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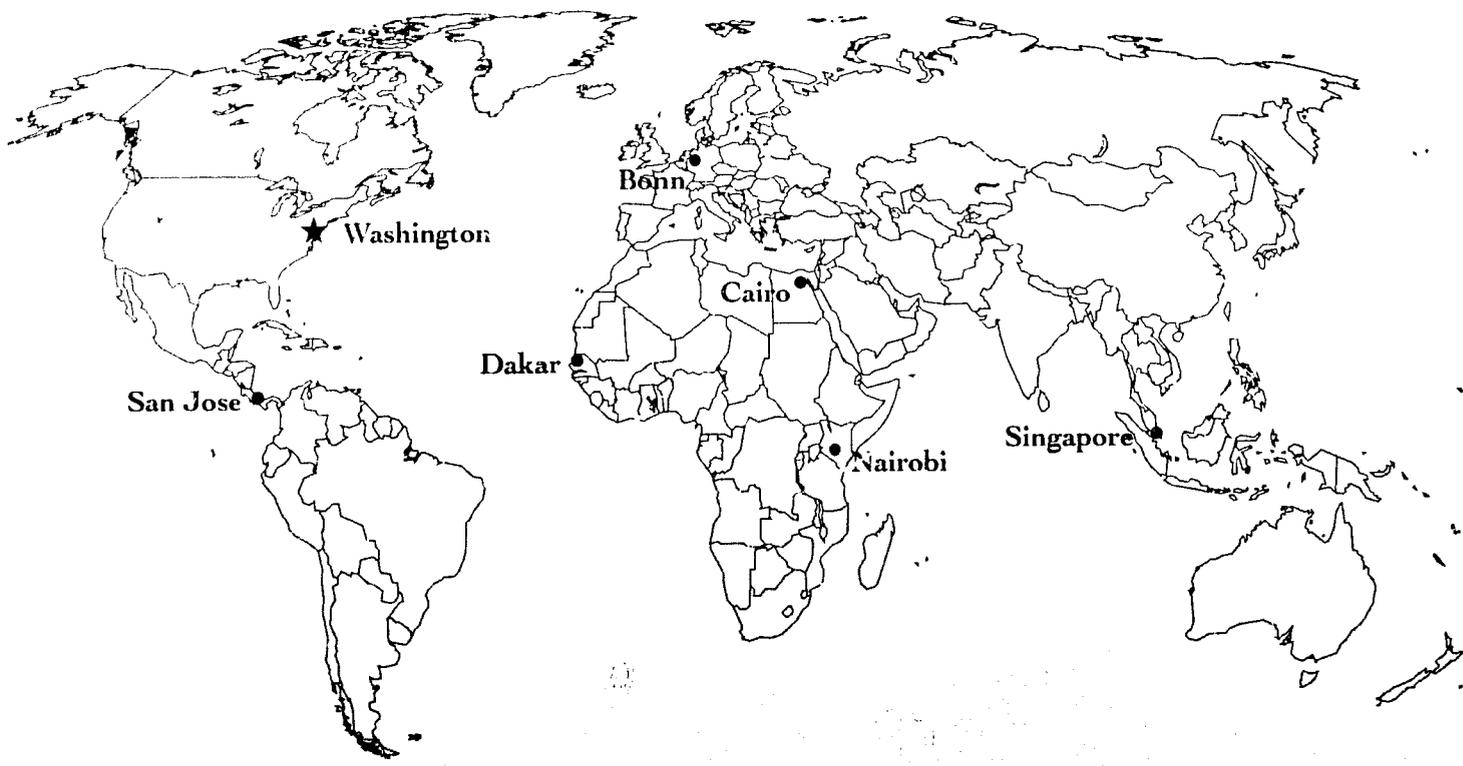
Office of the Inspector General  
Assistant Inspector General for Audit

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# Audit of USAID's Management of Project-Funded Commodities

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Audit Report No. 7-000-95-011  
September 19, 1995



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**AUDIT OF USAID'S MANAGEMENT OF  
PROJECT-FUNDED COMMODITIES**

**Audit Report No. 7-000-95-011  
September 19, 1995**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

September 19, 1995

MEMORANDUM FOR AA/M, Larry E. Byrne

FROM:

AIG/A, James B. Durnil

SUBJECT:

Audit of USAID's Management of Project-Funded Commodities  
(Audit Report No. 7-000-95-011)

This is the final report on the subject audit. We considered your comments to the draft report and have included them at page 17.

Our audit found that USAID-financed commodities generally arrived on time to meet procurement plans and implementation schedules and that commodity procurements generally complied with USAID source requirements. However, we found that improvements are needed to fully comply with commodity origin and eligibility requirements and to ensure that commodities are used as intended. The report contains two recommendations, both of which are considered resolved. Please notify our office within 30 days of the status of actions planned or taken to close the report's recommendations.

I appreciate the cooperation and courtesies extended to my staff by USAID's overseas missions during each of the individual audits and by USAID's Bureau for Management during our discussions in Washington.

# EXECUTIVE SUMMARY

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## Introduction

USAID spends approximately \$500-\$600 million for commodity procurements every year to support project activities. USAID *Handbook 1*, Supplement B defines commodities as "any material, article, supply, goods or equipment." Commodities are either procured directly by the Agency, or through technical assistance or construction contractors, grantees and host country institutions.

This report summarizes the findings contained in eight audit reports issued by the USAID Office of the Inspector General between March 1994 and March 1995 (see Appendix II). These audits reviewed USAID's management of project-funded commodities and were conducted at USAID missions in Bangladesh, Egypt (3), Morocco, Niger, the Philippines and Zambia.

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## Audit Objectives

Specifically, the USAID Office of the Inspector General audited the Agency's management of project-funded commodities to determine whether:

- USAID-financed commodities arrived on time;
- commodity procurements were made in accordance with source, origin and eligibility requirements; and
- USAID policies and procedures were followed to ensure that commodities were being used as intended.

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## **Results of Audit**

USAID-financed commodities generally arrived on time and were available to meet procurement plans and implementation schedules (page 4). Moreover, commodity procurements generally complied with U.S. Government and Agency source and eligibility requirements (page 5).

However, the audits disclosed the following:

- Significant instances of noncompliance with origin requirements involving about \$3.3 million of procurements were found in 6 of the 23 projects we tested. Also, two of the six audits (Bangladesh and Niger) revealed ineligible procurements of expendable commodities (i.e. medical sutures and pesticides) (page 5).
- The missions did not, in many instances, follow USAID policies and procedures to ensure that Agency-financed commodities were used as intended. For example, five audits revealed that the missions generally did not perform end-use checks (Bangladesh, Egypt-vehicles, Morocco, Niger, and Zambia). As a result, receiving and inspection reports were not always prepared; commodities were sometimes misused, idle, improperly stored, lost or stolen; inventory records were inaccurate or incomplete; and commodities were not timely repaired or disposed of (pages 12 and 13).

We believe that the above problems need prompt action by USAID to ensure that commodity procurements comply with USAID origin and eligibility requirements and that Agency-financed commodities are properly received, used, controlled, maintained and disposed of.

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## **Audit Recommendations**

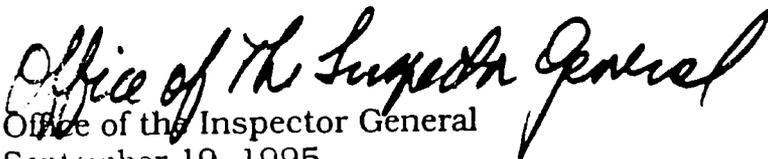
This report contains recommendations directed towards increasing the effectiveness of USAID's management of project commodities. Specifically, they call for the USAID Assistant Administrator for Management to:

- provide commodity management training to overseas mission staff and/or provide missions with improved access to trained commodity management officers (pages 7 and 14);
- inform missions of the USAID/Washington contact point which will furnish the overseas missions with origin and eligibility information on the procurement of specific commodities (page 7);
- clarify the Agency's rules concerning sub-components in order to strengthen origin compliance (page 7);
- instruct the overseas missions to evaluate and document the commodity management systems of technical assistance contractors, grantees and recipients (page 14); and
- instruct overseas missions to periodically reconcile contractor and recipient commodity accounting records to the missions' accounting records (page 14).

