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Regional Inspector General for Audit
Nairobi, Kenya

Audit of the
USAID/Mozambique
Contract No. 656-0247-C-00-0037-00
with Louis Berger International, Inc.

Report No. 3-656-95-003-N
July 31, 1995



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July 31, 1995

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR MISSION DIRECTOR, USAID/MOZAMBIQUE

FROM: Acting RIG/A/Nairobi, *John J. Burns*

SUBJECT: Agency-contracted Audit of USAID/Mozambique Contract No. 656-0247-C-00-0037-00 with Louis Berger International, Inc. for the period May 21, 1990 to June 30, 1994
Audit Report No. 3-656-95-003-N

*Regional
Inspector General
for Audit/Nairobi*

Attached are three copies of an Agency-contracted audit of USAID/Mozambique Contract No. 656-0247-C-00-0037-00 with Louis Berger International, Inc. (LBI). The non-Federal accounting firm of Price Waterhouse, Johannesburg, South Africa, performed the audit.

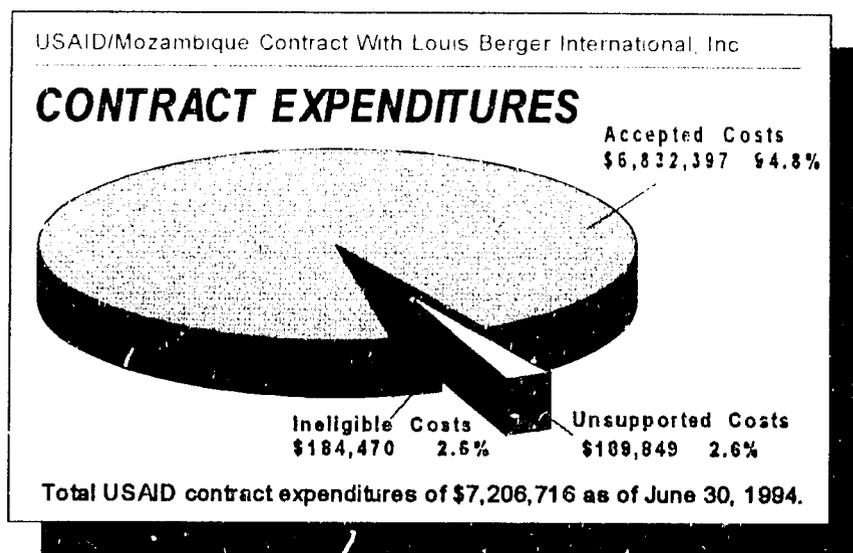
The contract between USAID/Mozambique and LBI was signed in 1990 and, as amended, had a total obligation of \$9.76 million with a contract completion date of June 30, 1995. The purpose of the contract was to provide technical assistance to the Republic of Mozambique (GRM) in support of the USAID-funded Regional Rail Systems Support Project No. 690-0247. The project seeks to strengthen and expand the capacity and operational efficiency of regional rail transport. The contract with LBI was to improve the Mozambique Railways' financial management and accounting systems.

The objective of the audit was to examine LBI's Fund Accountability Statement (Statement) and express an opinion as to whether the Statement presents fairly the use of funds in accordance with the contract. To answer the objective, the auditors were to review the auditee's internal control structure to determine the auditing procedures necessary for expressing an opinion on the Statement. The auditors were required to report on significant internal control deficiencies and material weaknesses. As part of obtaining reasonable assurance about whether the Statement was free of material misstatement, the auditors were required to test the auditee's compliance with the terms of the contract and report any instances of material noncompliance. The audit covered contract expenditures of \$7,206,716 made as of June 30, 1994, although actual salary and allowance payments of approximately \$2 million were not verified because payroll records for foreign-based staff were kept at LBI's head office in the U.S.

The auditors issued a qualified opinion on LBI's Fund Accountability Statement since the audit identified \$184,470 in questioned ineligible costs and \$189,849 in questioned unsupported costs. The audit report also disclosed six reportable conditions involving LBI's internal controls although none were considered material weaknesses. In addition, one immaterial instance of non-compliance was also reported.

The draft report was submitted to LBI and to USAID/Mozambique for comments. USAID/Mozambique provided minor comments on the contents of the draft report and these comments were taken into consideration in the preparation of the final report. The Mission's comments are included in their entirety at Appendix C. LBI generally disagreed with the auditors' opinion regarding the questioned costs. However, the auditors rightly maintain that the expenditures are questionable and provide their rebuttal to LBI's position. The most significant disputes concern Finding Nos. 2 and 3 (pages 13 to 17) involving the use

of an overhead rate for local national salaries and the claiming of a 10% fee on subcontractor costs. Several findings also relate to the quality of documentation available to support contract expenditures. LBI contends these problems are a result of the "unsophisticated" working environment that exists in Mozambique. LBI's comments are summarized throughout the report and are presented in their entirety at Appendix D.



The report contains 12 recommendations concerning the questioned costs, internal control weaknesses, and compliance issues. It is USAID/Mozambique's responsibility to ensure appropriate action is taken on all the recommendations. We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

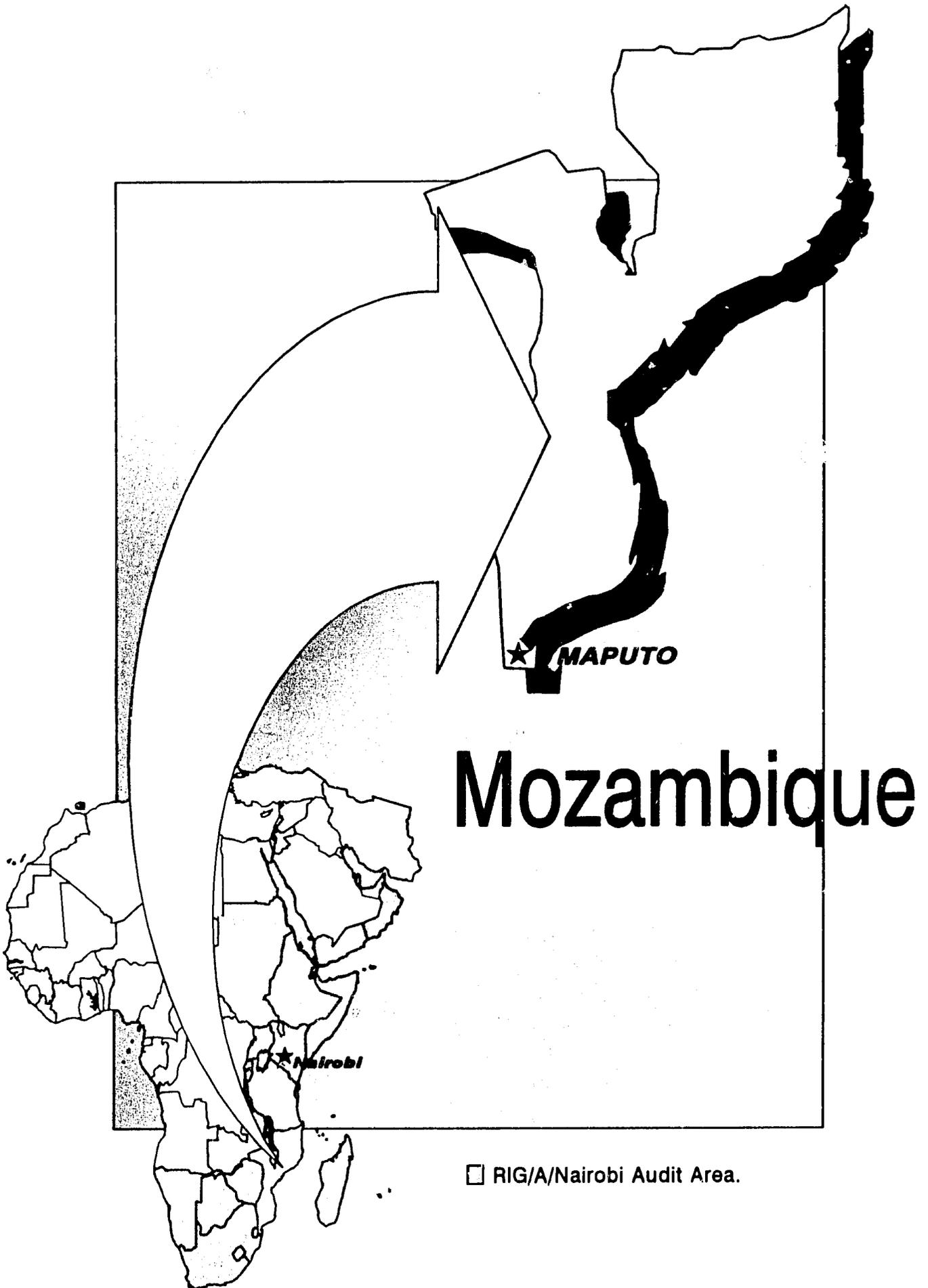
Recommendation No. 1: We recommend USAID/Mozambique determine the allowability and recover, as appropriate, from Louis Berger International, Inc., questioned ineligible costs of \$184,470.

Recommendation No. 2: We recommend USAID/Mozambique determine the allowability and recover, as appropriate, from Louis Berger International, Inc., questioned unsupported costs of \$189,849.

We consider the recommendations to be unresolved. Both recommendations will be resolved when USAID/Mozambique makes a final determination as to the allowability of the questioned costs and will be closed when USAID/Mozambique takes action appropriate to the determination. Please respond to this report within 30 days indicating action planned or taken to implement the recommendations.

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

Attachments: a/s



Audit of USAID/Mozambique
Contract No. 656-0247-C-00-0037-00
with Louis Berger International, Inc.
for the period May 21, 1990 to June 30, 1994

A.R. No. 3-656-95-003-N

ATTACHMENTS



**AGENCY-CONTRACTED AUDIT OF USAID/MOZAMBIQUE
CONTRACT NO. 656-0247-C-00-0037-00 WITH
LOUIS BERGER INTERNATIONAL, INC. FOR THE PERIOD
MAY 21, 1990 TO JUNE 30, 1994**



**AGENCY-CONTRACTED AUDIT OF USAID/MOZAMBIQUE
CONTRACT NO. 656-0247-C-00-0037-00 WITH
LOUIS BERGER INTERNATIONAL, INC. FOR THE PERIOD
MAY 21, 1990 TO JUNE 30, 1994**

TABLE OF CONTENTS		<u>Page</u>
1	INTRODUCTION	
1.1	Background	1
1.2	Audit Objectives and Scope	1
1.3	Brief Summary of Audit Results	5
1.4	Brief Summary of Management Comments	5
1.5	Brief Summary of Mission Comments	6
2	FUND ACCOUNTABILITY STATEMENT	
2.1	Independent Auditor's Report	7 - 9
2.2	Fund Accountability Statement	10 - 11
2.3	Findings and Recommendations	12 - 20
3	INTERNAL CONTROL STRUCTURE	
3.1	Independent Auditor's Report	21 - 23
3.2	Introduction	24
3.3	Findings and Recommendations	25 - 29
4	COMPLIANCE WITH CONTRACT PROVISIONS AND U.S. GOVERNMENT REGULATIONS	
4.1	Independent Auditor's Report	30
4.2	Introduction	31
4.3	Finding and Recommendation	31 - 32



**AGENCY-CONTRACTED AUDIT OF USAID/MOZAMBIQUE
CONTRACT NO. 656-0247-C-00-0037-00 WITH
LOUIS BERGER INTERNATIONAL, INC. FOR THE PERIOD
MAY 21, 1990 TO JUNE 30, 1994**

APPENDICES

Appendix No.	Title
A	List of Report Recommendations
B	Management Letter
C	Mission Comments
D	Louis Berger International, Inc. Comments

EXHIBITS

Exhibit No.	Title
I	Schedule of Ineligible Overhead Rate on Local Salaries
II	Schedule of Ineligible Fixed Fee on Sub-Contracts
III	Schedule of Unsupported Costs



1 INTRODUCTION

1.1 Background

USAID/Mozambique and Louis Berger International, Inc. (LBI), an American contractor with a technical assistance team based in Maputo, Mozambique, have entered into Contract No. 656-0247-C-00-0037-00. The purpose of the contract is to provide technical assistance to the Government of the Republic of Mozambique (GRM) in support of the USAID/Mozambique-funded Regional Rail Systems Support Project (No. 690-0247).

