

Regional Inspector General for Audit  
Nairobi, Kenya

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**Audit of  
USAID/Zimbabwe's Implementation of  
Agency Guidance on Oversight of  
Host Country Contracting**

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Report No. 3-613-93-09  
May 25, 1993





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

May 25, 1993

**MEMORANDUM**

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

**FROM:** RIG/A/Nairobi, Everette B. Orr *Everette B. Orr*

**SUBJECT:** Audit of USAID/Zimbabwe's Implementation of Agency Guidance on Oversight of Host Country Contracting

*Regional  
Inspector General  
for Audit/Nairobi*

This memorandum is our report on the "Audit of USAID/Zimbabwe's Implementation of Agency Guidance on Oversight of Host Country Contracting", Report No. 3-613-93-09. We have considered your comments on the draft report and have included them as an appendix to this report (see Appendix II). Based on the results of our audit, the report contains no recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

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**Summary of Audit Findings**

The audit found that USAID/Zimbabwe implemented the November 1990 Agency guidance on oversight of host country contracting. In accordance with the guidance, USAID/Zimbabwe (1) assessed and certified host country contracting agencies' capabilities to undertake A.I.D.-funded procurement, (2) approved interim procurement steps and contract administration actions taken or proposed by host country contracting agencies, (3) used observers on proposal evaluation panels, (4) issued guidelines to ensure that the Regional Legal Advisor and the Regional Commodity Management Officer were included in the review and approval process, and (5) planned and funded contract audits.

The audit covered three host country contracts with obligations totaling \$33.2 million awarded since November 1990 by a host country contracting agency, the National Railways of Zimbabwe under the Regional Transport Development II - Zimbabwe Railways Project, for which USAID/Zimbabwe had performed a capability assessment, a certification and a recertification. The audit also covered a capability assessment of the Zimbabwe National Family Planning Council for which no certification had been made because no host country contracts in excess of \$250,000 had been awarded or were anticipated.

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## **Background**

In November 1990, A.I.D. issued State Cable 399975 entitled "Final Host Country Contracting Guidance Cable" to A.I.D. locations worldwide which contained immediately effective guidance for A.I.D. Handbook 11 host country contracts exceeding \$250,000 in value. Containing measures designed to strengthen A.I.D.'s oversight of the host country contracting process, the guidance responded to concerns regarding A.I.D.'s oversight as expressed by the Inspector General, the U.S. General Accounting Office (GAO), and the Congress.

The Cable noted that the GAO had criticized the quality of A.I.D.'s assessments of host country contracting agencies' capabilities and the lack of professional contracting officer involvement in the host country contracting process. In a May 1991 report -- Foreign Assistance: A.I.D. Can Improve Its Management and Oversight of Host Country Contracts, GAO/NSIAD-91-108 -- the GAO concluded that, "contrary to A.I.D. guidance, Missions generally did not conduct assessments of host country contracting, voucher review, and audit capabilities before deciding whether to use a host country contract. In those cases when assessments were made, they generally were after the fact and were of such low quality that they were of little practical use." To correct this problem, the report recommended that the A.I.D. Administrator ensure that Missions fully comply with recently issued A.I.D. guidance on host country contracting.

The guidance requires that for host country contracts exceeding \$250,000, (1) Missions should assess the host country contracting agency's capability to undertake A.I.D.-funded procurement, (2) Mission Directors should certify the acceptability of the proposed contracting agency, (3) Missions should formally approve significant steps that the host country contracting agency takes in the contracting process, and (4) a larger role should be assigned to professional A.I.D. Contracting and/or Commodity Management Officers in approving and monitoring the use of host country contracts.

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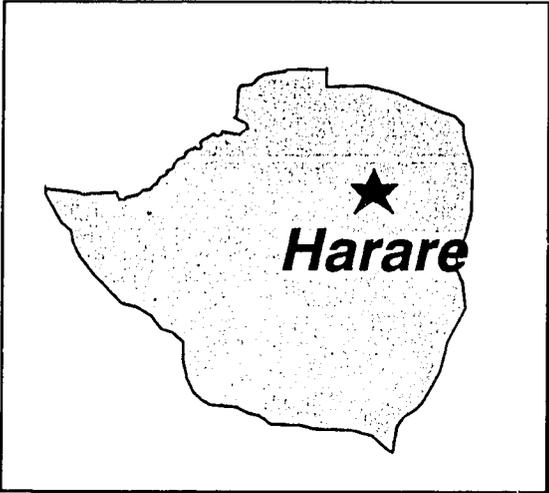
## **Audit Objectives**

As part of an A.I.D.-wide audit, this audit was designed to answer the following objectives:

1. Did USAID/Zimbabwe assess and certify host country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host country contracting guidance?
2. Did USAID/Zimbabwe comply with A.I.D.'s November 1990 guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, in assigning new responsibilities to mission contracting and commodity officers, and in planning and funding contract audits?