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## **Management Comments and Our Evaluation**

In response to our draft report, USAID submitted written comments which are included in their entirety at page 17. USAID responded positively to the report and agreed to take action on all of the report's recommendations. In particular, it fully supported the recommendations regarding the need for training of overseas mission staff in commodity management. Based upon its comments, all of the report's recommendations are considered resolved. They can be closed when USAID provides evidence to the OIG that it has implemented its planned actions.

  
Office of the Inspector General  
September 19, 1995

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# INTRODUCTION

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## Background

USAID spends approximately \$500-\$600 million for commodity procurements every year to support project activities. USAID *Handbook 1*, Supplement B defines commodities as "any material, article, supply, goods or equipment." Commodities are either procured directly by the Agency, or through contractors, grantees and host country institutions.

The Agency classifies commodities as "non-expendable property" or "expendable property". Non-expendable property (NXP) is defined as property which is "complete in itself, does not lose its identity or become a component part of another article when put into use, is durable with an expected service life of two years or more, and which has a unit cost of more than \$500."<sup>1</sup> Commodities classified as NXP are vehicles, motorcycles, computers, laboratory equipment, agricultural equipment, office equipment and household furnishings. Expendable commodities include contraceptives, fertilizers, pesticides and other perishable items. Agency policy stipulates that all commodities procured must conform to source,<sup>2</sup> origin<sup>3</sup> and eligibility<sup>4</sup> requirements.

USAID missions have most of the day-to-day commodity management responsibility for the Agency programs within their respective host country. That is, missions are responsible to either perform or monitor the procurement, receipt, inspection, storage, maintenance, use and disposal of Agency-financed commodities. The Office of Procurement within the Bureau for Management (M/OP) establishes most of the policies and procedures for project- as well as non-project-funded commodities. For

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<sup>1</sup> In January 1995, the NXP amount was raised to \$5,000 for assistance awards to U.S. Non-Governmental Organizations.

<sup>2</sup> "Source" refers to the country where the goods are shipped from.

<sup>3</sup> Origin refers to where the goods are made.

<sup>4</sup> "Eligibility" means whether the commodity is suitable for Agency financing.

example, the Policy Division (M/OP/P) issues policy and guidance on commodities. *Handbook 15* titled *USAID-financed Commodities* is the source of much of the commodity guidance.

Other relevant guidance are located in Handbook 1, Supplement B on commodity source, origin and eligibility;<sup>5</sup> Handbooks 3, 11 and 13 which stipulate relevant clauses for grantee and host country institutions; and Handbook 14, which lists USAID Acquisition Regulations for contractors. Moreover, the Commodity Management Division (M/OP/COM) is tasked with assisting missions in implementing the above-mentioned commodity policies.

This report summarizes the findings from eight audit reports issued by various Regional Inspector General Offices for Audit between March 1994 and March 1995 (see Appendix II). The audits were conducted at USAID missions in Bangladesh, Egypt, Morocco, Niger, the Philippines and Zambia.

The commodity universe for these missions consisted of approximately \$550 million under 127 projects. The eight audits reviewed 32 projects with commodities totaling \$432 million, or 79 percent of the universe.<sup>6</sup> Four of the eight audits focused on NXP. Given the significant portion of expendable property under projects in Bangladesh, Morocco, Niger, and the Philippines, these audits reviewed both NXP and expendable property. The audits did not include commodities under non-project assistance such as cash transfers, commodity import programs and Public Law 480 programs.

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<sup>5</sup> A summary of Agency policy on source and origin is also contained in Appendix IV.

<sup>6</sup> See the individual missions' audit reports for the amount of commodities actually tested for the projects selected by audit objective and attributes tested.

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## **Audit Objectives**

The USAID Office of the Inspector General audited the Agency's management of project-funded commodities to answer the following objectives:

- **Did USAID-financed commodities arrive on time?**
- **Were the commodity procurements made in accordance with source, origin and eligibility requirements?**
- **Did the missions follow USAID policies and procedures to ensure that commodities were being used as intended?**

Appendix I describes the audit's scope and methodology.

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## REPORT OF AUDIT FINDINGS

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### **Did USAID-financed commodities arrive on time?**

USAID-financed commodities generally arrived on time and were available to meet procurement plans and implementation schedules.

While some mission procurement and implementation plans did not contain specific dates when the commodities were needed, the audits in Bangladesh, Morocco, Niger, the Philippines and Zambia revealed that the commodities generally arrived when needed by the projects as illustrated by the following examples.

USAID/Morocco purchased 44 vehicles and 400 motorbikes, totaling \$1.4 million, at the beginning of a family planning project to ensure that they would be available for project needs. All motor vehicles and motorbikes arrived in Morocco as planned by September 1991 and within two years of the start of the seven-year project. These motor vehicles were and will continue to be available to distribute contraceptives and family planning information to remote areas within Morocco over the final five years of the project.

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*...the audits revealed that the commodities generally arrived when needed by the projects...*

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The audit of five USAID/Philippines' projects also showed that commodities generally arrived on time and when needed. The purpose of the Rural Electrification Project was to establish the commercial viability of selected rural electric cooperatives by addressing institutional, policy and technical weaknesses of the rural electrification system. USAID/Philippines financed the \$8.2 million procurement of computer hardware and software for the National Electrical Administration and the Rural Electric Cooperatives. According to the Mission's records, the timely arrival of these commodities (within 240 days) was an essential factor to the successful completion of the project.

Motor vehicles, computers, office furniture and equipment, household furniture and appliances and medical equipment were purchased under four USAID/Zambia projects. Of the 469 items sampled totaling \$1 million, all arrived in Zambia within the first year of the start of each project.

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### **Were the commodity procurements made in accordance with source, origin and eligibility requirements?**

Commodity procurements generally complied with U.S. Government and Agency source requirements for the six audits which included this objective (Bangladesh, Egypt--source/origin audit, Morocco, Niger, the Philippines and Zambia). However, we found significant instances of noncompliance with origin requirements involving about \$3.3 million of procurements on 6 projects out of 23 projects we tested. Finally, although the six audits disclosed that commodity procurements generally complied with eligibility requirements, two of the audits (Bangladesh and Niger) did reveal several ineligible procurements of expendable commodities (medical sutures and pesticides).

Section 604(a) of the Foreign Assistance Act (FAA), as amended in October 1992, is the benchmark for source and origin policies. Section 604(a) requires procurements outside the U.S. to be generally limited to goods and services originating from the United States. In addition, Section 636(i) of the FAA limits the eligibility of motor vehicles to those manufactured in the U.S.

Agency source and origin policies, as stated in *Handbook 1*,<sup>7</sup> implement and extend Sections 604(a) and 636(i) and generally require that commodities financed by USAID have their "source" and "origin" in the United States. To meet the source provisions, commodities must be shipped to the host country from the U.S. To meet the origin provisions, commodities must be grown, mined, manufactured, or assembled in the United States using predominately U.S. components. The statute and USAID's policy implementation allow for waivers in such cases as emergency situations and unavailability of items from U.S. suppliers. The Agency's source and origin policies are necessarily complex, and readers who are not already familiar with them may wish to review Appendix IV which describes these policies in more detail.