The project seeks to strengthen and expand the capacity and operational efficiency of regional rail transport. The contract with LBI seeks to improve CFM's financial management and accounting systems.

The contract between USAID/Mozambique and LBI is the subject of this Agency-contracted audit in accordance with generally accepted auditing standards and the standards of the U.S. Comptroller General's Government Auditing Standards (1988 Revision).

The contract agreement was entered into on May 21, 1990, and as amended has a total obligation of \$9,760,481 with a contract completion date of June 30, 1995. The contractor has been reimbursed for \$7,206,716 of contract expenditures to June 30, 1994.

1.2 Audit Objectives and Scope

1.2.1 Audit Objectives

Price Waterhouse was, under its indefinite quantity contract, contracted by USAID to perform an Agency-contracted audit of the USAID/Mozambique Contract No. 656-0247-C-00-0037-00 with Louis Berger International, Inc., in accordance with generally accepted auditing standards in the U.S. Comptroller General's Government Auditing Standards (1988 Revision).

The objectives of this audit 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 (in accordance with SAS62);



- 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 (in accordance with SAS 68); and
- test the auditee's compliance with the terms of the contract as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of non-compliance (in accordance with SAS 73).

1.2.2 Audit Scope

The scope of the audit included an examination of the Fund Accountability Statement of LBI, a review of compliance with provisions of the contract and applicable U.S. laws and regulations and an evaluation of the internal control structure of the auditee. The period of review for this financial audit covered all applicable contract revenue received and contract expenditures incurred during the period from May 21, 1990, to June 30, 1994.

1.2.3 Audit Scope Limitations

The scope of the audit has been limited by the following:

- We have not verified the calculation of LBI's indirect cost rate for U.S. operations. The delivery order only requested that we determine that the indirect cost rate has been correctly applied.
- We were unable to verify actual salary and allowance payments of U.S. \$2,053,173 made by the contractor to its foreign based staff since all payroll records are maintained at LBI's head office in the U.S. Although this amount is significant it should be noted that these payments are subject to audit in LBI's semi-annual organization-wide audit in the U.S.
- With the exception of a sample of three check payments, we were unable to verify actual check payments made by LBI for evidence of authorization of payment and for evidence of the actual payee since all LBI's checks are retained by the bank and were not available for review. In addition, we were unable to review several of LBI's bank statements for evidence that payments were made because LBI/Mozambique could not produce copies of the statements.



- We have been unable to verify receipt of reimbursements by LBI from USAID/Mozambique as these are transferred directly by USAID/Mozambique to LBI's head office in the U.S. However, we did verify the amount of USAID/Mozambique reimbursements with USAID/Mozambique.

Price Waterhouse does not have an external quality control review by an unaffiliated audit organization as required in paragraph 46 of chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirement of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control program which requires Price Waterhouse South Africa to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices. Also, not all audit staff members performing this audit met the continuing education requirement set forth in paragraph 6 of chapter 3 of Government Auditing Standards.

1.2.4 Audit Methodology

Price Waterhouse conducted its initial survey of reimbursement vouchers during November 1994 at which time the identification and selection of transactions for detailed testing was completed. Price Waterhouse subsequently prepared its audit work plan and commenced its audit field work at the offices of Louis Berger International, Inc. in Maputo. Audit field work was also performed using USAID/Mozambique records located at its offices in Maputo because its records applicable to this contract were better maintained than LBI's records. The financial audit report was then prepared and reviewed at Price Waterhouse's office in Johannesburg.

The principal audit steps performed during the course of the audit included the following:

- an examination of the conditions of the contract including the attachments and appendices, amendments, applicable standard provisions and regulations and contract correspondence, to gain an understanding of the goals and objectives of the project, the activities being financed by USAID/Mozambique, the types of costs incurred under the contract, and the billing and accounting procedures and requirements placed on LBI by USAID/Mozambique;



- performance of detailed compliance work on the auditee's internal controls, audit procedures to detect errors and irregularities and audit procedures to evaluate the auditee's compliance with the contract and applicable provisions. An assessment of the adequacy of accounting systems and internal controls of the auditee was made, in order to obtain reasonable assurance of detecting errors, irregularities and illegal acts;
- performance of detailed testing of contract expenses and fees reimbursed by USAID/Mozambique. A determination was made of the extent of non-compliance, unreasonable, unallowable or unallocable expenses. Identification of costs which were not supported with adequate documentation or which were not in accordance with the applicable contract terms;
- on a test basis a review of cash transactions incurred using Mozambican meticaís;
- a review of the application by LBI of its established indirect cost rate in billings made to USAID/Mozambique under the contract;
- a review of the fixed assets ledger for non-expendable property funded by the contract which is maintained by LBI to determine whether it is accurate and complete and whether any items have been improperly disposed of;
- a review of employee allowances and benefits paid to contractor employees to determine whether the allowances and benefits were allowable under the Standardized Regulations;
- a review of local direct salary costs to determine whether salary rates were in accordance with those approved by USAID/Mozambique, and supported by appropriate payroll records;
- a review of travel and per diem costs to determine whether these costs were in accordance with the stated policy, contract and regulations;
- a review of sub-contract expenditures reimbursed by USAID/Mozambique to determine whether the expenses were supported with adequate documentation and were in accordance with the sub-contract terms; and
- a review of fixed fees and award fees claimed for reimbursement by LBI from USAID/Mozambique to determine whether these fees were in accordance with the contract and regulations.



1.3 Brief Summary of Audit Results

1.3.1 Fund Accountability Statement

Our audit tests of the Fund Accountability Statement revealed that of the total costs of U.S.\$7,206,716 included in the Fund Accountability Statement, U.S.\$374,319 were questioned costs of which U.S.\$184,470 were costs which were ineligible costs for reimbursement and U.S.\$189,849 were unsupported costs.

1.3.2 Internal Control Structure

Our evaluation of the internal control structure revealed the following reportable conditions under the standards established by the American Institute of Certified Public Accountants: inadequate control over exchange of foreign currency to local currency, inadequate control over payments; incomplete local employee personnel records; inadequate segregation of duties; inadequate control over receipt of goods or services, unauthorized cash and check payment records, and inadequate security controls over computer equipment.

We do not believe that any of these reportable conditions constitute a material reportable condition. We noted several other matters which are discussed in a Management Letter to LBI and a copy of the letter is presented at Appendix B of this report.

1.3.3 Compliance with Contract and Related Provisions

Our evaluation of compliance with the contract and related provisions identified the following instance of non-compliance: failure to identify non-expendable property. We do not believe this instance of non-compliance constitutes a material instance of non-compliance.

1.4 Brief Summary of Management Comments

Louis Berger International, Inc. offered comments on each of the audit findings and disagreed with our conclusions in several of the findings. We have made some changes to the report to address some of the comments but in most cases we believe our findings were accurate as presented in the draft report. The most significant disputes concern Findings Nos. 2 and 3 involving use of an overhead rate for local national salaries and the claiming of a 10% fee on



subcontractor costs. Several findings also relate to the quality of documentation available to support contract expenditures and LBI contends that these problems are a result of the "unsophisticated environment" that exists in Mozambique. LBI's comments on these and other findings are summarized throughout the report after presentation of the applicable finding and we have also presented our rebuttal or response to those comments as necessary. LBI's comments on the report are also presented in their entirety at Appendix D.

1.5 Brief Summary of Mission Comments

USAID/Mozambique offered three minor comments on the audit findings and changes were incorporated into the report to address these comments. USAID/Mozambique's response to the draft report is presented in its entirety at Appendix C.

16

Price Waterhouse



2. FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report

We have performed a financial audit of the Fund Accountability Statement of Louis Berger International, Inc. under the USAID/Mozambique Contract No. 656-0247-C-00-0037-00 for the period May 21, 1990 to June 30, 1994.

The Fund Accountability Statement is the responsibility of the Louis Berger International, Inc's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit 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 auditing provides a reasonable basis for our opinion.

The scope of the audit has been limited by the following:

- We have not verified the calculation of LBI's indirect cost rate for U.S. operations. The delivery order only requested that we determine that the indirect cost rate has been correctly applied.
- We were unable to verify actual salary and allowance payments of U.S. \$2,053,173 made by the contractor to its foreign based staff since all payroll records are maintained at LBI's head office in the U.S. Although this amount is significant it should be noted that these payments are subject to audit in LBI's semi-annual organization-wide audit in the U.S.
- With the exception of a sample of three check payments, we were unable to verify actual check payments made by LBI for evidence of authorization of payment and for evidence of the actual payee since all LBI's checks are retained by the bank and were not available for review. In addition, we were unable to review several of LBI's bank statements for evidence that payments were made because LBI/Mozambique could not produce copies of the statements.

15



- We have been unable to verify receipt of reimbursements by LBI from USAID/Mozambique as these are transferred directly by USAID/Mozambique to LBI's head office in the U.S. However, we did verify the amount of USAID/Mozambique reimbursements with USAID/Mozambique.

Price Waterhouse does not have an external quality control review by an unaffiliated audit organization as required in paragraph 46 of chapter 3 of Government Auditing Standards (1988 Revision) since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control program which requires Price Waterhouse South Africa to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices. Also, not all audit staff members performing this audit met the continuing education requirement set forth in paragraph 6 of chapter 3 of Government Auditing Standards.

As described in the Notes to the Fund Accountability Statement, the Fund Accountability Statement was prepared on a cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

The results of our audit tests disclosed the following questioned costs as detailed in the Fund Accountability Statement: (1) U.S.\$184,470 in costs that are explicitly ineligible because they are prohibited and/or not provided for by the terms of the contract and (2) U.S.\$189,849 in costs that are not supported with adequate documentation.

In our opinion, except for the effects of the questioned costs and the audit scope limitations as discussed in the preceding paragraphs the Fund Accountability Statement examined by us presents fairly in all material respects contract revenues and costs reimbursed for the period May 21, 1990 to June 30, 1994 in accordance with the terms of the contract and in conformity with the basis of accounting described in the notes thereto.



Financial information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of the United States Agency for International Development and the management of Louis Berger International, Inc. but this is not intended to limit the distribution of the report, if a matter of public record.

Price Waterhouse

December 23, 1994



2.1 Fund Accountability Statement

2.2.1 Fund Accountability Statement of Louis Berger International, Inc. under USAID/Mozambique
Contract No. 656-0247-C-00-0037-00 for the period May 21, 1990 to June 30, 1994

	Budget US\$	Actual US\$	Accepted US\$	Questioned Costs	
				Ineligible US\$	Unsupported US\$
Revenue :					
-Reimbursements received	8,012,087	7,206,716			
Total Revenue	8,012,087	7,206,716			
Expenditure :					
-Salaries	1,724,547	1,573,175	1,573,175		
-Overhead	2,054,438	2,153,318	2,082,754	70,564	
-Travel & Transportation	339,980	294,995	187,280		107,715
-Allowances	565,370	579,435	578,451	984	
-Other Direct Costs	228,011	815,697	741,973		73,724
-Equipment & Supplies	565,000				
-Participant Training	179,000	153,974	153,974		
-Subcontract - Enefer	597,745	584,331	530,251	45,670	8,410
-Subcontract - Corporate Strategies	130,480	139,131	130,186	8,945	
-Subcontract - Maclove	873,235	641,382	583,075	58,307	
-Other Subcontracts	348,475	8,508	8,508		
-Fixed Fee	152,126	138,702	138,702		
-Award Fee	253,680	124,068	124,068		
Total Expenditure	8,012,087	7,206,716	6,832,397	184,470	189,849
				Finding 2.3.1	Finding 2.3.2



2.2.2 Notes to the Fund Accountability Statement

- **Basis of Accounting**

The Fund Accountability Statement is prepared on a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

LBI/Mozambique submits monthly vouchers to USAID/Mozambique requesting reimbursement for contractual expenses and a portion of its fixed and award fee. LBI has received no advances and claims are on a cost reimbursement basis. LBI/Mozambique does not maintain separate accounting records such as a cash book or general ledger to account for contract revenue and expenditure under this contract. It only maintains monthly expense vouchers submitted for reimbursement to USAID/Mozambique which are supported by a list of expenditure transactions.

