 263.56	
2.8	M. Sparrow (cost claimed twice).........	$ 39.89	
2.9	S. Ndlovu (cost claimed twice)..........	$ 300.30	
2.10	Postage	$ 22.90	
2.11	Bank charges	$ 10.69	
4.2	Furniture and Equipment	$ 2.06	
5.1	District Council Inputs	$ 1 296.58	$ 2 427.99
	TOTAL QUESTIONED AND UNSUPPORTED COSTS.............		$17 252.07

All costs queried in this fourth draft report as either questioned or unsupported management costs are listed together with appropriate explanations in the Grantee's response to Exhibit 1 on the following four pages.

\\\\(

NOTES TO EXHIBIT 1.

1. QUESTIONED PROJECT MANAGEMENT COSTS

DETAILS	DATE	AMOUNT Z$	RESPONSES TO AUDITOR'S QUERIES
1. Davis Granite	Mar 90	155,10	General office expense rather than capital improvement - maintenance of driveway following heavy vehicle use.
2. Lynne Russel	Mar 90	68,00	L. Russell is a partner in Top Flyte Employment Consultants.
3. L. Keyser	Sep 90	100,00	Maintenance; Repair to borehole was a legitimate cost incurred thru' daily usage thereof by project staff.
4. Biddulphs Removal	Dec 90	125,00	Furniture removal of NRM Project equipment, conveyed to National Parks in error, re-routed by M. Jones, a Parks employee.
5. Speciss College	Jan 91	50,00	Admin. error. NCDPZ to be invoiced for this amount.
6. Apex Garden Centre	Feb 91	203,50	General office expense rather than capital improvement - maintenance of driveway following heavy vehicle use.
7. The Cattleman	Sep 91	68,30	Not an entertainment cost. This cost was incurred as part of a staff training exercise. See para. 6.2.6
8. Banff Lodge	Sep 91	164,55	These costs were incurred on NRM Project business. L.Rihoy is NRM Project Monitoring Officer.
9. Truckit Transportation	Jan 91	670,00	General office expense rather than capital improvement - maintenance of driveway following heavy vehicle use.
10. Teas and refreshments	Period	1 115,80	See our Para. 6.2.6
11. Indirect Management Costs	Period	139 274,51	See our Para. 4.2.1
12. Lions Den	Aug 90	460,00	This transport cost was incurred by NRMP as part of a field exercise conducted jointly with Forestry Commission. Error by supplier.
13. Office machine repairs	Jan 91	3 500,00	Mr Sparrow's private computer was being used for NRMP, in absence of AID computers supplied 18 months after order. Motherboard was damaged by an electrical storm and had to be replaced - consistent with ZT personnel policies.
	c/f	145 954,76	

112

NOTES TO EXHIBIT 1.

1. QUESTIONED PROJECT MANAGEMENT COSTS (continued)

DETAILS	DATE	AMOUNT Z$	RESPONSES TO AUDITOR'S QUERIES
	b/f	145 954,76	
14. Kitchen equipment	Mar 90	2 606,96	Purchase of refrigerator, kitchen cupboard, for exclusive use of NRM project office, for consumables used for planning & training at NRMP office.
15. M. Jones	Feb 90	1 125,00	See our para. 6.2.7
16. M. Jones	Sep 90	1 500,00	See our para. 6.2.7
17. M. Sparrow	Dec 89 to Sep 91	26 050,50	Salary, legitimate administrative cost. See our para. 6.2.6
18. S. Ndlovu	Dec 89 to Feb 91	30 032,60	Salary, legitimate administrative cost. See our para. 6.2.6
		207 269,82	

113

NOTES TO EXHIBIT 1.

2. UNSUPPORTED PROJECT MANAGEMENT COSTS

DETAILS	DATE	AMOUNT Z$	RESPONSES TO AUDITOR'S QUERIES
1. Haddon and Sly	Mar 90	105,38	Groceries, for training purposes. Till slip misplaced either by administrator who has left the Trust, or by other staff or by external auditors. Cannot get duplicate.
2.4. The Chronicle	Sep 90	84,60	Newspaper subscription for NRM Project office. Cash slip could have been lost during previous audit, cannot supply duplicate.
3. M.Jones	Nov 90	3 000,00	Consultancy services; see our para 6.2.7
4.J. Moyo	Jan 90	1 500,00	J. Moyo started working on the NRM Project in Dec. 89, and was formally transferred in Feb. 90. This cost was therefore incurred by the NRM Project.
5.J.Moyo	Mar 90	482,78	clerical error on PAYE-recovery from Tax dept.
6. J. Moyo salary	Jun 90	487,30	clerical error "
7. J. Moyo salary	Jul 90	642,83	clerical error "
8. M. Sparrow salary	Mar 90	90,65	clerical error "
9. S. Ndlovu salary	Mar 90	682,50	clerical error "
10. Postage	Qtr 5	60,27	clerical error "
11. Bank charges	Qtr 3	26,08	clerical error "
12. Indirect costs	Qtr 6	21 708,19	see our para. 4.2.1
13. J. Moyo	Jun 90 Sep 91	1 600.00	field allowances shown on payslips, records kept in salaries file
14. J. Muzamba	Jan 91 Sep 91	900.00	field allowances shown on payslips, records kept in salaries file
15. T. Dube	Jan 91 Sep 91	900.00	field allowances shown on payslips, records kept in salaries file
16.N. Zondo	Jan 91 Sep 91	900.00	field allowances shown on payslips, records kept in salaries file
17.V. Ncube	Jan 91 Sep 91	900.00	field allowances shown on payslips, records kept in salaries file
18.L. Menele	Jan 91 Sep 91	900.00	field allowances shown on payslips, records kept in salaries file
19.B.Foulds	Apr 91 Sept 91	600.00	field allowances shown on payslips, records kept in salaries file
Total		35 570.58	