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<sup>7</sup> Supplement B, Chapters 4 and 5.

and unavailability of items from U.S. suppliers. The Agency's source and origin policies are necessarily complex, and readers who are not already familiar with them may wish to review Appendix IV which describes these policies in more detail.

Recognizing the difficulty in procuring, maintaining and repairing U.S. commodities in countries funded with Development Fund for Africa (DFA) appropriations, and the burdensome nature of case-by-case waiver paperwork, Congress authorized USAID to permit procurement from non-U.S. sources without waiver from these standard "Buy America" source and origin requirements. Instead, commodities procured under projects funded with DFA money are authorized to be made in (origin) and shipped from (source) any "free world" country<sup>8</sup> without individual waivers. However, Congress also instructed USAID to use DFA funds to procure U.S. commodities to the maximum extent practicable. Most Agency projects in Niger and Zambia are funded by the DFA and are therefore exempt from the standard Buy America requirements but must follow order of preference (U.S. first) in each procurement transaction.

The audits showed that commodity procurements generally complied with USAID source regulations. In reviewing commodity procurements totaling \$18.6 million under two of USAID/Egypt's projects, the auditors found that only \$60,240 of these commodities (or 0.3 percent of the total) did not meet the source requirements. The audits conducted in Bangladesh, Morocco, Niger, the Philippines and Zambia also showed that commodity procurements generally complied with source policy.

Many commodity procurements for all six missions also complied with origin requirements. For example, 44 Jeep Cherokees costing \$1 million were bought under a USAID/Morocco family planning project and were made in the United States.

Nevertheless, the audits disclosed significant noncompliance with origin regulations as well as several ineligible procurements. These issues are discussed together below.

#### **Missions Need to Ensure Compliance With Origin and Eligibility Requirements**

U.S. Government and Agency regulations generally require that commodities procured have their origin in the U.S. Moreover, Agency

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<sup>8</sup> As listed in USAID Geographic Code 935.

guidance states that in order to be eligible for USAID financing, it is particularly important that pharmaceuticals and pesticides be procured from a U.S. source and origin. However, of 23 projects tested under this objective, 6 projects, or 26 percent involved significant cases of noncompliance with the origin rules.<sup>9</sup> That is, commodity procurements totaling \$3.3 million under six projects did not comply with the origin requirements and another \$231,000 may not have complied. These violations occurred because (1) mission officials, contractors, grantees, and recipients did not understand the origin and eligibility requirements, (2) mission project officers did not monitor contractor, grantee and recipient compliance with the Buy America requirements, and (3) the Agency's rules concerning components, in some cases, appear to be impractical given today's global economy. In effect, it is possible that products manufactured in the United States could have been procured instead of these non-American items. Moreover, procuring unapproved agricultural or pharmaceutical goods could result in severe health consequences which could lead to damage claims against the U.S. Government.

**Recommendation No. 1: We recommend that the USAID Assistant Administrator for Management:**

- 1.1 provide commodity management training to overseas mission staff on origin and eligibility requirements and/or provide missions with access to trained commodity management officers;**
- 1.2 inform missions of the USAID/Washington contact point (M/OP/COM) which will furnish the overseas missions with origin and eligibility information on the procurement of specific commodities; and**
- 1.3 clarify the Agency's rules concerning sub-components to strengthen compliance by (a) preparing guidelines to missions to assist in monitoring compliance with rules concerning components, (b) assessing the appropriateness of existing provisions relating to components in terms of specific commodities (e.g., computers), and (c) establishing a USAID/Washington contact point to provide the missions with information on the percentage of U.S.-made components in specific commodities.**

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<sup>9</sup> If one excludes the nine projects which are exempt from the standard origin requirements because they are DFA financed, the percentage of projects tested with significant instances of noncompliance would be 43 percent.

*Handbook 1* spells out the Agency's origin requirements. These are included as standard clauses in the Mission's contract and grant agreements. In general, commodities procured should originate from the United States. Moreover, Agency guidance<sup>10</sup> states that as a policy matter it is particularly important that pharmaceuticals and pesticides be procured from a U.S. source and origin. However, of 23 projects tested under this objective, 6 projects, or 26 percent involved significant cases of noncompliance with the origin rules. That is, commodity procurements totaling \$3.3 million under 6 projects did not comply with the origin requirements and another \$231,000 may not have complied.

- An audit of two USAID/Egypt projects revealed that about \$2.5 million of the \$17.2 million (15 percent) in commodities reviewed had an ineligible origin. These commodities were procured by contractors and consisted of generators, compressors, trucks, tunnel boring machines, air conditioners and computer equipment which should have been manufactured in the United States but instead were manufactured primarily in Canada, Great Britain, Japan, Korea, and Taiwan.
- A host country contract under a USAID/Morocco project showed that approximately \$170,000 (32 percent) of the \$535,000 in commodities tested were of unauthorized origin. Also, the project officer did not obtain the necessary waivers. The contractor was required to procure commodities originating from the United States. However, the commodities (mainly computer and laboratory equipment), were made primarily in Japan, Germany, Taiwan and Spain.
- USAID/Bangladesh bought 1,476,000 surgical staples at a cost of \$590,000 from a non-U.S. source and origin. These sutures were procured through a purchasing agent from Johnson and Johnson Limited, India, which is an affiliate of the U.S.-based corporation. The sutures were manufactured and airfreighted from Bombay, India. Handbook 1, Supplement B states that exceptions to the general rule that USAID-financed pharmaceuticals must be of U.S. source may be made after consultation with the Office of Procurement in Washington. It further states that waivers will be considered if: the pharmaceutical product is essential to the project; the product would cost at least 50 percent more than from another source; and information is available to attest to the safety, efficacy and quality of the product, or the product meets the standards of the U.S. Food and

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<sup>10</sup> See number 13 at Appendix III.

Drug Administration (FDA) or other controlling U.S. authority. While the sutures procured met the specifications shown in the purchase contract and were actually procured at a lower cost than in the U.S., no determination was made to whether the sutures met FDA standards, as required.

Contracts under two USAID/Philippines projects required the contractors to purchase commodities with source and origin in the United States or the Philippines. Nonetheless, the contractors procured eleven non-U.S. oscilloscopes and computer equipment totaling \$87,000 without a source/origin waiver. The oscilloscopes were made in the Netherlands while the computer equipment was manufactured primarily in Taiwan and Australia.

Over the past several years, USAID/Niger's Executive Office and the contractor under a family health project purchased fumigation services from four local Niger companies/individuals without determining whether the pesticides used were approved by the Environmental Protection Agency (EPA). This is contrary to USAID policies which, due to potential safety, health and environmental concerns, require that only EPA-approved pesticides be procured. In addition, these four companies were hired without determining whether they were properly trained to use the pesticides. At least eight different pesticides were used by four Niger companies. We were able to determine that only one was approved by the EPA and at least one was prohibited.

Thus, non-American procurements were made by contractors, grantees, recipients, and in certain cases mission officials without giving missions the opportunity to approve or disapprove of the procurements. In effect, it is possible that many of these procurements could have been products which were manufactured in the United States. Moreover, procuring unapproved agricultural or pharmaceutical goods could result in severe health consequences which could lead to damage claims against the U.S. Government.

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*...mission officials, contractors, grantees, and recipients did not fully understand the origin and eligibility requirements.*

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These violations occurred for several reasons. First, mission officials, contractors, grantees, and recipients did not fully understand the origin

and eligibility requirements. Many individuals believed that items bought from American companies or an affiliate of a U.S.-based corporation complied with the Buy America policy regardless of whether or not they were made in the United States. Others believed that the rules were not violated as long as the U.S. contractor or grantee did the purchasing, even if the items were not made in the United States. Some individuals did not know that for safety reasons, pharmaceuticals and pesticides must have U.S. source and origin. Moreover, several officials at one mission considered the source of commodities synonymous with their origin.