LBI/Mozambique submits records of its local currency and U.S. dollar expenditure to its head office in the U.S. where these records are recorded, accumulated and reported. Reimbursements received from USAID/ Mozambique are deposited directly into LBI's head office bank account in the U.S.. LBI/Mozambique receives its monthly cash requirements from its head office in the U.S. based on its budgeted expense claim reports.

- **Revenues**

Revenues represent amounts received in cash from USAID/Mozambique during the period of review under the contract. Revenues are stated at the actual U.S. dollar amounts received at the date of reimbursement from USAID/Mozambique.

- **Expenditures**

Expenditures represent amounts reimbursed by USAID/Mozambique in cash during the period of review under the contract. Expenditures are translated into U.S. dollars based on the monthly average exchange rates prevailing at the date of expenditure, or at the actual U.S. dollar amounts.



2.2.3 Sample Selection Criteria

The scope of this audit included only the revenue and expenditure of the contract already reimbursed by USAID/Mozambique for the period May 21, 1990 to June 30, 1994. LBI is responsible for maintaining all original supporting documentation of contract expenditures.

Our audit methodology included the selection of the following revenue and expenditure transactions for detailed audit testing:

Revenue

All (100%) revenue received from USAID/Mozambique was vouched to public vouchers for reimbursement received from USAID/Mozambique.

Expenditure

Our selection of expenditure transactions for detailed testing under the contract was based on a predetermined amount and a judgemental selection of additional transactions based upon potential risk. The sample profile is as follows:

	Total Costs (Actual)	Sample Selected	Percentage Selected	Not Reviewed
	U.S.\$	U.S.\$	%	U.S.\$
Total expenditure	7,206,716	7,181,857	99	24,859

2.3 Findings and Recommendations

2.3.1 Breakdown of Ineligible Costs

Description	Finding No.	Ineligible Costs U.S.\$
• Post hardship differential allowance claimed for employee on home leave	1	984
• 70% overhead rate claimed on local TCN salaries	2	70,564
• 10% fee claimed on sub-contractors	3	112,922
Total Ineligible Costs		184,470



Finding No. 1 - Post Hardship Differential Allowance Claimed for Employee on Home Leave - U.S.\$984

We noted that the contractor claimed a post hardship differential allowance for an American employee for one month while the employee was in fact away on home leave.

Federal Acquisition Regulation (FAR) 752.7028(a) states that "... post differential will not be payable while the employee is away from his/her post of assignment for purposes of home leave".

An American employee working under the LBI contract took a home leave trip to the U.S. in 1993 arriving in the U.S. on May 22, 1993 and returning to Maputo on June 22, 1993. The employee's differential was not terminated during this period as required by the FAR and we found no subsequent adjustment in the accounting records. Accordingly, we have questioned U.S.\$984 (one month's differential) in allowances claimed by the contractor as an ineligible cost.

Recommendation No. 1

We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible post hardship differential allowances of U.S.\$984.

Auditee Comments

This is an isolated incident where in error the employee was paid post differential, and in turn it was submitted for reimbursement. We concur with the auditors in treating this as an ineligible cost.

Finding No. 2 - 70% Overhead Rate Claimed on Cooperating or Third Country Nationals' Salaries - U.S.\$70,564

We noted that the contractor claimed an overhead rate of 70% on cooperating or third country nationals' salaries amounting to U.S.\$70,564. We were unable to find evidence that any such overhead costs were ever incurred by the contractor and have questioned the entire amount as an ineligible cost.

USAID's contract with LBI and contract modifications 1 to 16 do not make any provision for a 70% overhead rate on local salaries. In addition, LBI's negotiated indirect cost rate agreement (NICRA) with the cognizant U.S. Government agency (USAID) does not contain such a rate.



We were able to locate a reference to this 70% rate in LBI's "best and final offer" to USAID regarding this contract. Although the rate itself was never incorporated specifically into the contract, the total dollar amount from the offer was used in the contract budget and the LBI chief of party in Maputo cited this as USAID approval of the rate and the allowability of the cost.

Federal Acquisition Regulation (FAR) 52.216-7(d)(2) states that "The contractor shall, within 90 days after the expiration of each of its fiscal years, or by a later date approved by the Contracting Officer, submit to the cognizant Contracting Officer responsible for negotiating its final indirect cost rates and, if required by agency procedures to the cognizant audit activity proposed final indirect cost rates for that period and supporting cost data specifying the contract and/or subcontract to which the rates apply. The proposed rates shall be based on the contractor's actual cost experience for that period. The appropriate Government representative and contractor shall establish the final indirect cost rates as promptly as practical after receipt of the contractor's proposal".

We found no evidence that LBI or LBI/Maputo had at any time requested approval from USAID for a 70% indirect cost rate for its cooperating or third country national employee salaries. In addition, during our review of LBI/Maputo accounting records we found no evidence that LBI incurred any costs - not otherwise directly reimbursed under the contract - in connection with these local employees. There were no local payroll taxes, no educational benefits and no transportation benefits. Medical costs were directly charged. Based on the absence of a local indirect cost rate in the contract and the absence of any actual local direct costs, we have questioned the entire U.S.\$70,564 claimed by LBI for these costs as ineligible costs. See Exhibit I for details of our computation of these questioned ineligible costs.

Recommendation No. 2

We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible overhead costs on local salaries of U.S.\$70,564.

Auditee Comments

We totally disagree with the auditor's conclusion on this issue.

The auditors do not seem to have found reference to the 70% rate in LBI's Best and Final Offer. We enclose a copy of the pertinent portion of this document.



As the auditors admit, the total dollar amount for this line item in the offer was incorporated in the contract budget. Moreover, the auditors' contention that LBI never incurred any overhead costs for the local personnel is erroneous. We have been incurring non-reimbursable costs for income tax, payroll taxes, necessary overtime, paid leave, medical expenses and bonuses since the inception of the project.

Auditors' Response

The central issue of this finding is not how this overhead rate was presented in the Best and Final Offer or in the contract budget but rather whether LBI incurred any overhead costs for its local personnel. In effect we determined that the audited local overhead rate should be zero. Despite LBI's protests to the contrary we found no evidence of any of the costs cited above in LBI/Mozambique records. LBI's position was raised during the audit exit conference and was briefly re-explored post-conference with the assistance of a USAID auditor from the Office of the Inspector General with the same result. If these unreimbursed costs exist they must be relatively minor and infrequent. In fact, some of the costs cited (specifically medical expenses) were directly charged to and reimbursed by USAID. It is difficult for us to understand why LBI should be entitled to US\$70,564 in reimbursement for overhead costs that, to date, they have not been able to substantiate or for which they have already been reimbursed. If LBI eventually locates documentation for any minor unreimbursed overhead costs we suggest that they ask USAID to offset those costs against the questioned costs in this recommendation.

Finding No. 3 - 10% Fee Claimed on Subcontractor Costs - U.S.\$112,922

We noted that LBI has claimed a separate fee of 10% on the total salaries and overhead of both the Enefer and Corporate Strategies subcontracts and 10% of total Maclove subcontract services amounting to a total of U.S.\$112,922. We have questioned the entire amount as an ineligible contract cost. See Exhibit II for our calculation of the questioned costs.

USAID's contract with LBI and contract modifications 1 to 16 do not make any provision for a 10% fee to be assessed against any subcontractor costs. In addition, LBI's negotiated indirect cost rate agreement (NICRA) with the cognizant U.S. Government agency (USAID) does not provide for such a rate.

We were able to locate a reference to this 10% rate in LBI's "best and final offer" to USAID regarding this contract. In the offer, the 10% is referred to as "profit" for LBI to be assessed against subcontractors' salaries, fees and overhead. Although the rate itself was never incorporated specifically into the contract, the LBI Chief of Party in Maputo cites the inclusion of the offer's

23



budget in the final contract as USAID approval of the rate and the allowability of the cost. LBI also refers to the 10% subcontract assessment as an administrative or handling fee in its invoices to USAID/Mozambique. In our opinion, it is not an allowable cost whether it is considered profit or an administrative fee.

As discussed previously in Finding No. 2, FAR 52.216-7(d)(2) provides instruction on how indirect cost/handling fees are to be established. As in Finding No. 2, we found no evidence that LBI or LBI/Maputo ever requested approval from USAID for a 10% subcontract handling fee. In addition, our review of LBI/Maputo accounting records showed no evidence that LBI incurred any additional costs (or costs not already directly charged) in connection with these subcontracts to support a claim for an administrative fee.

Similarly, we do not believe there is any support for claiming the 10% subcontract assessment as an additional profit. LBI is already claiming and receiving a 2% fixed fee or profit on all contract costs - including all subcontract costs. Therefore, LBI's negotiated profit amount has already rewarded them for managing subcontracts. In addition, this double claim of profit on subcontract costs would exceed the statutory cap of 10% described in FAR 15.903(d)(1)(ii) and 4 U.S.C. 254(b).

In conclusion and based on the discussion presented above, we have questioned as an ineligible contract cost the entire U.S.\$112,922 claimed by LBI as a 10% fee on subcontracts.

Recommendation No. 3

We recommend that USAID/Mozambique determine the allowability and recover as appropriate the ineligible 10% fee on selected sub-contractor costs totalling U.S.\$112,922.

Auditee Comments

The auditors appear to have misinterpreted the Best and Final Offer as well as the contract budget. The 10% profit (fee) in our offer is clearly shown under the subcontractor portion of our budget (see Exhibit A of our comments). We can understand the confusion caused by the way this fee is presented in the contract budget as well as the invoices. This fee on subcontractor labor and overhead is in fact meant for our subcontractors. We had been paying a portion of this fee to them all along.



Auditors' Response

LBI's comments do not directly address the question of whether this 10% assessment is an administrative/handling fee or simply additional profit so there is still a degree of confusion on the matter. However, as discussed in the finding, we do not believe the 10% fee/profit on subcontractor costs is an eligible costs in either case. LBI's suggestion that some of LBI's "fee" has been given to its subcontractors is totally unsubstantiated and illogical. It is difficult for us to understand why LBI would pay its subcontractors an amount in excess of what it has been billed (billings that already included the subcontractors' profit).

Finding No. 4

This finding as contained in the draft report has been deleted in its entirety in the final report as a result of discussions with USAID officials.

Recommendation No. 4

Deleted as described above.

3.2 Breakdown of Unsupported Costs

Description	Finding No.	U.S.\$
• No original supporting documentation	5	155,207
• Inadequate supporting documentation	6	31,857
• Inadequate vehicle expense documentation	7	2,785
Total Unsupported Costs		189,849

Finding No. 5 - No Original Supporting Documentation - U.S.\$155,207

We were unable to locate original documentation for costs claimed by LBI and reimbursed by USAID/Mozambique since only photostat copies of the original documentation were available for our inspection. The LBI Chief of Party states that the original supporting documentation should be on file at their offices in the U.S. Refer to Exhibit III for a breakdown of these costs which could not be supported by original documentation.

25



Only original documents constitute acceptable supporting documentation for the purpose of audit evidence.

Recommendation No. 5

We recommend that USAID/Mozambique determine the allowability and recover as appropriate costs of U.S.\$155,207 which could not be supported by original documentation.

Auditee Comments

Historically, USAID has audited LBI at its headquarters in the U.S. and accordingly it has been company policy to ship all original supporting documentation to the U.S. We provided photocopies of supporting documentation for each disbursement with our invoices. All original documentation is still available at our headquarters for inspection by the auditors.

Auditors' Response

Our contract with USAID specifically excluded attempting to review documents in the U.S. or having them located and shipped to Mozambique due to time and cost factors. The costs questioned in this finding are supported by photocopies which we have acknowledged but auditing standards and instructions from the USAID Office of the Inspector General allow only original documents as acceptable supporting documentation.