114

NOTES TO EXHIBIT 1.

3. QUESTIONED OPERATING COSTS

DETAILS	DATE	AMOUNT Z$	RESPONSES TO AUDITOR'S QUERIES
1. Barons Motor Spares	Jul 90	127,04	Car battery purchased for project, see attached voucher.
2. Budget Tours	Sep 91	1 291,76	Airfares for Dr B. Child, National Campfire Coordinator, cost incurred by project, see our para. 6.2.7.
3. Sherwood Export	Jun 90	3 188,30	Allocated to NRMP in error.
4. Amity	Jan 91	1 144,10	NRMP staff member damaged a Forestry Commission Landcruiser in Tsholotsho while on project business involving the two agencies.
5. Imported spares	Apr 91	6 974,47	Z$12 934,51 of spares imported, of which $5 960,34 used to repair Trust vehicle. The balance are to be used for NRMP vehicles. None of the spares was available from NRMP stocks.
6. Office furniture	Dec 90	1 855,93	Office furniture was purchased for NRMP and is part of NRMP inventory. M. Jones occupies office containing this furniture; it is a NRM project cost.
7. Local air travel	Qtr 1	26 057.99	These costs were incurred during planning and design phase. Zimtrust allocated these costs to NRMP because they were all specific to the project.
8. Vehicle maintenance	Mar 90 Nov 90	18 540.00	Allowable cost under Agreement - defacto variation
9. Expenditure greater than budget	Period	37 175.56	Allowable expense under the Agreement-budget lines interchangeable by express prior agreement
		96 355.15	

115

NOTES TO EXHIBIT 1.

4. UNSUPPORTED OPERATING COSTS

DETAILS	DATE	AMOUNT Z$	RESPONSES TO AUDITOR'S QUERIES
1.Staff Accommodation	Qtr1	12 000.00	This sum was repaid in Jan 91. see our para. 6.2.3
5. Furniture and equipment	Qtr 7	8.00	Clerical error
6. Depreciation	Qtr 3	23 545,77	This was claimed against NRMP for usage of Trust vehicle in absence of USAID vehicles. Entry was journalised, but not entered in General Ledger, in accordance with Trust practice.
		35 553,77	

5. UNSUPPORTED DISTRICT COUNCIL INPUTS

DETAILS	DATE	AMOUNT Z$	RESPONSES TO AUDITOR'S QUERIES
1. District Council Inputs	Qtr 6	4 449,50	clerical error
		4 449,50	

Yours faithfully

A Madden

DIRECTOR

APPENDIX 3

Ernst & Young

■ Chartered Accountants (SA)
Ernst & Young House
4 Pritchard Street
PO Box 2322
Johannesburg 2000

■ Telephone (011) 498-1000
Telefax (011) 498-1110
Docex 130

BMH/edp/1479

20 July 1992

Keith Madders Esq.
Zimbabwe Trust
The Old Lodge
Christchurch Road
Epsom, Surrey KT19 8NE
ENGLAND

Dear Keith

MISSION CONTRACTED AUDIT OF ZIMBABWE TRUST UNDER NATURAL RESOURCES MANAGEMENT PROJECT NO. 690-0251-13, ZIMBABWE TRUST COMMENTS

Your comments dated 8 July 1992 refer.

We have amended our draft report (in bold) to exclude any material non-compliance with the Grant Agreement terms and applicable laws and regulations in section 4.1.

You have requested copies of SAS 55, 62 and 63. This matter was discussed with Julian Sturgeon and he considered it unnecessary for Ernst & Young to send you copies. If you would like copies they can be obtained from the American Institute of Certified Public Accountants. Copies of USAID MACS reports can be obtained from USAID although these reports were only relevant to our audit work.

Certain correspondence referred to in your letter was not made available to ourselves even though we had requested copies of all correspondence between USAID and the Trust. Could you please forward copies of the letters referred to on page 6, dated 26 January 1991 and 22 February 1992 and any other correspondence between the Trust and USAID.