Second, mission project officers generally did not monitor contractor, grantee and recipient compliance with the Buy America requirements. For example, project officers did not verify the origin of commodities during site visits.

Finally, the Agency's rules concerning components, in some cases, appear to be impractical given today's global economy. As stated in Appendix IV, components are used to produce a finished manufactured commodity. In general, USAID rules concerning components of manufactured commodities from eligible source countries require the total cost of foreign components to be limited to 50 percent of the lowest price (excluding the cost of ocean transportation and maritime insurance) at which the supplier sells the commodity for export.

It is very difficult for missions to determine whether certain types of commodities meet the 50 percent rule as stated in *Handbook 1, Supplement B, Chapter 5*. The most notable example is computers. Most missions spend hundreds of thousands of dollars, if not millions of dollars on computer equipment. We found that it was nearly impossible for the missions to determine whether a computer purchase met the 50 percent prerequisite once an Agency-financed computer arrives overseas.

A personal computer is made up of three main components: the central processing unit (CPU), the monitor and the keyboard. In many cases, the audits discovered that these main components were all made or assembled in different countries. In one case, the monitor was made in Taiwan, the keyboard was made in Mexico and the CPU was made in the United States. It becomes even more confusing when many individual sub-components of the main components are made in various countries. The CPU is made up of many memory and data processing chips, some of which could be made in the U.S. and some which are likely made in various Asian countries.

Another aspect that the missions found confusing relates to whether the rules concerning components apply to an individual commodity unit, a

package, or the total procurement transaction. For example, should the 50 percent rule be applied to the keyboard, monitor and CPU individually, as a package, or if a mission bought 20 personal computers from a supplier, to the 20 computers as a whole?

In conclusion, given the lack of understanding of the Buy America rules by overseas missions which resulted in significant noncompliance, we believe that overseas missions need commodity management training on origin and eligibility requirements and/or access to trained commodity management officers. Furthermore, missions should be made aware of the USAID/Washington contact point (i.e., M/OP/COM) which will provide the overseas missions with information on the procurement of specific commodities regarding origin and eligibility. Finally, the Agency needs to review its rules concerning component rules in order to strengthen compliance.

### Management Comments and Our Evaluation

In response to our draft report, USAID stated that it fully concurred with and supported the recommendations regarding the need for training of overseas mission staff in the area of commodity management. In regards to Recommendations No. 1.1 and 1.2 respectively, USAID stated that its Office of Procurement will provide the required training to those mission staff that do not have access to a trained Commodity Management Officer and that it will furnish overseas missions with origin and eligibility information through a worldwide telegram. Concerning Recommendation No. 1.3, USAID stated that it will undertake an assessment of the current policy on componentry and through a worldwide cable, will provide guidelines to missions to assist in monitoring compliance with componentry rules. Further, it stated that it has designated M/OP/COM as the contact office in USAID/W to provide missions with information on the componentry of specific commodities.

Based upon the Agency's comments, Recommendation No. 1 is considered resolved. It can be closed when the OIG receives evidence that the Agency's planned actions have been implemented.

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## **Did the missions follow USAID policies and procedures to ensure that commodities were being used as intended?**

The missions did not, in many instances, follow USAID policies and procedures to ensure that Agency-financed commodities were used as intended. For example,

- Three audits revealed that the missions generally did not include reviews of commodities during site visits (Bangladesh, Morocco, and Niger);
- Four audits disclosed that the missions did not ensure that contractor, grantee and recipient commodity inventory records were complete and accurate (Bangladesh, Morocco, Niger, and Zambia);
- Four audits revealed that the missions audited did not ensure that contractors, grantees and recipients established a program for the receipt, use, maintenance, protection, custody, and care of non-expendable property (Bangladesh, Morocco, Niger, and Zambia);
- Five audits revealed that the missions generally did not perform end-use checks<sup>11</sup> (Bangladesh, Egypt-vehicles, Morocco, Niger, and Zambia);
- Four audits showed that the missions reviewed generally did not ensure that contractors, grantees and recipients performed periodic physical inventories (Bangladesh, Morocco, Niger, and Zambia); and
- Four of the audits disclosed that the missions did not ensure that commodities were properly disposed of on time (Bangladesh, Morocco, Niger, and Zambia).

Instead, the missions relied heavily on contractors, grantees and recipients to comply with certain agreement clauses to ensure that commodities were being used as intended. For example, the missions included the following clause in the project agreements we reviewed: *"Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project."*

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<sup>11</sup> "End-use checks" refers to mission verification that commodities in the field are actually being used as intended.

For their main project contractors, the missions also included the appropriate contract clauses<sup>12</sup> which require the contractor to properly control non-expendable property and to submit an annual NXP inventory report.

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*The missions relied on contractors, grantees and recipients to ensure that commodities were actually used. Even though this did not result in the misuse of commodities in many cases, our testing disclosed problems which illustrate that the lack of adherence to Agency commodity procedures has resulted in some negative effects.*

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The missions relied on contractors, grantees and recipients to ensure that commodities were actually used. Even though this did not result in the misuse of commodities in many cases, our testing disclosed problems which illustrate that the lack of adherence to Agency commodity procedures has resulted in some negative effects.

#### **Missions Need to Monitor Commodities in the Care of Contractors, Grantees and Recipients**

There are numerous Agency policies and procedures which require missions to monitor commodities. However, as stated above, missions generally did not adhere to them. For example, four missions did not evaluate and document the commodity management systems of their technical assistance contractors, grantees and recipients. This occurred because mission officials lacked expertise in commodity management and access to trained commodity management officers. Thus, mission officials were unclear of their responsibilities and did not give commodity management a high priority. As a result, receiving and inspection reports were not always prepared; commodities were sometimes misused, idle, improperly stored, lost or stolen; inventory records were inaccurate or incomplete; and commodities were not timely repaired or disposed of.

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<sup>12</sup> USAID Acquisition Regulations (AIDAR) 752.245-70 and 71.

**Recommendation No. 2: We recommend that the USAID Assistant Administrator for Management:**

- 2.1 provide commodity management training and/or improved access to commodity management officer services to overseas mission staff on monitoring the receipt, use, maintenance, care and disposal of project commodities;**
- 2.2 instruct the overseas missions to evaluate and document the commodity management systems of technical assistance contractors, grantees and recipients; and**
- 2.3 instruct project officers to periodically reconcile contractor and recipient commodity accounting records to the missions' accounting records.**

There are a multitude of Agency policies and procedures which require missions to monitor commodities. Regulations such as AIDAR 752-245-71 and USAID *Handbook 13*, Appendices 4C and 4D, require contractors and grantees to prepare and establish a program, to be approved by the mission, for the receipt, use, maintenance, protection, and care of Agency-financed non-expendable commodities. *Handbook 15*, Chapter 10(E) titled "Description of Procedures" states that missions should maintain a current description of the recipient's commodity arrival and disposal systems, an evaluation of the system and the mission monitoring procedures established. There are numerous other published policies and procedures that elaborate on these requirements further.<sup>13</sup> However, as stated above, missions generally did not adhere to them. For example, four missions did not evaluate and document the commodity management systems of their technical assistance contractors, grantees and recipients.

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<sup>13</sup> See Appendix III, numbers 16, 17, 22, 23, 24, 25, 26, and 27.