In answering these audit objectives, we tested whether USAID/Zimbabwe implemented and followed the internal controls prescribed by the November 1990 host country contracting guidance. A discussion of the scope and methodology for this audit is in Appendix I.

# Zimbabwe



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## **Audit Findings**

### **Did USAID/Zimbabwe assess and certify host country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host country contracting guidance?**

USAID/Zimbabwe assessed and certified host country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host country contracting guidance.

State Cable 399975, dated November 27, 1990, Section 3.B(1) states that before host country contracting procedures can be used to undertake a procurement exceeding \$250,000 in value, the Mission Director must make a determination in writing that the host country contracting agency has or will obtain the capability to undertake the procurement. In addition, the Mission Director must certify, based upon an assessment, that the host country agency is capable of undertaking procurement actions financed by A.I.D. Section 3.B(4) of the cable further states that assessments should be performed at the design stage and the results summarized in the administrative section of the project paper. This documentation is required to support a selection of host country contracting as the preferred mode of project implementation.

The cable guidance further states that assessments should be repeated, or updated by limited reviews, at three year intervals or when staff, organizational or legal changes suggest the need for more current assessment of host country contracting agencies' procedures and capabilities.

The audit universe consisted of two assessments, one certification and one recertification for two host country contracting agencies. One assessment, the certification and the recertification were for the National Railways of Zimbabwe. The other assessment was for the Zimbabwe National Family Planning Council.

Three host country contracts in excess of \$250,000 were awarded by the National Railways of Zimbabwe under the Regional Transport Development II - Zimbabwe Railways Project after the issuance of the November 1990 final guidance on host country contracting. The project paper, which was signed in August 1990, included a capability assessment of the National Railways of Zimbabwe that was conducted in May 1990 and followed the instructions contained in the interim guidance prior to the November 1990 final guidance. The Mission Director signed a certification based on the capability assessment of the National Railways of Zimbabwe and the recommendations of the Project Officials, the Regional Commodity Management Officer and the Regional Legal Advisor. In addition, USAID/Zimbabwe updated the assessment of and recertified the National Railways of Zimbabwe's capability to undertake procurement actions financed by A.I.D. in July 1992 in a project paper supplement.

Under the Zimbabwe National Family Planning Project, USAID/Zimbabwe conducted an assessment of the Zimbabwe National Family Planning Council in January 1992. However,

since no host country contracts in excess of \$250,000 had been awarded or were anticipated, the Mission Director had not signed a certification.

**Did USAID/Zimbabwe comply with A.I.D.'s November 1990 host country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, in assigning new responsibilities to mission contracting and commodity management officers, and in planning and funding contract audits?**

USAID/Zimbabwe complied with A.I.D.'s November 1990 host country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, in issuing guidelines to ensure that the Regional Legal Advisor and the Regional Commodity Management Officer were included in the review and approval process, and in planning and funding contract audits. A complete summary of actions required and completed by USAID/Zimbabwe is found in Appendix III.

State Cable 399975, dated November 27, 1990, Section 3.C specified nine interim steps in the host country contracting process that require A.I.D. approval. In addition, Section 3.D states that where evaluation panels are utilized, a representative of the Mission will be included in the host country contracting agency's proposal evaluation panel as an observer in order to ensure that the evaluation is done fairly. Furthermore, Section 3.C(4) requires Missions to issue or amend Mission orders or other directives to ensure that Contracting Officers and/or Commodity Management Officers are included in the review and approval of host country contracting actions. Also, Section 4 requires Missions to ensure that audits of host country contracts are planned at the project paper stage and project or trust funds are set aside for the performance of such audits.

The audit universe consisted of three host country contracts in excess of \$250,000 awarded by the National Railways of Zimbabwe under the Regional Transport Development II - Zimbabwe Railways Project since the November 1990 guidance with obligations and disbursements of \$33,213,927 and \$29,949,356 respectively as of January 14, 1993, which we audited.

USAID/Zimbabwe approved interim procurement steps and contract administration actions in the host country contracting process in accordance with the November 1990 guidance by the issuance of Project Implementation Letters. In addition, the USAID/Zimbabwe Regional Commodity Management Officer, the Regional Legal Advisor, the Regional Engineer, Mission Project Officials and an outside engineering consulting firm represented USAID/Zimbabwe as observers in the host country proposal evaluation panels. Furthermore, USAID/Zimbabwe issued guidelines to ensure that the Regional Legal Advisor and the Regional Commodity Management Officer were included in the host country contracting review and approval process. Also, the Mission had planned and budgeted funds for contract audits during the design of the project



One of 13 General Motors Diesel-Electric Locomotives purchased under a \$23.73 million host country contract.

paper. Appendix III contains a summary of USAID/Zimbabwe's implementation of host country contracting guidance regarding audit objective two. Following are the three host country contracts that were awarded under the Regional Transport Development II - Zimbabwe Railways Project:

- The National Railways of Zimbabwe purchased 13 General Motors diesel-electric locomotives, spare parts and training under a host country contract for \$23.73 million.
- Under a second A.I.D.-funded host country contract, the National Railways of Zimbabwe purchased 46 Caterpillar diesel engines, spare parts and technical assistance for \$7.48 million.
- The third A.I.D.-funded host country contract was for the procurement of \$1.94 million of General Motors spare parts necessary to repair four damaged locomotives.