117

Paragraph 2.1 questions the legal implications of US Government Auditing Standards for the Trust. These standards do not affect the Trust but govern how we, as auditors, must perform our audit work.

Paragraph 3.1 raises the significance of "section 319" to the Trust. Section 319 merely provides a description of the components of an internal control structure which we have described in paragraph 3.2.1 of our report.

Paragraph 3.3.4 states that the Trust and USAID verbally agreed that USAID " was not considered with the allocations of expenditure to particular budget lines, but rather with the total amount of all such lines". We are unaware of this agreement, it is contrary to what USAID told us and therefore costs in excess of budget lines are still treated as questioned.

Paragraph 3.4.3 insinuates that Ernst & Young could be responsible for losing original documentation. We reject this insinuation and state that we did not lose or remove original documentation from the Trust's premises. You go on to state that "duplicates" have been obtained for certain missing documentation. Copies of original documentation do <u>not</u> provide sufficient audit evidence as required under generally accepted auditing standards and therefore costs without original documentation are still treated as unsupported.

Apropos the $660 claimed from USAID as a salary for J. Moyo, indicated as "a cost claimed but not incurred". The matter here is not whether J. Moyo was employed by the Trust but that the Trust could not provide evidence that a payment was actually made.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO ZIMBABWE

INTERNATIONAL MAIL
1 Pascoe Avenue
P.O. Box 6988
Harare, Zimbabwe

UNITED STATES MAIL
Agency for International Development
Harare (ID)
Washington DC 20521-2180
U.S.A.

April 30, 1992

Mr. Brian Hawksworth
Ernst & Young
4 Pritchard Street
Johannesburg 2000

Subject: Zimtrust Audit Report

Dear Mr. Hawksworth:

Following are USAID's comments to the Zimtrust audit report:

"USAID concurs in all the audit findings and has requested Zimtrust to make the necessary corrections or adjustments to their accounting records and management systems based on the draft audit report. It should be noted in the report, however, that USAID took exception to the Trust billing overhead type costs for two reasons:

1. The grant did not provide for overhead and therefore such costs could not be charged to the grant and;

2. The grantee had, during the project design phase, indicated they would absorb such costs.

In fact, the original basis for the audit was to establish an overhead rate which could be approved and included in a future grant amendment.

The audit has focused on the need for USAID, as well as Zimtrust, to improve their monitoring and management systems and better define each parties' roles and responsibilities via a grant amendment."

Phones 720630/720739/720757
Country Code 263, City Code 4
Telex No. 24428 ZW
Fax No. 722418

Thank you for the time and effort devoted to completing this audit report. We look forward to receiving the final report from RIG/Nairobi.

Sincerely,

Ted D. Morse
Director

120

Paragraph 4.1 questions the applicable laws and regulations that have a bearing on the Grant and the Trust. We are not solicitors, but nevertheless have a duty to be aware of certain laws. This is demonstrated in paragraph 6.2.5 of our report where it was noted that the Trust had failed to reflect field allowances on the employee's P6 forms as required by the Zimbabwe Income Tax Act.

Your response to recommendation number 11 that because the Trust financed the project from its' own resources and subsequently claimed the amounts from USAID it had converted from the Payment-Periodic Advance method to the Payment - Cost Reimbursement method is unjustified in our opinion. The Trust's non-compliance with the Grant does not convert the agreement from one basis to another and the Trust continued to utilise the standard documentation for the Payment-Period Advance method.

The fact USAID agreed to pay amounts into the Trust's non-resident account does not imply that USAID also agreed to the Trust commingling USAID funds.

Paragraph 6.2.1 deals with the vehicle maintenance costs, particularly costs incurred on Trust vehicles prior to receiving USAID vehicles. Without debating the merits of each agreement the costs have been treated as questioned because the grant officer has indicated that they are unallowable and the grant officer is given the authority to decide which costs are allowable in terms of AID Handbook 13 page 4D-1 paragraph 1(a). Private use of USAID vehicles can not be considered necessary to the grant under any circumstances.

Enclosed find the amended report for your consideration. Please forward your comments to us at your earliest convenience.

Yours sincerely

Brian M. Hawksworth

121

<u>ATTACHMENT II</u>

REPORT DISTRIBUTION

American Ambassador to Zimbabwe	1
Mission Director, Zimbabwe	5
RCO/USAID/Swaziland	1
A/AID	2
AA/AFR	2
AA/FA	1
AA/OPS	1
AFR/SA/ZSSM	1
AFR/CONT	1
XA/PR	1
LEG	1
GC	1
FA/FM	1
POL/CDIE/DI	1
FA/MCS	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/C&R	5
AIG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/EUR/W	1
RIG/A/Vienna	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RAO/Manila	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
IG/RM/GS (Unbound)	1

122