This absence of monitoring occurred because mission officials lacked expertise in commodity management and access to trained commodity management officers. As a result, mission officials were unclear of their responsibilities and did not give commodity management a high priority. The audits found that most project officers had not received training in commodity management, and the missions did not have a commodity management specialist on staff. Many project officers did not understand the importance of commodity management tasks such as preparing receiving and inspection reports and maintaining complete commodity inventory records. Because mission officials generally did not understand the importance of commodity management, it was not given a high priority.

An additional cause is that missions did not attempt to reconcile contractor, grantee and recipient commodity inventory listings with commodities listed in accounting entries in the MACS reports. The numerous ways commodities are included in agreements and ultimately in the MACS makes it difficult for any such reconciliation to take place. Currently, there is no systematic breakdown of commodities in Agency agreements and accounting records. Some commodities financed under a project could be under a separate line item called "Commodities" while other commodities could be listed as "Technical Assistance", "Grant Agreement", or "Other". In addition, non-expendable property is generally not separated from expendable commodities.

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*This absence of monitoring occurred because mission officials lacked expertise in commodity management and access to trained commodity management officers. As a result, mission officials were unclear of their responsibilities and did not give commodity management a high priority.*

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As a result, receiving and inspection reports were not always prepared; commodities were sometimes misused, idle, improperly stored, lost or stolen; inventory records were inaccurate or incomplete; and commodities were not timely repaired or disposed of.

We have provided some examples of the problems found at Appendices V through VIII. Please refer to the missions' audit reports for further details on specific audit findings and recommendations.

In summary, given the lack of expertise in commodity management which has resulted in negative consequences, we believe that overseas missions need commodity management training and improved access to trained commodity management officer services on monitoring the receipt, use, maintenance, care and disposal of commodities. In addition, missions should evaluate and document the commodity management systems of technical assistance contractors, grantees and recipients and reconcile its records to contractor and recipient commodity accounting records.

### Management Comments and Our Evaluation

In response to our draft report, the Agency agreed with Recommendation No. 2. Regarding Recommendation No. 2.1, USAID stated that its Office of Procurement will provide commodity management training concurrently with the training covered by Recommendation No. 1.1. Concerning Recommendation No. 2.2, USAID stated that through a worldwide cable it will notify overseas missions of the requirements for the evaluation and documentation of the commodity management systems of technical assistance contractors, grantees, and recipients. Further, in regards to Recommendation No. 2.3 (formerly Recommendation 2.4 in the draft report), USAID stated that it will notify overseas missions of the requirements for the reconciliation of contractors' and recipients' commodity accounting records. Based upon the Agency's comments, each of the above recommendations is considered resolved. They can be closed when the OIG receives evidence that the Agency's planned actions have been implemented.

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# USAID MANAGEMENT COMMENTS



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

JUL 27 1995

MEMORANDUM FOR AG/A, Mr. James B. Durrill  
FROM: AA/M, Larry E. Byrne *Larry E. Byrne*  
SUBJECT: Draft Report on Audit of USAID's Management of  
Project-Funded Commodities

This is in response to your memorandum of June 20, 1995,  
requesting comments on the subject report.

I would like to preface my comments by saying that, while  
commodity management is recognized as an extremely important  
element of successful project implementation, it is an area that  
frequently does not receive the proper treatment it deserves and  
is called for in our Directives System. I fully concur with and  
support your recommendations regarding the need for training of  
overseas mission staff in the area of commodity management.

In the Introduction section of the report, you note that we are  
currently operating with two different definitions of non-  
expendable property. The newer of the two definitions, which has  
a considerably higher dollar threshold, was introduced in 1993 by  
Office of Management and Budget through its OMB Circular A-110,  
titled "Uniform Administrative Requirements for Grants and  
Agreements With Institutions of Higher Education, Hospitals and  
Other Non-Profit Organizations." Therefore, this definition  
applies to all of our grants and cooperative agreements with U.S.  
PVOs and NGOs. As part of the current exercise under the  
Business Area Analysis for Property Management, we are planning  
to review USAID's older definition of non-expendable property,  
specifically with regard to raising the dollar threshold.

The following comments are in response to the recommendations  
that you have made in the draft report.

**Recommendation 1.1 - Provide commodity management training to  
overseas mission staff on origin and eligibility requirements  
and/or provide missions with access to trained commodity  
management staff officers.**

**Comment - The Office of Procurement will provide the required  
training to those mission staff that do not have access to a  
trained Commodity Management Officer.**

110 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

## USAID MANAGEMENT COMMENTS

-2-

**Recommendation 1.2 - Inform missions of the USAID/Washington contact point (M/OP/COM) which will furnish the overseas missions with origin and eligibility information on the procurement of specific commodities.**

**Comment - We will undertake this action through a worldwide telegram.**

**Recommendation 1.3 - Clarify the Agency's rules concerning sub-components to strengthen compliance by (a) preparing guidelines to missions to assist in monitoring compliance with rules concerning components, (b) assessing the appropriateness of existing provisions relating to components in terms of specific commodities (e.g., computers), and (c) establishing a USAID/Washington contact point to provide the missions with information on the percentage of U.S.-made components in specific commodities.**

**Comment - We will undertake an assessment of the current policy on componentry, particularly with regard to automatic data processing equipment. Through a worldwide telegram, we will provide guidelines to missions to assist in monitoring compliance with rules concerning componentry, as well as designate M/OP/COM as the contact office in USAID/W concerning the determination of componentry for specific commodities. Also, the Office of Procurement will continue to produce, on an annual basis, a worldwide telegram which provides details on U.S.-manufactured vehicles and their componentry.**

**Recommendation 2.1 - Provide commodity management training and/or improved access to Commodity Management Officer services to overseas mission staff on monitoring the receipt, use, maintenance, care and disposal of project commodities.**

**Comment - The Office of Procurement will provide this training concurrently with the training covered by your Recommendation 1.1.**

**Recommendation 2.2 - Instruct the overseas missions to evaluate and document the commodity management systems of technical assistance contractors, grantees and recipients.**

**Comments - Through a worldwide telegram, we will draw the attention of the overseas missions to current requirements concerning the evaluation and documentation of the commodity management systems of technical assistance contractors, grantees and recipients. This will also be covered in the commodity management training to be provided by the Office of Procurement.**

# USAID MANAGEMENT COMMENTS

-3-

Recommendation No. 2.3 of the draft audit report has been deleted from the final report. Accordingly, we have deleted the related section of the Agency's comments to this recommendation. Further, Recommendation No. 2.4 (below) is numbered as Recommendation No. 2.3 in our final report.

Recommendation 2.4 - Instruct project officers to periodically reconcile contractor and recipient commodity accounting records to the Missions' accounting records.

Comment - Through a worldwide telegram, we will draw the attention of the overseas missions to current requirements concerning the reconciliation of contractors' and recipients' commodity accounting records with those of the Missions'. This will also be covered in the commodity management training.

Clearances:	M/OP/P, KO'Hara	<u>KOH</u>	Dated	<u>7/21/95</u>
	M/OP/COMS, JHacken	<u>JH</u>	Dated	<u>7/21/95</u>
	M/OP/OD, JMurphy	<u>JM</u>	Dated	<u>7/21/95</u>
	M/OP/OD, MStevenson	<u>MS</u>	Dated	<u>7/21/95</u>
	DAA/M, MSherwin	<u>MS</u>	Dated	<u>7/21/95</u>

M/OP/P: JJ : sms: X875-1534: 7/21/95 (draft.aud)

<p style="text-align: center;"><b>SCOPE AND METHODOLOGY</b></p>
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**Scope**

This report summarizes the findings from eight audit reports issued by various Regional Inspector General Offices for Audit between March 1994 and March 1995 (see Appendix II). The audits reviewed the Agency's management of project-funded commodities. They were conducted in accordance with generally accepted government auditing standards at USAID missions in Bangladesh, Egypt, Morocco, Niger, Philippines, and Zambia. The Missions' commodity universe consisted of approximately \$550 million under 127 projects. The eight audits focused on 32 projects with commodities totaling approximately \$432 million, or 79 percent of the universe.<sup>14</sup> Four of the eight audits focused on non-expendable property (NXP). However, given the significant portion of expendable property under projects in Bangladesh, Morocco, Niger and the Philippines, these audits also dealt with expendable property.