Finding No. 6 - Inadequate Supporting Documentation - U.S.\$31,857

During the course of the audit we noted that certain local currency expenditures were not supported with adequate external third party documentary evidence. See Exhibit III for a breakdown of these costs totalling U.S.\$31,857. It is customary in Mozambique for many payments to be made in cash and the only available documentation to support LBI's cash payments for goods and services was an LBI-generated receipt or 'recibo'. In addition, the original receipts had been sent to LBI offices in the U.S. and only photostat copies were readily accessible for our review. These receipts are not pre-numbered nor are they marked to show authorization of the LBI Chief of Party. On only rare occasions are the receipts initialed or stamped by the vendor providing the goods and services.



A review of Exhibit III shows that most of these payments were for items that one would expect to be allowable or allocable to the contract and are for reasonable amounts. Cash payments were made for such items as house rental payments, movements of furniture, garbage collection, gardener and guard services, stationery and general building maintenance.

However, LBI's present system of documentation for cash payments does not provide sufficient independent proof of delivery, description of items or payment to vendors. If local custom or circumstances require LBI to create their own receipt for certain transactions, it should have an adequate description of the goods or services provided and clearly indicate who the vendor is and where they are located (when applicable). At a minimum, the receipt should also be prominently signed, initialled, stamped or marked by the vendor to make it their own. Due to the lack of acceptable supporting documentation we have questioned these costs totalling U.S.\$31,857 as unsupported costs.

Recommendation No. 6

We recommend that USAID/Mozambique determine the allowability and recover as appropriate the costs of U.S.\$31,857 which could not be supported by adequate supporting documentation.

Auditee Comments

The auditors agree that it is customary in Mozambique to make cash payments for services and goods and that many of these individuals providing the services and goods are not sophisticated enough to provide receipts to customers. Given the circumstances, LBI had to improvise by providing documentation to acknowledge receipt of payments from LBI. The auditors should have acknowledged LBI's effort to obtain a receipt rather than worry about who supplied the paper. We believe the auditors should not "go by the book" in an unsophisticated environment and that generally accepted auditing standards were not established to work in any and every part of the world. Accordingly, we believe our support documentation should not be judged against these standards.

Auditor's Response

As stated in our finding, we recognize LBI's dilemma in obtaining receipts in an "unsophisticated environment" and are more than willing to accept some type of alternative receipt or documentation, when necessary, to support certain LBI contractual payments. While some of its suppliers may be lacking in "sophistication" to provide adequate receipts, LBI certainly has the ability to



generate adequate documentation on their behalf and has the experience of working in such environments. LBI clearly recognized that auditing standards would create the need to have some kind of receipt for these purchases or it would not have undertaken the task of preparing them.

Our finding describes minimal standards for these receipts (eg. the recipient's signature, initials or mark) which could make them acceptable forms of support for these payments and the amount of additional effort needed on LBI's part would be minimal. We cannot accept these receipts - as prepared - as acceptable supporting documentation for these contractual costs. As stated in the finding for USAID's consideration, we have acknowledged that most of the claimed payments involved are for items that one would expect to be allowable or allocable to the contract.

Finding No. 7 - Inadequate Vehicle Expense Documentation - U.S.\$2,785

Due to the omission of vehicle registration numbers on supporting records of vehicle maintenance expenses we were unable to determine whether or not the vehicle was a USAID project related vehicle. Consequently we were unable to determine whether these vehicle expenses were allocable to the contract as a reimbursable expense. Details of these expenses are included in Exhibit III.

Recommendation No. 7

We recommend that USAID/Mozambique determine the allowability and recover as appropriate vehicle-related expenditure of U.S.\$2,785 which could not be matched with a specific project vehicle.

Auditee Comments

We believe that during the audit our Chief of Party did provide to the auditors enough evidence of the allowability of the now questioned vehicle expenses. We do not understand why the auditors would want us to put car registration numbers on vehicle maintenance receipts. To extend this theory further we would have to put the contract number on each and every receipt for project disbursements to show that they were USAID project-related expenses. In our opinion, putting car registration numbers of receipts proves nothing.

Auditors' Response

Invoices for vehicle maintenance expenses are normally expected to have car registration numbers listed so that one can ascertain that the vehicle repaired was a project vehicle and not a private vehicle. This is a standard practice worldwide.

28

Price Waterhouse



3 INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report

We have audited the Fund Accountability Statement of Louis Berger International, Inc. under USAID/Mozambique contract No. 656-0247-C-00-0037-00 for the period from May 21, 1990 to June 30, 1994.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the Fund Accountability Statement) we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement of Louis Berger International, Inc. contract for the period from May 21, 1990 to June 30, 1994 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 Louis Berger International, Inc. 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 unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in accordance with the basis of accounting described in Section 2.2.2 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, projections 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.



For the purpose of this report we have classified the significant internal control structure policies and procedures insofar as they relate to Louis Berger International, Inc. into the following categories:

CONTROL ENVIRONMENT

- General awareness of contract provisions and regulations;
- Personnel, travel and procurement procedures;
- Organization structure and management.

ACCOUNTING SYSTEM

- General record keeping;
- Bank account and reconciliations;
- Monthly reporting to USAID/Mozambique;
- Claiming reimbursements from USAID/Mozambique.

CONTROL PROCEDURES

- Authorization of payments;
- Disbursement control procedures; and
- Travel and per diem cost control procedures.

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 the 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 affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement.

20



The following reportable conditions were noted:

- Inadequate control over exchange of foreign currency to local currency;
- Inadequate control over payments;
- Incomplete local employee personnel records;
- Inadequate segregation of duties;
- Inadequate control over receipt of goods or services; and
- USAID-funded commodities not properly marked with USAID emblem.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe that none of the reportable conditions described above constitute material weaknesses.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants.

We also noted certain other matters involving the internal control structure and its operation which we have reported in Appendix B of this report.

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 the United States Agency for International Development and the management of Louis Berger International, Inc., but this is not intended to limit the distribution of the report if a matter of public record.

Pricewaterhouse

December 23, 1994



3.2 Introduction

3.2.1 Definition

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

- the control environment;
- the accounting system; and
- 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 organization's resources.

In Section 3.3 below, we have described our findings and recommendations arising under these three elements of the auditee's internal control structure.

3.2.2 Work Performed

Our review of the internal control structure was directed towards those significant policies and procedures which relate to the nature of project funding arrangements. These policies and procedures are as follows:

CONTROL ENVIRONMENT

- General awareness of contract provisions and regulations;
- Personnel, travel and procurement policies and procedures;
- Organization structure and management.



ACCOUNTING SYSTEM

- General record keeping;
- Bank account and reconciliations;
- Monthly reporting to USAID/Mozambique;
- Claiming reimbursements from USAID/Mozambique.

CONTROL PROCEDURES

- Authorization of payments;
- Disbursement control procedures;
- Travel and per diem cost control procedures.

3.3 Findings and Recommendations

Finding No. 8 - Inadequate Control over Exchange of U.S. Dollars to Local Currency

LBI bills USAID/Mozambique in U.S. dollars for its Mozambican meticaís cash transactions using official bank exchange rates. Typically, LBI provides one bank advice slip from mid-month and this conversion rate is used for the entire month. Although it varies considerably LBI's monthly cash purchases average approximately the equivalent of U.S.\$4,000.

We noted that the contractor did not maintain supporting documentation for the exchange of U.S. dollars into meticaís until December 1993. For example, on October 29, 1993, LBI recorded a withdrawal of U.S.\$1,307 from its local dollar checking account and recorded the transaction on its petty cash sheet as 6,600,000 meticaís using the average exchange rate for the month. We were, however, unable to verify the conversion rate (and therefore the amount of meticaís) without the bank advice slip. With the exception of one transaction each month as described in the opening paragraph above, this problem exists for all such transactions before December 1993. The significance of this recordkeeping problem rests with the often wide difference in official and unofficial conversion rates that existed in the early years of the contract and the lack of evidence that the lower official rates were in fact the ones used.



Our audit tests, however, revealed that post-December 1993 currency conversions are supported by bank advices showing the amounts exchanged and the rates that were obtained.

Recommendation No. 8

We recommend that the contractor file all supporting bank advice slips for the exchange of U.S. dollars to local currency with the original cash sheet.

Auditee Comments

We agree with the auditor's finding and recommendation. We have been following this course since December 1993. We were unable to do this earlier since the local bank did not have its operations computerized and they did not even issue handwritten receipts during that period.

Auditor's Response

Our finding confirms that supporting documentation has been maintained since December 1993 as stated in LBI's comments. It should be noted, however, that prior to this date LBI regularly submitted at least one handwritten receipt from the bank each month to justify and support the exchange rate claimed on its invoices for that month.

Finding No. 9 - Inadequate Control over Payments

As discussed earlier in Finding No.6 we noted that the contractor's vendors do not always issue an external invoice for goods or services provided. In order to support the transaction, LBI prepares an internal receipt to record payment to the vendor. These receipts are not prenumbered, or authorized by the Chief of Party, and are often not initialled by the vendor as evidence of receipt of payment.

This system of issuing receipts provides insufficient independent proof of delivery, description of items and payment to vendors.

Recommendation No. 9

We recommend that the contractor insist on vendors providing an invoice of goods or services delivered, and where the issue of an LBI-generated receipt is necessary, the receipt should be prenumbered, authorized by the check signatory, initialled by the vendor and adequately describe the transaction.



Auditee Comments and Auditor's Response

Comments and response presented with Finding No 6 also apply to this finding and recommendation.

Finding No. 10 - Incomplete Local Employee Personnel Records

We noted two instances where the signed standard employment contract of locally contracted employees was not properly and accurately completed. The employment contracts of two locally based staff, for example, did not reflect the monthly salary payable to the employee concerned.

Failure to specify the rate of pay in a contract of employment could result in an incorrect salary being paid to an employee and also increase the possibility of a salary dispute.

As discussed earlier in this report, we were unable to verify actual salary payments made by the contractor because all payroll records are maintained at LBI's head office in the U.S. These payments are subject to audit in LBI's semi-annual organization-wide audit in the U.S.

Recommendation No. 10

We recommend that management ensure that all standard contracts of employment be accurately and properly completed for the rate of pay and all other details specific to each employee.

Auditee Comments

We believe our local employee personnel records are complete. It would be very useful if the auditors could clearly state which are the two uncompleted standard employment contracts to allow us to sort this issue out.

Auditor's Response

This issue was discussed in detail with the LBI Chief of Party in Mozambique both during the audit and immediately after the audit exit conference and he was provided with the employees' names.

Finding No. 11 - Inadequate Segregation of Duties

We noted that due to the limited size of the contractor's operation in Mozambique the Chief of Party controls all the financial affairs and is the sole check signatory. As a result, the Chief of Party must pre-sign blank checks to



cover expenditure requirements whenever he will be away from Maputo on extended periods of absence. If there were two check signatories, the checks would only become negotiable upon signature of the second LBI official remaining in Maputo. The Chief of Party informed us that the single check signatory was in keeping with LBI policy.

This lack of independent control and review could result in misappropriation of funds or payment of unauthorized transactions.

Recommendation No. 11

We recommend that the internal controls over cash be strengthened by requiring two signatures on all checks.

Auditee Comments

We agree that having two signatories on a check is a good internal control over cash but believe that given the size of our Mozambique operation it is not practicable. Monthly disbursement journal and bank reconciliations are reviewed and approved by the Chief of Party before being sent to our headquarters where they are also reviewed by our project accountant. Therefore, the probability of misuse of funds going undetected is very low.

Auditors' Response

It is still our opinion that two signatories on LBI checks is an essential internal control over cash. Our concern with LBI's current procedure of pre-signing blank checks in the Chief of Party's absence is more with the ease in which misappropriation of funds could occur rather than with LBI's ability to detect the problem after the fact.

Finding No. 12 - Inadequate Control over Receipt of Goods or Services

We also noted that several vendors' invoices did not reflect that the goods or services were in fact provided to LBI.