The National Railways of Zimbabwe officials stated that the 13 diesel-electric locomotives and the 46 diesel engines purchased under the host country contract with A.I.D. funds were instrumental in the country's drought relief effort.

### **Management Comments and Our Evaluation**

In response to the Record of Audit Findings and the draft report, USAID/Zimbabwe stated that the Mission fully concurred with the findings and was pleased to note that they were in full compliance with the Agency guidance on host country contracting. The Mission attributed the implementation of the Agency guidance on host country contracting to the cooperation of the host government as well as the host government's existing procurement systems. USAID/Zimbabwe also stated that it had implemented the Host Country Contracting guidance as the Mission's standard operating procedure for all projects, regardless of the level of contracting anticipated.

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## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/Zimbabwe's implementation of the controls cited in the November 1990 Agency guidance on oversight of host country contracting in accordance with generally accepted government auditing standards, except that the audit did not test compliance with the provisions of laws, regulations, grants or contracts to answer the audit objectives. The primary purpose of the audit was to assess whether the guidance was implemented and did not try to determine whether the Mission had resolved any identified host country contracting problems of the past. As part of an A.I.D.-wide audit, we conducted this audit at USAID/Zimbabwe between January 5, 1993 and February 11, 1993.

Our audit included three host country contracts in excess of \$250,000 awarded by one host country contracting agency under one project since November 1990. These three contracts had been awarded by the National Railways of Zimbabwe under the Regional Development II-Zimbabwe Railways Project totalled \$33.2 million in obligations, \$29.9 million in disbursements and constituted 11.48 percent of the Mission's total obligations of \$289.2 million and 13.57 percent of the Mission's total disbursements of \$220.8 million as of January 14, 1993.

Our audit was conducted in the offices of USAID/Zimbabwe. In performing the audit we obtained documentary and testimonial evidence from USAID/Zimbabwe officials and the Regional Commodity Management Office, REDSO/ESA; assessed internal controls related to each audit objective; reviewed a prior audit report on A.I.D.'s monitoring of the host country contracting process and verified evidence through examination of supporting documentation. We also made site visits to the Lochinvar Railway Depot in Harare and the Dabuka Railway Depot in Gweru to physically inspect locomotives and locomotive engines procured under the three contracts. We tested the reliability of computer-processed data generated by the Mission Accounting and Control System (MACS) by testing 23 transactions recorded in MACS. We also reviewed two prior audit reports for USAID/Zimbabwe -- Audit of Security Controls for the Wang VS Computer Used to Safeguard the Mission Accounting and Control System (Audit Report No. 3-613-92-013, July 29, 1992) and USAID/Zimbabwe's Commodity Import Programs Follow-Up (Audit Report No. 3-613-91-11, August 21, 1991). In addition, we reviewed G.A.O.'s May 1991 report -- Foreign Assistance: A.I.D. Can Improve Its Management and Oversight of Host Country Contracts( GAO/NSIAD-91-108).

The audit was limited to testing USAID/Zimbabwe's implementation of the November 1990 Agency guidance on host country contracting and did not test compliance with laws, regulations, grants or contracts to answer the audit objectives.

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## **Methodology**

In addition to the specific methodology followed for each audit objective shown below, we also reviewed USAID/Zimbabwe's Internal Control Assessments for 1991 and 1992 to determine whether the evaluation disclosed any material weaknesses in host country contracting. We negotiated with USAID/Zimbabwe and obtained a representation letter which contained all essential assertions relating to our audit objectives. The methodology for each audit objective follows.

### **Audit Objective One**

The first objective was to determine whether USAID/Zimbabwe assessed and certified host country contracting agencies' capabilities in accordance with A.I.D.'s November 1990 host country contracting guidance. To accomplish this, we reviewed two capability assessments, one certification and one recertification performed by USAID/Zimbabwe in accordance with guidance. This represented 100 percent of all assessments, certifications and recertification that were required and done by USAID/Zimbabwe since the November 1990 guidance on host country contracting.