The audits did not include commodities under non-project assistance such as cash transfers, commodity import programs and Public Law 480 programs. Because of the numerous ways commodities are shown in mission accounting records and the fact that the audit found in many cases that mission, contractor, grantee and recipient commodity accounting records were incomplete and inaccurate, the total universe of commodities under the projects selected could not be verified. The dollar amounts stated in the preceding paragraph are amounts we could identify from mission, contractor, grantee and recipient records and are most likely somewhat understated.

The Regional Inspector General Offices for Audit (RIG/A) conducted their fieldwork at numerous locations within their respective countries in which the audits were performed including USAID mission, contractor, grantee and host country offices, warehouses, and health clinics. The audits included an assessment of the internal controls and compliance with laws and regulations within the scope of the audit objectives. Moreover, auditors met with various

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<sup>14</sup> See the individual missions' audit reports for the amount of commodities actually tested for the projects selected by audit objective and attributes tested.

USAID officials in Washington, D.C. from the Bureau for Management and the Bureau for Policy and Program Coordination.

In addition to the methodology described below, for five of the eight audits, we obtained written representations from mission management confirming information that we considered necessary to answer our audit objectives and to assess internal controls and compliance.

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## **Methodology**

### **Audit Objective One**

The RIG auditors reviewed the missions' systems of internal controls relating to commodity procurement. Based on the results of these reviews and assessments of risk exposure relating to this objective, they selected items from the project procurement plans.

The auditors then reviewed project papers, agreements, annual workplans, implementation schedules, contracts and receiving reports. They also interviewed mission officials and contractors to determine the dates the commodities were supposed to have arrived versus the date when the commodities actually arrived. We followed up with mission and contractor officials to determine the reasons for any significant delays to determine the effect, if any, on the projects. In those cases where procurement plans and implementation plans did not contain specific dates when the commodities were needed, we interviewed project implementors and reviewed project documents to determine whether the commodities arrived when needed by the projects.

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### **Audit Objective Two**

The RIG auditors reviewed the missions' systems of internal controls relating to ensuring that source, origin and eligibility requirements were met and waivers were obtained when required. Based on the results of these reviews and an assessment of risk exposure relating to this objective, they selected items for testing.

The auditors determined the source and origin of the commodities by physically inspecting the items and by reviewing bills of lading, airfreight bills, and vouchers. They also checked any waiver authorization documentation for any non-American procurements. Finally, they interviewed mission, contractor, grantee and host-country officials to determine the reasons for any non-compliance with U.S. and Agency source, origin and eligibility regulations.

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### **Audit Objective Three**

The RIG auditors reviewed the missions' systems of internal controls relating to contractors, grantees and host country officials maintaining commodity accounting records, and utilizing, protecting, maintaining, repairing and disposing of commodities. Based on the results of these reviews and an assessment of risk exposure relating to this objective, they selected items from receiving reports, inventory reports and payment records.

The auditors physically inspected the items, reviewed end-use records, and interviewed mission, contractor, grantee and recipient individuals to determine if the commodities were being used as intended. They interviewed mission, contractor and grantee individuals to determine the reasons why any items were not being used. The auditors also determined whether (1) missions included reviews of commodities during site visits, (2) missions performed end-use reviews, (3) commodities were adequately stored, repaired and properly disposed of in a timely manner, and (4) commodity accounting records were complete and accurate.

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## Listing of Individual Audits Performed

AUDIT TITLE	RIG/A OFFICE	REPORT NO.	DATE OF ISSUE
Audit of the Source and Origin of Commodities Purchased under the Alexandria Wastewater and Cairo Sewerage II Projects	RIG/A/Cairo	6-263-94-003	3/8/94
Audit of USAID/Egypt's Monitoring of the Use of Project Vehicles	RIG/A/Cairo	6-263-94-004	3/9/94
Audit of USAID's Management of Project-Funded Commodities in Morocco	RIG/A/Dakar	7-608-94-009	7/12/94
Audit of USAID's Management of Project-Funded Commodities in Niger	RIG/A/Dakar	7-683-95-001	10/21/94
Audit of USAID/Zambia's Management of Project Commodities	RIG/A/Nairobi	3-611-95-005	12/9/94
Audit of USAID/Egypt's Commodities Procured for Power Projects	RIG/A/Cairo	6-263-95-003	1/31/95
Audit of USAID/Bangladesh's Management of Project-Funded Commodities	RIG/A/Singapore	5-388-95-005	3/15/95
Audit of USAID/Philippines' Management of Project-Funded Commodities	RIG/A/Singapore	5-492-95-008	3/31/95

## **RELEVANT REGULATIONS, POLICIES, AND PROCEDURES**

### **OBJECTIVE ONE:**

1. *Handbook 1*, Supplement B ("Procurement Policies") Chapter 24, Section A1 states that timely and appropriate use of project assistance commodities means delivery and use of the commodities in accordance with the purpose of the project and project implementation plans.
2. *Handbook 3*, Appendix 11C includes various references for monitoring commodities including the need to review the status of the procurement of goods and services.
3. *Handbook 15*, Chapter 10(E) titled "Description of Procedures" states that missions should maintain a current description of the recipient's commodity arrival and disposal system, evaluation of the system, and the monitoring procedures established.

### **OBJECTIVE TWO:**

4. Section 604(a) of the Foreign Assistance Act, as amended in October 1992, is the principal regulation for source and origin policies. Section 604(a) requires procurements outside the U.S. to be generally limited to goods and services originating from the United States (Code 000), the recipient country and low-income developing countries (Code 941).
5. FAA Section 636(I) limits the eligibility of motor vehicles to those manufactured in the U.S.
6. USAID Acquisition Regulation 752.7004 (see *Handbook 14*, page 131) is the standard contract clause requiring contractors to buy American goods.
7. *Handbook 13*, Appendix 4C specifies the standard eligibility and source clauses for U.S. nongovernmental grantees.
8. *Handbook 13*, Appendix 4D specifies the standard eligibility and source clauses for non-U.S., nongovernmental grantees.

**9.** *Handbook 11*, Chapter 3 spells out eligibility and source requirements under a host country contract.

**10.** *Handbook 18*, Appendix D, Section III, Attachment A11 lists the USAID geographic codes.

**11.** Section 496, Chapter 10(4) of the Foreign Assistance Act of 1961 (P.L. 87-195) states that funds provided by the Development Fund for Africa are exempt from Section 604a.

**12.** Guidance on Development Fund for Africa Procurements was issued in April 1988 and February 1993 (State cable 044619).

**13.** *Handbook 1*, Supplement B, Chapters 4 and 5 and *Handbook 15*, Chapter 2 list source, origin and eligibility requirements. The approval of the Mission Director is necessary before waiving a source, origin or eligibility requirement (Note: any waivers are normally included in the project paper as annexes).

**14.** USAID Regulation 16 (22 CFR Part 16), in *Handbook 3*, Appendix 2D, Section 216.3 (b) stipulates that any projects that procure and use pesticides should determine their environmental impact, including any human or environmental toxicological hazards associated with the proposed use.

OBJECTIVE THREE:

**15.** *Handbook 15*, Chapter 10(E) titled "Description of Procedures" states that missions should maintain a current description of the recipient's commodity arrival and disposition system, the mission evaluation of the system, and the monitoring procedures established.