Lack of evidence that the goods were actually received by the contractor could result in payments for goods and services that were never actually received.

Recommendation No. 12

We recommend that the contractor require vendors to reflect on their invoices the name and address of the contractor. In addition a contractor official should initial the invoice as evidence that the goods or services were received.



Auditee Comments

The finding is described in a very general manner making it difficult to comment on. We believe the auditors are again referring to services provided by small contractors or by individuals paid in cash. If this is the case, our comments for Finding No. 6 apply.

Auditors' Response

Invoices should clearly indicate that the goods and services were received by LBI as an internal control measure.

Finding No. 13

This finding as contained in the draft report has been deleted in its entirety in the final report after consideration of Auditee Comments.

Recommendation No. 13

Deleted as described above.

Finding No. 14

This finding as contained in the draft report has been deleted in its entirety in the final report as a result of discussions with USAID officials and Auditee Comments.

Recommendation No. 14

Deleted as described above.

31

Price Waterhouse



4 COMPLIANCE WITH CONTRACT PROVISIONS AND U.S. GOVERNMENT REGULATIONS

4.1 Independent Auditor's Report

We have audited the Fund Accountability Statement of Louis Berger International, Inc. for the period May 21, 1990 to June 30, 1994 (see section 2.2) and have issued our report thereon dated December 23, 1994 (see section 2.1.1).

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the Fund Accountability Statement) we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statements are free of material misstatements.

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

The results of our tests of compliance indicate that, with respect to the items tested, Louis Berger International, Inc. complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that Louis Berger International, Inc. had not complied, in all material respects, with those provisions.

We noted one immaterial instance of non-compliance, that we have reported in Section 4.3.

Financial information contained in this report may be privileged. The restrictions of 19 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of Louis Berger International, Inc., and the United States Agency for International Development, but this is not intended to limit the distribution of the report, if a matter of public record.

Price Waterhouse

December 23, 1994

Senior Partner Senior Vennoot C. Beggs Deputy Senior Partner Adjunk Senior Vennoot F.C. de Beer Managing Partner Besturende Vennoot SA Herman
Partner-in-charge Vennoot-in-beheer C.J. de Vries Local Partners Plaaslike Vennote G. Beckwith H. Boegman G. de Jager C.J. de Vries F.J. F. Joubert S.J. Klink
B.W. Niebuhr J.L. Roos J.P.J. van der W. Winterboer

30



4.2 Introduction

USAID requires all contractors regardless of nationality, to comply with the terms of conditions included in the contract, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by an individual USAID mission or by USAID/Washington.

Procedures performed in this audit to test compliance with the contract and related provisions included:

- a review of contract provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements; and
- audit procedures including detailed testing to evaluate Louis Berger International, Inc.'s compliance with these provisions and regulations.

4.3 Finding and Recommendation

4.3.1 Finding No. 15 - Failure to Identify Non-expendable Property

We noted that the following computer equipment was not identifiable as USAID property:

- Gateway Cristalscan 1024NI, Serial No: TB9A43220
- Gateway Cristalscan 1024NI, Serial No: TB9A66528
- Gateway 486/33E Desktop, Serial No: 486800
- Gateway 486/33E Desktop, Serial No: 486801.

In terms of FAR 45.506, the contractor is required to identify, mark and record all Government-owned property with the identity of the agency owning the property.

Recommendation No. 15

We recommend that all LBI non-expendable property funded by the USAID/Mozambique contract be marked with the USAID emblem.



Auditee Comments

We acknowledge that marking of non-expendable property listed on this inventory is LBI's contractual responsibility but in practice it was done with the help of USAID personnel who were providing the required labels. The four pieces of equipment listed by the auditors are the latest acquired by the project and will be properly marked in the very near future.

APPENDICES



APPENDIX A

LIST OF REPORT RECOMMENDATIONS

Finding No.	Recommendations
1	We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible post hardship differential allowances of U.S.\$984.
2	We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible overhead costs on local salaries of U.S.\$70,564.
3	We recommend that USAID/Mozambique determine the allowability and recover as appropriate the ineligible 10% fee on selected sub-contractor costs totalling U.S.\$112,922.
4	Deleted from the final report.
5	We recommend that USAID/Mozambique determine the allowability and recover as appropriate costs of U.S.\$155,207 which could not be supported by original documentation.
6	We recommend that USAID/Mozambique determine the allowability and recover as appropriate the costs of U.S.\$31,857 which could not be supported by adequate supporting documentation.
7	We recommend that USAID/Mozambique determine the allowability and recover as appropriate vehicle-related expenditure of U.S.\$2,785 which could not be matched with a specific project vehicle.



Finding No.	Recommendations
8	We recommend that the contractor file all supporting bank advice slips for the exchange of U.S. dollars to local currency with the original cash sheet.
9	We recommend that the contractor insist on vendors providing an invoice of goods or services delivered, and where the issue of an LBI-generated receipt is necessary, the receipt should be prenumbered, authorized by the check signatory, initialled by the vendor and adequately describe the transaction.
10	We recommend that management ensure that all standard contracts of employment be accurately and properly completed for the rate of pay and all other details specific to each employee.
11	We recommend that the internal controls over cash be strengthened by requiring two signatures on all checks.
12	We recommend that the contractor require vendors to reflect on their invoices the name and address of the contractor. In addition a contractor official should initial the invoice as evidence that the goods or services were received.
13	Deleted from the final report.
14	Deleted from the final report.
15	We recommend that all LBI non-expendable property funded by the USAID/Mozambique contract be marked with the USAID emblem.

APPENDIX B

MANAGEMENT LETTER

Price Waterhouse



December 23, 1994

The Chief of Party
Louis Berger International, Inc.
C.F.M.
MAPUTO
Mozambique

Dear Mr Dahlila

MANAGEMENT LETTER FOR THE PERIOD ENDED JUNE 30, 1995

During our audit of the fund accountability statement of Louis Berger International, Inc., for the period ended June 30, 1994, we examined certain aspects of the company's system of internal accounting control. Accompanying this letter is a report to management setting out the weaknesses noted by us at the time of our examination which are in addition to those noted in section 3.3 of this report. Formal comments to items noted in this management letter are not required.

It should be appreciated that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily to enable us to express an opinion on the fund accountability statement. Our comments, therefore, cannot be expected to include all possible improvements in internal control which a more extensive special examination might develop.

We wish to take this opportunity of expressing our appreciation of the cooperation and courtesy extended to us during the course of our audit work. We would be pleased to discuss any aspect of this report with you.

Yours faithfully
for PRICE WATERHOUSE

STEVE KILLICK



APPENDIX B

MANAGEMENT LETTER

Lack of Bank Reconciliations and Lack of Management Review of Bank Reconciliations

We were unable to examine all bank reconciliations for the period under review as the contractor forwards original copies to their head office in the U.S. and copies are not always filed for subsequent review in Mozambique.

We also noted that due to the size of the LBI Mozambique operation, the ideal segregation of duties is not possible. Accounting functions which include reconciliation of the cashbook to the bank statements are often performed by the same person. In addition, bank reconciliations are not reviewed by an independent official. We also noted that several bank reconciliations had not been initialled by a senior person as evidence of this review.

Independent control over the bank accounts should be maintained, since the lack of adequate control could result in misappropriation of funds.

Recommendation No. 1

We recommend that administrative officials prepare the reconciliation of the cash sheet bank balances to the bank statements and that the Chief of Party review the bank reconciliation on a monthly basis, initialling the reconciliation as evidence of their review. Copies of bank reconciliations should then be filed in the monthly bank files.

Lack of Review of Variances to Budget

We noted that, although the monthly invoice submitted to USAID/Mozambique for reimbursement of contractual expenses included a column reflecting percentage variances of actual expenditure to date to budget by line item, there was no evidence that the percentage variances were reviewed and followed up in a timely manner by a contractor official.

We believe that a lack of variance analysis could result in delays in requesting and obtaining approved amendments to contract expense budget line items and in the contractor exceeding allowable budgets by line item. This could result in non-reimbursement of costs incurred. We noted an example where other indirect costs of U.S.\$189,000 were not reimbursed by USAID for some four months.



Recommendation No. 2

We recommend that an official of the contractor perform a monthly variance analysis of expenditure reimbursed as a percentage of budget. Reasons for variances should be followed up and the USAID project officer advised in a timely manner of revised requirements or needed amendments.

Lack of Filing of USAID Approval Documents

During the course of our audit we experienced difficulty in tracing copies of USAID/Mozambique approval for certain transactions. Agency approval for travel and transportation and acquisitions of non-expendable item transactions is not always attached to the supporting documentation.

Recommendation No. 3

We recommend that the contractor attach all USAID/Mozambique approval correspondence to documentation supporting the transaction.

Failure to Endorse Documents Processed for Payment

We noted that invoices and supporting documents were not cancelled at the time of payment. The failure to cancel supporting documentation could result in inadvertent duplication of payments.

Recommendation No. 4

We recommend that all documents supporting payments be stamped "paid" by the check signatory at the time of payment.

Lack of Prenumbered Check Requisitions and Petty Cash Vouchers

We noted that the contractor does not prepare check requisitions to support payment of vendor invoices. We also noted that the contractor does not support petty cash payments with an authorized payment voucher. This could result in unauthorized disbursements.

Recommendation No. 5

We recommend that all cash and check disbursements include the prior written approval by the appropriate official either in the form of a pre-numbered requisition or a check request and prenumbered cash voucher. Disbursements without such prior written approval should be prohibited.

APPENDIX C

MISSION COMMENTS



UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID MISSION TO MOZAMBIQUE

U. S. POSTAL ADDRESS
MAPUTO
DEPARTMENT OF STATE
WASHINGTON, D. C. 20521-2201

RUA FARIA DE SOUSA, 107
MAPUTO, MOZAMBIQUE
CAIXA POSTAL, 703
TELEX : 6-180 USAID MO
TELEPHONE : 480728, 481828, 744484
FAX : 482288

M E M O R A N D U M

TO : RIG/A/Nairobi, Everette Orr
Regional Inspector General

FROM : USAID/Mozambique, Roger D. Carlson
Mission Director *RDC*

SUBJECT : Non-Federal Audit of Louis Berger International

REFERENCE : USAID/351/95/mk

DATE : May 09, 1995

We refer to the final draft of the above referenced audit, received from Price Waterhouse Meyernel on March 29, 1995. The Mission concurs with the contents of the above report and would like to make the following additional comments:

1. Page 3 of the report states:

"Price Waterhouse subsequently prepared its audit work plan and commenced its audit field work at the offices of Louis Berger International, Inc. and at the offices of USAID/Mozambique in Maputo."

While we agree that the above statement is accurate, we feel that the fact that Louis Berger International's records at their Maputo office were poorly maintained, and that Price Waterhouse was forced to use USAID/Mozambique's records for audit purposes, should be mentioned in the audit report.

2. Page 11, section 2.3.1 - Breakdown of Ineligible Costs: The last item in the table (2% fixed fee claimed on ineligible costs) appears to be incorrect, if it is based on the first three items in the table.

3. Page 23, finding No. 10 - Incomplete Local Employee Records: Did Price Waterhouse do a sample test to establish if in fact the employees were receiving the amounts claimed for reimbursement?

Given that the contract will end June 30, 1995, the Mission suggests that only monetary recommendations be included in the RIG tracking system for follow-up by USAID. The monetary recommendations referred to are Recommendations 1 to 7 of Appendix A of the draft audit report. Upon receipt of the final audit report, the Mission will work with the RCO and LBI to address and resolve each of the monetary recommendations included in the report.

We appreciate this opportunity to review and comment on the draft audit report and would like to thank RIG/A/N for keeping the Mission continuously informed in this regard.

APPENDIX D

LOUIS BERGER INTERNATIONAL, INC. COMMENTS

LOUIS BERGER INTERNATIONAL, Inc.
ARCHITECTS - ENGINEERS - ECONOMISTS - PLANNERS

Tel. : 33 (1) 45.78.39.39
Fax. : 33 (1) 45.77.74.69
Telex: 204 357 F

Date: June 5, 1995.