We reviewed the assessments to determine whether they covered essential topics addressed in the November 1990 guidance in sufficient depth to provide the Mission Director enough information on which to base a certification decision. Also, we reviewed the certifications to determine if they contained the declarations quoted in the guidance, especially a reference to the capability assessment report and the recommendations of the Project Officer, the Commodity Management Officer, the Legal Advisor and Controller. Further, we reviewed action memoranda or other similar documentation for the Mission Director's information or signature that recommended certification of the host country contracting agencies' capability to undertake host country contracting.

We interviewed Mission officials and the Regional Commodity Management Officer who were responsible for ensuring that capability assessments and Mission director's certifications were performed at the project design stage and the results summarized in the administrative section of the project paper as support for a selection of host country contracting as the preferable mode of project implementation.

### **Audit Objective Two**

To answer the second objective, we determined whether USAID/Zimbabwe complied with A.I.D.'s November 1990 host country contracting guidance in approving interim procurement steps and contract administration actions, in using observers on proposal evaluation panels, in

issuing guidelines to ensure that the Regional Legal Advisor and the Regional Commodity Management Officer were included in the review and approval process, and in planning and funding contract audits. To accomplish this, we reviewed three host country contracts that had been awarded since the November 1990 guidance by USAID/Zimbabwe in accordance with the guidance. These three host country contracts which represented 100 percent of all host country contracts in excess of \$250,000, awarded since the November 1990 guidance and financed by USAID/Zimbabwe, totalled \$33,213,927 in obligations and \$29,949,356 in disbursements as of January 14, 1993.

We determined if USAID/Zimbabwe formally approved interim procurement steps and contract administration actions such as subcontracts, amendments, and change orders and if the recommendations of the Regional Commodity Management Officer were included in the Mission's clearance process along with those of the Legal Advisor, Controller and appropriate Project Officers before approvals were conveyed to the host country contracting agency. Also, we determined if the Mission assigned Mission representatives as observers on the host agency's proposal evaluation panel to ensure that the evaluation was done fairly in accordance with the method and criteria stated in the solicitation document. We also determined if the assigned observers appeared to be qualified in accordance with the November 1990 guidance and whether the observers did what was required by the guidance.

Further, we determined whether USAID/Zimbabwe developed and issued a Mission order or other directive giving Contracting and/or Commodity Management Officers new professional responsibility for ensuring that procurement actions performed by the host country agency met professional standards for solicitation, negotiation, selection award and administration.

In addition, we determined whether USAID/Zimbabwe ensured that audits of host country contracts were planned at the project paper stage and funds budgeted for the audits. We also interviewed Mission officials and the Regional Commodity Management official responsible for reviewing and approving interim procurement steps and contract administration actions, serving as observers on proposal evaluation panels, and planning and budgeting funds for contract audits.

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MANAGEMENT RESPONSE

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RIG/A/N

DATE: April 26, 1993  
FROM: FAX NO. 263-4-722413 OR 720722  
*ML* Mary L. Lowellen, Acting Director  
USAID/Harare  
TO: Everett B. Orr FAX NO. 254-2-213551 or 337304  
RIG/A/Nairobi  
SUBJECT: AUDIT OF USAID/ZIMBABWE'S IMPLEMENTATION OF  
AGENCY GUIDANCE ON OVERSIGHT OF HOST COUNTRY  
CONTRACTING  
REF: Memorandum dated April 22, 1993  
NO. OF PAGES: 1 - Cover Sheet Only

MESSAGE:

Mission concurs in findings of draft audit report.  
We appreciate your assistance in auditing USAID's compliance  
with Host Country Contracting.  
Regards,

(A)DIR:MLL: MLL

OFFICIAL

**SUMMARY OF USAID/ZIMBABWE'S IMPLEMENTATION OF HOST  
COUNTRY CONTRACTING GUIDANCE -- AUDIT OBJECTIVE TWO**

<b>ACTION REQUIRED</b>	<b>HCC NO. 1 (LOCOMOTIVES PROCUREMENT)</b>	<b>HCC NO. 2 (LOCOMOTIVE ENGINES PROCUREMENT)</b>	<b>HCC NO.3 (LOCOMOTIVE SPARE PARTS PROCUREMENT)</b>
USAID/Zimbabwe approved selected applicable interim procurement steps and contract administration actions	YES	YES	YES
Observers who participated in proposal evaluation panels	- RCMO - RLA - REO / PO - U.S. CONSULTING ENGINEER'S FIRM (under an A.I.D.-direct contract)	- RLA - RCMO - REO / PO	- NOT APPLICABLE - SINGLE SOURCE PROCUREMENT USED. - WAIVER OBTAINED.
Issued guidelines to include the RCMO and RLA in the HCC review and approval process	YES	YES	YES
Planned and budgeted funds for audit	YES	YES	YES

acronyms used

HCC	Host Country Contract
PO	Project Officer
RCMO	Regional Commodity Management Officer
REO	Regional Engineering Officer
RLA	Regional Legal Advisor

APPENDIX IV

REPORT DISTRIBUTION

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