**16.** *Handbook 15*, Chapter 10(B)(2) requires the host country or grantee to maintain records documenting the arrival of Agency-funded commodities. The recording system must: (1) identify the parties to the transaction and provide other data necessary for end-use investigation; (2) provide evidence to show whether commodities are received in the quantity and condition for which payment was made; and (3) provide a record of adjustments resulting from contractors' claims for loss, shortages, or damage to commodities.

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**17.** *Handbook 15*, Chapter 10D4 suggests the performance of end-use checks on a sample of arrival/releases. The distribution of some individual commodities should then be checked in-country in order to evaluate the continued effectiveness of recipient import systems.

**18.** USAID Acquisition Regulation 752.245-70 requires an annual report by contractors of property. In this report, contractors are required to certify that physical inventories are periodically performed and the inventory records are adjusted to reflect the actual counts.

**19.** USAID Acquisition Regulation 752.245-71 requires contractors to prepare and establish a program, to be approved by the mission, for the receipt, use, maintenance, protection, custody, and care of non-expendable property for which the contractor has custodial responsibility.

**20.** USAID standard clause in project agreements (Annex 2, Section B.3) states that "any resources financed under the Grant will, unless otherwise agreed in writing by USAID, be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project".

**21.** *Handbook 13*, Appendices 4C and 4D show the standard clauses for title to and care of property under grants with U.S. and non-U.S. nongovernmental grantees, respectively. Among other things, the grantee is required to prepare and establish a program, to be approved by the mission, for the receipt, use, maintenance, protection, custody, and care of NXP for which the grantee has custodial responsibility.

**22.** *Handbook 3*, Appendix 11C, includes various references to commodity monitoring including the need to review the status of the procurement of goods and services and to confirm the installation and effective utilization of major pieces of equipment.

**23.** *Handbook 3*, Appendix 11E, "Specific Monitoring Responsibilities", states that project officers should review borrower/grantee commodity storage and warehousing methods to ensure safekeeping of goods.

**24.** *Handbook 13*, Chapter 1 states that commodity inventory records should include the necessary information for each item.

**25.** *Handbook 15*, Chapter 10(D) states that USAID is responsible for determining that commodities are being used effectively in the project or, if not, are transferred to other projects or otherwise disposed of.

**26.** *Handbook 23* requires missions to keep records for each vehicle showing how it was used and how much fuel it consumed (Appendix 6A, paragraph 228.7). Paragraph 228.6-1 prescribes the use of a "Daily Vehicle Usage Report." This guidance only applies to vehicles which are the property of the U.S. Government.

**27.** *Handbook 23*, Chapter 6 specifies USAID policies and procedures for the overall management of motor vehicles. Paragraph 6F4 states that the control and use of project-funded vehicles should be the project manager's responsibility.

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## **SUMMARY OF USAID POLICIES ON SOURCE AND ORIGIN**

Agreements financed by USAID state where the contractor, grantee and recipients must purchase any commodities needed to perform the agreement. Usually, this is done by specifying the eligible "source" and "origin" for commodities purchased under the contract.

"*Source*" refers to the country from which a commodity is shipped. For example, if an automobile is shipped from the United States to Egypt, the source is the United States.

"*Origin*" refers to the country in which a commodity is grown, mined, or produced. A commodity is produced when, through manufacturing, processing, or substantial and major assembling of components, a new commodity results that is substantially different in basic characteristics or in purpose or utility from its components.

"*Components*" refers to the goods that go directly into the production of a manufactured commodity. Agency rules concerning components of manufactured commodities from eligible source countries are as follows:

- Any component from a "non-free world country" (e.g., Libya or North Korea) makes the commodity ineligible for Agency financing.
- The 50 percent limit to foreign components is applied if the U.S. manufacturer does not make any modifications to them before they are used in the assembly of a finished product. The total cost of such foreign components, delivered to the point of production of the commodity, may not exceed 50 percent of the lowest price (excluding the cost of ocean transportation and maritime insurance) at which the supplier sells the commodity for export.

Generally, the rules concerning components are applied to each individual commodity. However, for kits such as a tool kit, the rules are applied to the kit as a whole, not to each individual item in the kit. Similarly, for a shipment of spare parts, the rules concerning components are applied to the shipment of spare parts as a whole, not to each individual part. Finally, when a "package installation" is procured as a single item (as in the case of a turnkey contract for a power plant), the Agency may authorize the rules to be applied to the installation as a whole.

Information on the Agency's source and origin policies is found in USAID *Handbook 1*, Supplement B, Chapter 5 and *Handbook 15*, Chapter 2.

## EXAMPLES OF RECEIVING AND INSPECTION REPORTS NOT PREPARED

- For the audit in Niger, receiving and inspection reports were not prepared for commodities costing \$2.2 million. Under a family health project, the grantee did not prepare receiving and inspection reports for any of the contraceptives costing \$1.7 million that arrived in Niger between 1987 and 1994. Under the Sahel Water Data and Management project, the grantee did not prepare receiving and inspection reports for computer and telecommunications equipment worth \$233,000. Moreover, a receiving report was prepared for computer equipment costing \$138,000; however, the document only identified the *total number* of cartons received which does not necessarily have any relationship with the actual type and quantity of computer equipment on hand. In addition, the document did not state whether all items acquired were in good working condition. In fact, one of the computers received was defective and no action had been taken to send it back for repair.
- Receiving and inspection reports for commodities financed by USAID/Zambia were not always prepared or prepared on time. For example, items purchased under three projects valued at \$211,000 were received as early as May 1993. However, receiving and inspection reports were not prepared until the items were moved into the residential houses, some as late as April 1994. In another case, USAID/Zambia's warehouse staff received many pieces of furniture for three projects that arrived unassembled, and were unable to determine if all the pieces ordered were received. Receiving and inspection reports were prepared based on the supplier's verbal assurance that the items were delivered in good condition.

*Without proper receiving and inspection reports, missions, contractors, grantees, and recipients cannot assure that commodities are received in the quantity and condition for which payment was made. Consequently, it is difficult to take prompt action to file claims for items that do not arrive or which arrive damaged.*

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**EXAMPLES OF COMMODITIES MISUSED, IDLE, LOST OR STOLEN**

- An audit at USAID/Egypt reviewed the Mission's monitoring of the use of 51 of 424 project vehicles under five projects. The audit disclosed that contractors and grantees did not reimburse the Mission for as much as \$340,000 in personal use of vehicles. For example, a contractor and a grantee incorrectly classified commuting by local staff as official rather than personal use and did not reimburse the Mission for the costs incurred. In addition to providing free home-to-office transportation to local employees, the grantee was also paying them transportation allowances. In other words, the Agency was paying twice for the local staff's commuting expenses.

Moreover, the audit found that one contractor had approximately 13 vehicles, costing about \$175,000, that were in excess of his needs because the vehicles were primarily used for home-to-office commuting for his local staff. That is, the contractor could dispose of the 13 vehicles and still have enough vehicles for official project needs.

- The audit in Bangladesh also revealed problems with the use of vehicles. For the 11 organizations under the four projects covered under the audit, the auditors found that there was no clear, consistent policy on the management of project-funded vehicles. The Mission did not have a clear policy that would apply to contractors and grantees. Each organization had their own procedures, formal or informal, and in certain cases there were none.