Registr. Nr : 95/64/L200

TELEFAX MESSAGE

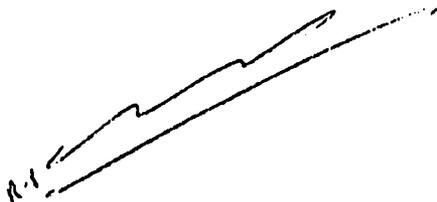
Addressee	<i>Ms Everette B. Orr, USAID Regional Inspector General for Audit</i>
Fax Number	<i>19 254 2 213 551</i>
Sender	<i>René P. Cousin</i>
Subject	<i>Audit Contract n° 656-0247-C-00-00237- 00 between USAID Mozambique and Louis Berger International</i>
Nr of pages (this one included)	<i>12</i>

Dear Ms Orr:

We are sending you here-after our comments on the Auditor's Draft Final Report.

Please feel free to contact us again should any additional clarifications be needed.

Best regards.



René P. Cousin
Vice-President

AUDIT OF CONTRACT N° 656-0247-C-00-00237-00
BETWEEN USAID/MOZAMBIQUE AND LOUIS BERGER INTERNATIONAL, Inc.

COMMENTS OF LOUIS BERGER INTERNATIONAL, Inc.

ON AUDITOR'S FINDINGS AND RECOMMENDATIONS

The final draft of the Audit Report prepared by the Auditor, Price Waterhouse Meyernal, on the local accounts and on the billing of Louis Berger International for the Contract n° 656-0247-C-00-00237-00 was delivered to our Maputo Project Office on April 3, 1995. The present document provides the comments of Louis Berger International on the Auditor's findings as included in sections 2.3, 3.3 and 4.3 of this report. These comments are provided using the same reference numbering system as used in the report.

No comment is provided on the Management letter included in Appendix B of the report as we are not required to provide any.

Finding n° 1 : Post Hardship Differential Allowance Claimed for Employee on Home Leave - US \$ 984

We agree and accept that employees away from post while on home leave are not eligible for post differential. This is an isolated incident where in error the employee was paid post differential, and in turn it was submitted for reimbursement. We concur with the auditors in treating this as an ineligible cost.

Finding n° 2: 70% Overhead Rate Claimed on Cooperating or Third Country Nationals' Salaries

We totally disagree with the auditors conclusion on this issue.

The auditors do not seem to have found reference to the 70% rate in LBI's Best and Final Offer, we enclose a copy of the pertinent portion of this document (Exhibit A) showing the 70% overhead rate for Cooperating or Third Country Nationals' salaries.

As the auditors admit, the total dollar amount for this line item in the offer was incorporated in the contract budget. Moreover, the auditor's contention that LBI never incurred any overhead costs for their local personnel is erroneous. We have been incurring non-reimbursable costs for income tax, payroll taxes, necessary overtime, paid leave, medical expenses and bonuses since the inception of the project. Enclosed (Exhibit B) is a breakdown of the 70% overhead rate used on the local salaries.

Finding n° 3: 10% Fee is Illegitimately Claimed on Subcontractor Costs

The auditors appear to have misinterpreted the "Best and Final Offer" as well as the contract budget. The 10% profit (fee) in our offer is clearly shown under the subcontractor portion of our budget (see again Exhibit A). We can understand the confusion caused by the way this fee is presented in the contract budget as well as the invoices.

This fee on subcontractor labor and overhead is in fact meant for our subcontractors. We had been paying a portion of this fee to them all along.

Finding n° 4: 2% Fixed Fee Claimed on Questioned Costs

We do not agree with the auditors determining that \$ 7,486 is to be returned. However, when a final determination is reached as to what are really eligible costs, we would be willing to pay back the 2% fixed fee claimed thereon.

Finding n° 5: Missing Original Supporting Documentation

Historically, USAID has audited LBII at its headquarters in the U.S. To facilitate such audits, it has been company policy to ship all original supporting documentation stateside for an eventual audit. We provided photocopies of supporting documentation for each of the disbursements as proof with our invoices. However, all original documentation is still available at our headquarters for inspection to the auditors.

Finding n° 6: Inadequate Supporting Documentation

It seems the auditors are complaining about the form rather than the substance of supporting documentation. The auditors agree that it is customary in Mozambique to make cash payments for services and goods. It should be also noted that many of these individuals providing the services or goods are not sophisticated enough to provide a receipt to their customers. In the given circumstances, LBII did not have any choice but improvise by providing documentation to acknowledge receipt of payments from LBII. Calling this a LBII receipt is a misnomer. The auditors should have acknowledged LBII's effort to obtain a receipt rather than worry about as to who supplied the paper for it.

We believe that the auditors should not "go by the book" in such an unsophisticated environment. We believe Generally Accepted Auditing Standards as well as Government Auditing Standards were not established to always work in any and every part of the world. Accordingly, we believe our support documentation should not be judged against these standards.

Finding n° 7 - Inadequate Vehicle Expense Documentation

We believed that during the audit our Chief of Party did provide to the auditors enough evidence of the allowability of the now questioned vehicle expenses.

We do not understand why the auditors would want us to put the car registration numbers on fuel and maintenance receipts. We believe this is onerous. If we extend the auditors theory further, we would have to put the USAID Contract Number on each and every receipt for project disbursements to show that they were USAID project related expenses. In our opinion, putting car registration numbers on receipts does not prove anything.

Finding n° 8: Inadequate Control over Exchange of US Dollars to Local Currency

We agree with the auditors finding and the recommendation to improve control over exchange of US Dollars to local currency. In fact, we have been following this course since December 1993. We are unable to do this earlier since the local bank did not have its operations computerized then, and they did not even issue hand written receipts during that period.

Finding n° 9: Inadequate Control over Payments

Our comments under Finding n° 6 are applicable here as well.

Finding n° 10: Incomplete Local Employee Personnel Records

We believe that our local employee personnel records are complete. It would be very useful if the auditors could clearly state which are the two uncompleted standard employment contracts they refer to in order to clarify and allow us to sort this issue out, if there is actually a problem.

Finding n° 11: Inadequate Segregation of Duties

We agree that having two signatories on a check to be negotiable is a good internal control over cash. However, we believe, given the size of the operation it is not practicable to do this. It should be noted that the monthly disbursement journal and bank reconciliations are reviewed and approved by the Chief of Party before sending them to our headquarters. Our project accountant at the headquarters once again reviews those documents. Therefore, the probability of misuse of funds going undetected is very low.

Finding n° 12: Inadequate Control over Receipt of Goods or Services

This finding is described in a very general manner by the auditors, which makes it difficult for us to comment on. We believe the auditors are again referring to services provided by small Mozambican contractors or by individuals paid in cash. If it is the case, we commented on this under Finding n° 6 above.

Finding n° 13: On Unauthorized Cash and Check Records

This finding surprises us, especially since almost all expenses paid by check were made by checks signed by the Chief of Party. In order to be able to comment on this, we need more information on the records the auditors are referring to.

In any case we fully concur with the corresponding auditors recommendation.

Finding n° 14: Inadequate Security Controls over Computer Equipment.

We understand and accept this comment, however when we submitted to USAID Maputo a proposal to hire adequate security services, it was rejected since in USAID's views CFM is responsible of the security in its premises, even when they are put at LBI's disposal.

Finding n° 15: Failure to Identify Non-Expendable Property

LBI maintains an up to date physical inventory which is controlled and reported to the USAID Mission in June each year.

We acknowledge that marking of non expendable property listed on this inventory is LBI's contractual responsibility, in practice it was done with the help of USAID Mission personnel who were providing the required labels and emblems. The four pieces of equipment listed by the auditors are the latest acquired by the project. We will make sure that they are properly marked in the very near future.

EXHIBIT A

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL RAIL SYSTEM SUPPORT
MOZAMBIQUE - RFP 90-001
MANAGERIAL LEVEL TECHNICAL ASSISTANCE AND TRAINING

REVISIONS TO COST PROPOSAL
BEST AND FINAL OFFER

Submitted by

LOUIS BERGER INTERNATIONAL INC.
100 Halsted Street • East Orange • NJ 07019 • U.S.A.

Subcontractor

ENEFER CONSULTORIA, PROJETOS S.A.
Vila Velha • BRAZIL

APRIL 1990

51

**REVISIONS TO COST PROPOSAL
BEST AND FINAL OFFER**

TABLE OF CONTENTS

- 1 . INTRODUCTION**
- 2 . CLARIFICATIONS ON SALARY HISTORY OF PROPOSED PERSONNEL**
- 3 . INDIRECT COST RATES**
 - LOUIS BERGER INTERNATIONAL**
 - ENEFER**
- 4 . BIO DATA SHEETS OF NEW PROPOSED CANDIDATES**
- 6 . REVISED COST PROPOSAL**

52

BEST AND FINAL OFFER

REGIONAL RAIL SYSTEM SUPPORT - MOZAMBIQUE. RFP No.: 90-001

DETAILED COST BREAKOUT DATA

COST ELEMENTS	PROPOSED CONTRACT ESTIMATE-TOTAL COST	REFERENCE
Salaries		
a. U.S. Personnel		
Home Office Professional	15 000.00	Table 1
Home Office Nonprofessional		
Field Staff Professional	491 500.11	Table 1
Field Staff Nonprofessional		
Total U.S. Salaries	506 500.11	Table 1
b. Cooperating or Third Country Nationals		
Field Staff Professional		
Field Staff Nonprofessional	42 900.00	Table 1
Total	42 900.00	
Short Term Training Specialists/Intermittent employees	411 500.00	Table 1
Consultants		
Consultant Fees (Domestic)		
Consultant Fees (Overseas)	60 000.00	Table 1
Total Consultant Fees	60 000.00	
Fringe Benefits (included in overhead)		
Overhead		
Total Overhead	1 108 210.14	Table 1
Travel and Transportation	192 500.00	Table 2
Allowances	435 880.65	Table 3
Other Direct Costs	34 377.75	Table 4
Equipment, Vehicles, Materials and Supplies	0.00	Table 5/Note 1
Participant Training	179 000.00	Table 6
General and Administrative rate		Note 2
Subtotal (Estimated Cost Exclusive of Fixed Fee or Profit)	4 373 746.24	

profit

Fixed fee
 base : Subtotal above
 \$ 4 373 746.24 rate: 2.00% 87 474.92

Award fee
 for all first year targets a), b) and c)
 base : Subtotal above
 \$ 4 373 746.24 rate: 1.00% 43 737.46
 for each target a) to h) set up for the entire contract period
 base : Subtotal above
 \$ 4 373 746.24 rate: 0.00%
 total for these 8 targets: 209 939.82
 Total profit 341 152.21

GRAND TOTAL 4 714 898.44 Note 3

607

Table 1 - Salaries, Consultants, Fringe Benefits and Overhead

DESCRIPTION	MONTHS	MONTHLY SALARY \$	TOTAL \$	
U.S. Salaries				
Railroad Financial Management Specialist/Chief of party	33.00	4 166.67	137 500.11	Note 4
Locomotive Specialist	33.00	3 750.00	123 750.00	
Mechanical Specialist 2	33.00	3 000.00	99 000.00	
Procurement/Inventory Control Spec.	33.00	3 750.00	123 750.00	
Training planning expert	2.00	3 750.00	7 500.00	
Technical Supervision	3.00	5 000.00	15 000.00	
Total U.S. Salaries	137.00		506 500.11	
Cooperating or Third Country Nationals				
Administrative assistant	33.00	1 300.00	42 900.00	
Total	33.00		42 900.00	
Short Term Specialists/Intermittent employees				
Financial accounting	61.00	3 500.00	224 000.00	
Locomotive maintenance and repair	62.50	3 000.00	187 500.00	
Total	126.50		411 500.00	
Consultants				
Short term training Specialists	10.00	6 000.00	60 000.00	
Total Consultant Fees	10.00		60 000.00	
Fringe Benefits (included in Overhead)				
Overhead				
U.S. Personnel				
Base \$ 506 500.11 Rate: 130.00%			658 450.14	Note 5
Cooperating or Third Country Nationals				
Base \$ 42 900.00 Rate: 70.00%			30 030.00	
Short Term Training Specialists/Intermittent employees				
Base \$ 411 500.00 Rate: 102.00%			419 730.00	
Consultants fees (No overhead)				
Total Overhead			1 108 210.14	