Their policies varied from charging for personal use and commuting at appropriate rates to assigning vehicles at no charge for commuting and personal use. For example, 8 of the 27 vehicles managed by a technical assistance contractor under an agricultural project were mainly used for commuting. Each of the 27 vehicles were assigned to an individual on the contractor's staff rather than maintaining a motorpool. A planned follow-on to this agricultural project proposes the procurement of another 24 vehicles for the same technical assistance contractor at a cost of \$25,000 each. In addition, budgeted vehicle operating costs for the first five years for the cost of gas, maintenance, and drivers amount to \$5,000 per year for each vehicle. Therefore, the Mission was proposing to spend \$1.2 million on additional vehicles over the first five years of the eight-year

project. Further, the technical assistance contractor under a rural electrification project did not have a policy to charge their employees for the personal use of project vehicles. The contractor believed that these vehicles were the property of the Government of Bangladesh's Rural Electrification Board as they were procured under the host country contract. However, the contract states that all property shall be under the control and custody of the contractor. The contractor should establish and enforce a program for the protection, maintenance and use of the vehicles under their control and custody.

- Testing of 66 items under a USAID/Morocco agricultural project revealed that 11 items (17 percent) totaling \$116,000 were in operating condition but were not being used. These items included computer and laboratory equipment such as microscopes, geopositioning equipment and spectrometers. With the help of host-country officials, the auditors were able to conclusively confirm that 5 of these 11 items were not being used for a variety of reasons. For example, a geopositioning system and plotter bought for soil mapping were not being used because the project activity was discontinued.
  - The audit in Zambia found that commodities costing more than \$330,000 bought under four projects were not being used for a variety of reasons. Some of the items consisting of medical sterilizers, motorcycles, water pumps, and household furnishings had remained unused for well over a year. Moreover, the audit revealed that four vehicles costing approximately \$82,000 were stolen under two projects. Under the Zambia Agricultural Training, Planning and Institutional Development II project, two vehicles were stolen; one while being cleared at the Government of Zambia's Customs office, the other while in the custody of the technical assistance contractor. These two vehicles had been insured only for third-party risks and thus, no insurance proceeds were received. The other two motor vehicles were stolen while in the custody of a U.S. grantee. In this case the grantee did receive insurance proceeds.
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**EXAMPLES OF INACCURATE AND INCOMPLETE  
COMMODITY ACCOUNTING RECORDS**

- USAID/Zambia could not account for all commodities procured under the five projects tested. The audit disclosed a total unreconciled difference of \$1.8 million representing the difference between commodities received and paid for by the Mission (as per USAID/Zambia's Mission Accounting and Control System [MACS] reports) and the projects' commodity inventory listings.
- Under a USAID/Niger project, the grantee's inventory records for computer, telecommunications, and office equipment totaling \$900,000 had not been updated in over two years. Our physical inspection of 82 items showed that 29 items or 35 percent totaling \$164,000 did not have identification tags attached and were not included in the inventory records. Most of these items were computer equipment which could easily be misplaced or stolen.
- In response to contractors, grantees and recipients who were unable to provide proper accounting on Agency-financed commodities, USAID/Philippines funded a contractor-developed commodity tracking system that totaled \$110,000. The objective of the commodity tracking system was to support the Mission in ensuring the effectiveness of its programs by monitoring and accounting for all commodities procured through the assistance of USAID. A contractor delivered the commodity tracking system to USAID/Philippines in February 1994. However, since accepting this system, USAID/Philippines has not updated the database.
- The audit of four USAID/Bangladesh projects showed that project officers did not have the required annual NXP inventories. Some project officers indicated that they were aware that NXP reports are prepared and maintained by the contractors and the recipients, as required in the agreements. However, the auditors found that these inventory records were not always readily available. They also lacked the required information or were out of date.
- Under a USAID/Morocco family planning project, the audit disclosed a 19 percent (1,272 cartons) difference, equalling \$247,000, between the Ministry of Health's commodity accounting records for Lo-Femenal contraceptive pills (6,691) and our physical count (5,419).

*Without complete and accurate commodity accounting records and periodic physical inventories, commodity losses may occur without timely detection. Precise inventory records are also needed so that management can make informed decisions on procurement, utilization, and disposal of commodities.*

**EXAMPLES OF COMMODITIES NOT TIMELY REPAIRED OR DISPOSED OF**

- Adequate programs were not in place to repair and maintain computer and laboratory equipment worth approximately \$6 million under two USAID/Morocco agricultural projects. The audit identified 56 items totaling \$203,000 that needed repair.

Moreover, host country and contractor officials at the two projects confirmed that repair and maintenance of computer and laboratory equipment was and will be a significant problem. Because the equipment is critical to support research under the two projects, not only will equipment totaling \$6 million be in jeopardy of becoming permanently idle, but the sustainability of the projects' objectives and USAID's total investment of \$74 million will be at risk.

Commodities under the same two USAID/Morocco agricultural projects were not disposed of promptly. The audit identified 80 items, totaling \$352,000, that needed to be disposed of because they were no longer operational, obsolete, or too costly to repair. These items consisted of 22 vehicles and 58 pieces of computer and laboratory equipment. Most of these items should have been disposed of many years ago.

- The audit of USAID/Zambia discovered weaknesses in the Mission's monitoring of the contractor's/grantee's systems for disposing and repairing motor vehicles under two projects. For example, a vehicle valued at \$12,000 was damaged, but there was no evidence it was repaired and put back into use because the Mission was unable to locate the vehicle. Another vehicle under the same project was auctioned, but there was no record as to why it was auctioned, for how much it was sold, or whether the proceeds were used for project activities. A vehicle under another project was destroyed, but there were no records to show if any insurance proceeds were received or how the proceeds were used. Furthermore, a vehicle was damaged in an accident in February 1993. However, a physical inspection in May 1994 showed that the vehicle was still not repaired more than a year after the accident. The contractor said he was waiting for the Mission to make a decision on whether to repair or dispose of this vehicle. Mission officials said they were not aware the vehicle was idle.

- Under a USAID/Niger project, numerous pieces of equipment (mainly minicomputers, tape and disk drives), were being stored in a warehouse. This equipment worth well over \$100,000 was purchased in the 1980s under Phases I and II of the project. According to grantee officials, most of the equipment had been put into the warehouse at least four to five years ago. Some of the equipment was operable when placed in the warehouse, but it is now obsolete and would be too costly to maintain and repair.

Under a USAID/Niger family health project, there were several cartons of condoms just outside the main contraceptive warehouse in Niamey. These condoms were returned to the main warehouse in December 1993 from outlying regions in Niger because they were thought to be defective. As of June 1994, no action had been taken to dispose of them.

*As shown above, the lack of adequate repair and disposal systems can have a negative impact on Agency activities. Furthermore, items which are obsolete, surplus or inoperable risk further depreciation, damage, loss or theft. Moreover, there is a risk that defective pharmaceutical products could inadvertently be used.*

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**GLOSSARY OF TERMS**

<b>AIDAR</b>	Agency for International Development Acquisition Regulations
<b>Commodities</b>	Any material, article, supply, goods or equipment.
<b>CPU</b>	Central Processing Unit
<b>DFA</b>	Development Fund for Africa
<b>Eligibility</b>	Whether the commodity is suitable for USAID financing.
<b>End-use checks</b>	Refers to mission verification that commodities in the field are actually being used as intended.
<b>EPA</b>	Environmental Protection Agency
<b>FAA</b>	Foreign Assistance Act
<b>FDA</b>	Food and Drug Administration
<b>M/OP</b>	USAID's Bureau for Management, Office of Procurement
<b>MACS</b>	Mission Accounting and Control System
<b>NXP</b>	Non-expendable property is property which is complete in itself, does not lose its identity or become a component part of another article when put to use, is durable, with an expected service life of two years or more, and which has a unit cost of more than \$500.
<b>OIG</b>	USAID's Office of the Inspector General.
<b>Origin</b>	The country in which the commodity is made.
<b>RIG/A/DAKAR</b>	Regional Inspector General for Audit, Dakar, Senegal
<b>Source</b>	The country from where the goods are shipped.