[

Table 7 - Subcontracts

7.1 - Salaries, Fringe Benefits and Overhead

DESCRIPTION	MONTHS	MONTHLY SALARY \$	TOTAL \$
Salaries			
Mechanical Specialist 1	33.00	4 000.00	132 000.00
Electrical Specialist	33.00	4 000.00	132 000.00
Total salaries	66.00	8 000.00	264 000.00
Short Term Specialists/Intermittent employees			
Financial accounting	42.00	4 000.00	168 000.00
Locomotive maintenance and repair	12.50	3 500.00	43 750.00
Total	54.50	7 500.00	211 750.00
Consultants			
Short term training Specialists	6.00	6 000.00	36 000.00
Total Consultant Fees	6.00		36 000.00
Overhead and profit			
Overhead			
Salaries			
Base \$ 264 000.00	Rate: 130.00%		343 200.00
Short Term Training Specialists/Intermittent employees			
Base \$ 211 750.00	Rate: 96.00%		204 254.05
Consultants fees (No overhead)			547 454.05
Total Overhead			
Profit (10% of total of salaries, fees and overhead)			
Base \$ 1 059 204.05	Rate: 10.00%		105 920.41
Total Overhead and profit			653 374.46

7.2 - Travel and Transportation

DESCRIPTION	MONTHS	UNIT RATE \$	TOTAL \$
International travel			
Brazil - Mozambique	22.00	2 000.00	44 000.00
Visa and travel expenses	22.00	40.00	880.00
Medical exams	5.00	100.00	500.00
International travel per diem	11.00	120.00	1 320.00
Total Travel			46 700.00
Transport/Storage of personal effects			
Household effects and baggages	2.00	4 000.00	8 000.00
Excess luggage	220.00	8.00	1 760.00
Total transport of personal effects			9 760.00



EXHIBIT B
PROVISIONAL OVERHEAD RATE ON MOZAMBIQUE
NATIONALS SALARIES

PAYROLL AND OTHER TAXES

Social Security	7.0%	of gross salary (Decree n° 4/90 Article 2)
Income tax	30.0%	(rate for salaries higher than \$85 a month as per Decree n° 30/93)

REIMBURSEMENT OF MEDICAL EXPENSES

Average 350\$ per year and per employee	4.9% *
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BENEFITS

Paid Leave (1 month after 11 months)	9.1%
Transport allowance (Mets 2 000 a day per employee)	1.5% **
Lunch allowance and coffee breaks (US \$ 100 per month for all staff)	4.8%
Non reimbursable overtime (Average 10 hours a month at 150% of salary)	8.8%
Christmas bonus (1/2 month of salary)	4.2%
	70.3%

* Percentage is computed using an average salary of \$ 600 per employee and per month.

** An average rate of Mets 5 000 : US \$ 1 is used.

EXHIBITS

**LOUIS BERGER INTERNATIONAL
SCHEDULE OF INELIGIBLE EXPENSES
INELIGIBLE OVERHEAD RATE ON LOCAL SALARIES**

Exhibit I

<u>Month</u>	<u>TCN/COOP Salaries US\$</u>	<u>O/head Rate</u>	<u>Overhead Claimed US\$</u>
July 90	803.00	70%	562.10
August 90	551.61	70%	386.13
September 90	1,343.67	70%	940.57
October 90	1,067.00	70%	746.90
November 90	1,067.00	70%	746.90
December 90	1,233.00	70%	863.10
January 91	1,183.00	70%	828.10
February 91	1,200.00	70%	840.00
March 91	1,750.00	70%	1,225.00
April 91	1,615.19	70%	1,130.63
May 91	1,992.36	70%	1,394.65
June 91	2,824.03	70%	1,976.82
July 91	2,851.53	70%	1,996.07
August 91	2,851.53	70%	1,996.07
September 91	3,201.53	70%	2,241.07
October 91	2,851.53	70%	1,996.07
November 91	2,834.87	70%	1,984.41
December 91	2,834.87	70%	1,984.41
January 92	3,434.87	70%	2,404.41
February 92	1,684.87	70%	1,179.41
March 92	1,684.87	70%	1,179.41
April 92	1,927.60	70%	1,349.32
May 92	1,902.40	70%	1,331.68
June 92	1,966.95	70%	1,376.87
July 92	2,006.95	70%	1,404.87
August 92	2,006.95	70%	1,404.87
September 92	2,499.00	70%	1,749.30
October 92	2,684.80	70%	1,879.36
November 92	1,968.08	70%	1,377.66
December 92	1,968.08	70%	1,377.66
January 93	2,468.00	70%	1,727.60
February 93	3,115.84	70%	2,181.09
March 93	2,068.00	70%	1,447.60
April 93	2,886.00	70%	2,020.20
May 93	3,108.00	70%	2,175.60
June 93	1,858.00	70%	1,300.60
July 93	2,025.00	70%	1,417.50
August 93	2,025.00	70%	1,417.50
September 93	2,037.16	70%	1,426.01
October 93	2,027.90	70%	1,419.53
November 93	2,165.82	70%	1,516.07
December 93	2,003.26	70%	1,402.28
January 94	2,482.79	70%	1,737.95
February 94	2,390.03	70%	1,673.02
March 94	2,188.36	70%	1,531.85
April 94	2,192.27	70%	1,534.59
May 94	1,900.67	70%	1,330.47
June 94	2,072.30	70%	1,450.61

100,805.54

70,563.88

SCHEDULE OF INELIGIBLE FEE ON SUB-CONTRACTS
(Additional fee = Salaries + Overhead @ 10%)

Month	ENEFER			CORPORATE STRATEGIES			MACLOVE		
	Salaries	Overheads	10% Add. Fee	Salaries	Overheads	10% Add. Fee	Total before add.	10% Add. Fee	Total
July 90	1,600.00	2,080.00	368.00						
August 90	8,000.00	10,400.00	1,840.00						
September 90	8,000.00	10,400.00	1,840.00						
October 90	8,000.00	10,400.00	1,840.00						
November 90	6,933.33	9,013.33	1,594.67						
December 90	8,000.00	10,400.00	1,840.00						
January 91	8,000.00	10,400.00	1,840.00						
February 91	8,000.00	10,400.00	1,840.00						
March 91	8,000.00	10,400.00	1,840.00						
April 91	8,000.00	10,400.00	1,840.00						
May 91	8,000.00	10,400.00	1,840.00						
June 91	8,000.00	10,400.00	1,840.00						
July 91	8,000.00	10,400.00	1,840.00						
August 91	10,064.52	13,083.83	2,314.84						
September 91	12,000.00	15,600.00	2,760.00						
October 91	12,000.00	15,600.00	2,760.00						
November 91	12,000.00	15,600.00	2,760.00						
December 91	4,000.00	4,082.80	808.28						
January 92	4,000.00	5,196.80	919.68						
February 92	4,000.00	5,196.80	919.68						
March 92	6,000.00	7,795.20	1,379.52						
April 92	4,000.00	5,196.80	919.68						
May 92	4,000.00	5,196.80	919.68						
June 92	4,000.00	5,196.80	919.68	4,444.44	666.67	511.11			
July 92	4,000.00	5,196.80	919.68	6,666.66	1,000.00	766.67			
August 92	4,000.00	5,196.80	919.68	6,666.66	1,000.00	766.67			
September 92	4,000.00	5,196.80	919.68	6,666.66	1,000.00	766.67			
October 92	4,000.00	5,196.80	919.68	6,666.66	1,000.00	766.67			
November 92	4,000.00	5,196.80	919.68	6,666.66	1,000.00	766.67	34,086.62	3,408.66	37,495.28
December 92				6,666.66	1,000.00	766.67			
January 93	387.10	502.92	89.00	6,666.66	1,000.00	766.67			
February 93				6,666.66	1,000.00	766.67	3,114.38	311.44	3,425.82
March 93				6,666.66	1,000.00	766.67	246,595.03	24,659.50	271,254.53
April 93				6,666.66	1,000.00	766.67	75,103.77	7,510.38	82,614.15
May 93		13,989.58	1,398.96	6,666.66	1,000.00	766.67			
June 93							285.57	28.56	314.13
July 93							9,609.09	960.91	10,570.00
August 93							9,275.15	927.52	10,202.66
September 93									
October 93							85,175.39	8,517.54	93,692.93
November 93							70,790.19	7,079.02	77,869.21
December 93									
January 94							11,388.04	1,138.80	12,526.84
February 94							13,884.62	1,388.46	15,273.08
March 94									
April 94							9,641.37	964.14	10,605.51
May 94							1,328.90	132.89	1,461.79
June 94							12,796.71	1,279.67	14,076.38
	<u>192,984.95</u>	<u>263,715.66</u>	<u>45,670.06</u>	<u>77,777.70</u>	<u>11,666.67</u>	<u>8,944.44</u>	<u>583,074.83</u>	<u>58,307.48</u>	<u>641,382.31</u>

Total ineligible fee on sub-contracts **US\$ 112,921.98**

SCHEDULE OF UNSUPPORTED COSTS

Costs supported by photostat of invoice (original could not be traced)

* Costs only supported by a photostat of an LBI-generated receipt

~ Car registration not reflected on fuel or repairs invoices

Month	USAID Inv.	Payee	Details of expense	Medicaid	(only > \$25) US\$	Item allocation	original doc./recibo only
July '90	1	L Dahlila	Airfare S.Paulo - Maputo		2,100.00	Travel & per diem	# photostat
		O Areias	Airfare Rio - Maputo		4,198.00	Travel & per diem	# photostat
		J Martins	Transport & storage		1,231.73	Travel & per diem	# photostat
		J Kuster	Airfare Rio - Maputo		2,180.35	Enefer sub-cont	# photostat
		M Alem Filho	Airfare Rio - Maputo		2,175.26	Enefer sub-cont	# photostat
Aug '90	2	Direcoa Migracao	Fee for permanent visa	63,100	67.96	Other direct costs	# photostat
Sept '90	3	TAP Portugal	Airfare J. Martins		1,273.27	Travel & per diem	# photostat
		O Areias	Transport of goods		13,197.27	Travel & per diem	# photostat
Oct '90	4	Massinga	Computer services		150.00	Other direct costs	* LBI-generated receipts evidence
Dec '90	6	DHL	Courier		288.70	Other direct costs	# photostat
Jan '91	7	Gilma Kuster	1/2 airfare Rio-Maputo		916.01	Enefer sub-cont	# photostat
		Philoxenia Int. Travel	Airfare P Sarathy		5,060.70	Travel & per diem	# photostat
Feb '91	8	Jetset	Airfare O Areias Map-Rio		4,470.36	Travel & per diem	# photostat
Mar '91	9	KLM	Airfare T Lodge's wife		322.55	Travel & per diem	# photostat
		Cash	Visa T Lodge		72.00	Travel & per diem	# photostat
		Cash	T Lodge airport tax		40.00	Travel & per diem	# photostat
		Panam	T Lodge excess baggage		128.00	Travel & per diem	# photostat
		April '91	10	Namac Office Supplies	Machine tape		610.68
May '91	11	N J office supplies	Binding		210.80	Other direct costs	# photostat
		Philoxenia Int. Travel	Airfare T Lodge		4,275.00	Travel & per diem	# photostat
		Medi. Association	Medical check up T Lodge		251.00	Travel & per diem	# photostat
June '91	12	Security Housing Co.	T Lodge personal effects		2,513.28	Travel & per diem	# photostat
		Gilma Kuster	1/2 airfare Rio-Maputo		1,436.00	Enefer sub-cont	# photostat
		Cash	G Kuster visa		40.00	Enefer sub-cont	# photostat
		SAA	Excess baggage		154.98	Enefer sub-cont	# photostat
		Varig	Excess baggage		33.81	Enefer sub-cont	# photostat
		Voyage Gallic	Airfare Vlad		4,381.37	Travel & per diem	# photostat
		Jetset	Airfare RP Cousins		2,458.74	Travel & per diem	# photostat
		Jetset	Airfare R Lobo		1,359.20	Travel & per diem	# photostat
		LAM	1/2 Airfare Mrs Dahlila vacation		1,247.50	Travel & per diem	# photostat
		LAM	Airfare Mr Dahlila vacation		2,320.22	Travel & per diem	# photostat
		LAM	Airfare O Areias + wife		3,039.04	Travel & per diem	# photostat
		Varig	Airtares Moreira family		3,742.50	Travel & per diem	# photostat
			Visa A Moreira		120.00	Travel & per diem	# photostat
			Visa A Moreira/Kuster/Ramirez		213.75	Travel & per diem	# photostat
		Aug'91	14	Jetset	Airfare Lobo		1,416.25
Sept '91	15	Varig	A Soares airfare Rio-Map		1,473.16	Enefer sub-cont	# photostat
		Dept. de Imigracao	Visa extensions		307.25	Travel & per diem	# photostat

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Month	USAID Inv.	Payee	Details of expense	Medicis	US\$ (only > \$25)	Item allocation	original doc./recibo only
Nov '91	17	Jetset	Airtares Fera family		4,575.45	Travel & per diem	# photostat
Dec '91	18	Idule Lampor	Airfreight of goods Areias		9,531.62	Travel & per diem	# photostat
Feb '92	20	LAM	Airtare T Lodge Map-Hara		795.01	Travel & per diem	# photostat
March '92	21		Rent COOP PH6 - 4 flat 1		600.00	Other direct costs	* LBI-generated receipt as evidence
			Rent COOP PH6 - 5 flat 4		600.00	Other direct costs	* LBI-generated receipt as evidence
April '92	22	Philoxenia Int. Travel	Airtare Jack Hatfield		3,704.00	Travel & per diem	# photostat
			Rent COOP PH6 - 4 flat 1		600.00	Other direct costs	* LBI-generated receipt as evidence
			Rent COOP PH6 - 5 flat 4		600.00	Other direct costs	* LBI-generated receipt as evidence
May '92	24	Sotux	Furniture storage		600.00	Other direct costs	* LBI-generated receipt as evidence
			Rent COOP PH6 - 5 flat 4		600.00	Other direct costs	* LBI-generated receipt as evidence
June '92	25		Rents PH 6		938.00	Other direct costs	* LBI-generated receipt as evidence
July '92	26	LAM	Airtares Moreira family		3,462.28	Travel & per diem	# photostat
		B Keagy	Airtares		5,927.70	Travel & per diem	# photostat
		Various	House Maintenance		182.37	Other direct costs	* LBI-generated receipt as evidence
Sept '92	28	Varig	Airtares L Dahlia & family		7,909.00	Travel & per diem	# photostat
		Gateway 2000	Laptop computers		7,170.00	Other direct costs	# photostat
		Pam Enterprises	Airconditioners		3,466.42	Other direct costs	# photostat
		Manica	Freight		105.00	Other direct costs	# photostat
		ICN service	Repairs to T Lodge laptop		532.95	Other direct costs	# photostat
Oct '92	29	Moz. Telephone co	Fax bill		1,717.35	Other direct costs	# photostat
		Gateway	Travel to Beira		356.20	Other direct costs	# photostat
		Sotux Lda	Notebook computer		2,390.00	Other direct costs	# photostat
		LAM	Storage of furniture		2,487.50	Other direct costs	# photostat
Nov '92	30	Various	Airtare meeting with Maclove		504.36	Other direct costs	# photostat
		LAM	House maintenance		686.48	Other direct costs	* LBI-generated receipt as evidence
Dec '92	31	Various	Travel to check furniture		619.70	Other direct costs	# photostat
		Andre Pene	Men to move furniture	1,765,000	607.05	Other direct costs	* LBI-generated receipt as evidence
		Jose Pereira	Rent PH6-5-flat 4		600.00	Other direct costs	* LBI-generated receipt as evidence
March '93	34	Chay	Rent PH6-4-flat 1		600.00	Other direct costs	* LBI-generated receipt as evidence
		Cash	Garbage collection	200,000	65.00	Other direct costs	* LBI-generated receipt as evidence
April '93	35	Chay	Gardeners Miramar comp.	7,200,000	2,341.46	Other direct costs	* LBI-generated receipt as evidence
		Complexo Mirarmar	Garbage collection	250,000	81.16	Other direct costs	* LBI-generated receipt as evidence
		Jetset	Gardeners Miramar comp.	3,600,000	1,168.83	Other direct costs	* LBI-generated receipt as evidence
May '93	36	LAM	Airtare Alf Persson		4,409.42	Travel & per diem	# photostat
			Airtare T Lodge - vac.		2,615.73	Travel & per diem	# photostat
			Flat rent COOP PH 6-4-no1		839.00	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-5-no4		839.00	Other direct costs	* LBI-generated receipt as evidence
		Chay	Garbage collection	200,000	65.00	Other direct costs	* LBI-generated receipt as evidence
		Complexo Mirarmar	Gardeners Miramar comp.	3,600,000	1,168.83	Other direct costs	* LBI-generated receipt as evidence
June '93	37	TWA	Airtare Monthe Rosenthal		1,578.40	Travel & per diem	# photostat
		Chay	Garbage collection	250,000	72.57	Other direct costs	* LBI-generated receipt as evidence
		Complexo Mirarmar	Gardeners Miramar comp.	2,400,000	696.66	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-4-no1		800.00	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-5-no4		800.00	Other direct costs	* LBI-generated receipt as evidence
		Garagem arte mecanica	Repairs to car	646,250	187.59	Other direct costs	^ Car registration no. not on invoice

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July '93	38	Chay Inaccio Tsamba	Garbage collection	250,000	67.57	Other direct costs	* LBI-generated receipt as evidence
			Instal telephone	100,000	27.02	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-4-no1		800.00	Other direct costs	* LBI-generated receipt as evidence
Aug '93	39	Americo Jossias Propecas Chay	Flat rent COOP PH 6-5-no4		800.00	Other direct costs	* LBI-generated receipt as evidence
			Repairs to car	350,000	87.50	Other direct costs	* LBI-generated receipt as evidence
			Repairs to car	1,658,479	414.62	Other direct costs	* LBI-generated receipt as evidence
			Residence permit JPC & MF		131.25	Other direct costs	^ Car registration no. not on invoice
			Garbage collection	200,000	50.00	Other direct costs	# photostat
Sept '93	40	Chay Gardeners	Flat rent COOP PH 6-4-no1		800.00	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-5-no4		800.00	Other direct costs	* LBI-generated receipt as evidence
			Garbage collection	150,000	37.50	Other direct costs	* LBI-generated receipt as evidence
			September salary	2,400,000	600.00	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-4-no1		800.00	Other direct costs	* LBI-generated receipt as evidence
Oct '93	41	Cash Post Office Chay Gardeners	Flat rent COOP PH 6-5-no4		800.00	Other direct costs	* LBI-generated receipt as evidence
			Translator services		1,280.00	Other direct costs	* LBI-generated receipt as evidence
			Mail		375.00	Other direct costs	* LBI-generated receipt as evidence
			Garbage collection	250,000	49.52	Other direct costs	* LBI-generated receipt as evidence
			October salary	2,400,000	475.43	Other direct costs	* LBI-generated receipt as evidence
Nov '93	42	Garagem Arte Mecanica Propecas JR Bernard Feria,Macdonald,Dahlila Chay Gardeners	Flat rent COOP PH 6-4-no1		800.00	Other direct costs	* LBI-generated receipt as evidence
			Flat rent COOP PH 6-5-no4		800.00	Other direct costs	* LBI-generated receipt as evidence
			Repairs MLS 78-42	2,939,662	566.49	Other direct costs	^ Car registration no. not on invoice
			Silenciador	742,170	143.02	Other direct costs	^ Car registration no. not on invoice
			Travel to Beira		483.68	Other direct costs	# photostat
			Various residence permits		193.75	Other direct costs	# photostat
			Garbage collection	200,000	38.54	Other direct costs	* LBI-generated receipt as evidence
Dec '93	43	Philoxenia Int. Travel TDM Chay Housing Lda Housing Lda	November salary	2,400,000	462.49	Other direct costs	* LBI-generated receipt as evidence
			Airfare T Lodge		3,467.65	Travel & per Diem	# Photostat
			Office operations		5,546.38	Other direct costs	# Photostat
			Garbage collection	250,000	47.44	Other direct costs	* LBI-generated receipt as evidence
			Invoices for house repairs		3,985.50	Other direct costs	# Photostat
Jan '94	44	Chay Miramar Compound J Tsamba	Invoices for house repairs		5,934.78	Other direct costs	# Photostat
			Garbage collection	200,000	37.42	Other direct costs	* LBI-generated receipt as evidence
			Gardeners salaries	2,400,000	449.09	Other direct costs	* LBI-generated receipt as evidence
Feb '94	45	Chay Miramar Compound	Repair telephone	200,000	37.42	Other direct costs	* LBI-generated receipt as evidence
			Garbage collection	250,000	46.04	Other direct costs	* LBI-generated receipt as evidence
March '94	46	Chay Miramar Compound Propecas	Gardeners salaries	2,400,000	441.97	Other direct costs	* LBI-generated receipt as evidence
			Garbage collection	200,000	36.36	Other direct costs	* LBI-generated receipt as evidence
			Gardeners salaries	2,400,000	441.97	Other direct costs	* LBI-generated receipt as evidence
April '94	47	Auto Rodrigues Housing Lda	Tyre for vehicle	2,743,400	498.82	Other direct costs	^ Car registration no. not on invoice
			Car repairs	5,482,500	974.77	Other direct costs	^ Car registration no. not on invoice
			Translation of new plan		800.00	Other direct costs	# Photostat
May '94	48	Manuel Santos Papelaria Moz. Marcus Machanisse Alvaro Sousa Chay Miramar Compound Andre Pene	Various invoices (Feb/Mar)		1,479.30	Other direct costs	# Photostat
			Telephone repairs	200,000	35.21	Other direct costs	* LBI-generated receipt as evidence
			Stationery	750,000	132.04	Other direct costs	* LBI-generated receipt as evidence
			Guards for office		450.00	Other direct costs	* LBI-generated receipt as evidence
			Cable installation		150.00	Other direct costs	* LBI-generated receipt as evidence
			Garbage collection	250,000	44.00	Other direct costs	* LBI-generated receipt as evidence
			Gardeners salaries	2,400,000	422.52	Other direct costs	* LBI-generated receipt as evidence
			Rent Flat 4-5th floor		900.00	Other direct costs	* LBI-generated receipt as evidence
June '94	49	Papelaria Moz. Marcus Machanisse Chay Miramar Compound Andre Pene	Stationery	750,000	128.41	Other direct costs	* LBI-generated receipt as evidence
			Guards for office		450.00	Other direct costs	* LBI-generated receipt as evidence
			Garbage collection	200,000	34.24	Other direct costs	* LBI-generated receipt as evidence
			Gardeners salaries	2,400,000	410.91	Other direct costs	* LBI-generated receipt as evidence
			Rent Flat 4-5th floor		900.00	Other direct costs	* LBI-generated receipt as evidence
					<u>189,849.36</u>		

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<u>Month</u>	<u>USAID Inv.</u>	<u>Payee</u>	<u>Details of expense</u>	<u>Metica is</u>	<u>US\$</u>	<u>Item allocation</u>	<u>original doc./recibo only</u>
					(only > \$25)		
			Summary : Photostat only		155,207.03		
			Receipt only - no third party documentation		31,857.02		
			Car registration not reflected on invoice		2,785.31		
					<u>189,849.36</u>		
			Travel & Per Diem		107,715.24		
			Other Direct Costs		73,724.55		
			Enefer - Sub-contract		8,409.57		
					<u>189,849.36</u>		

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