

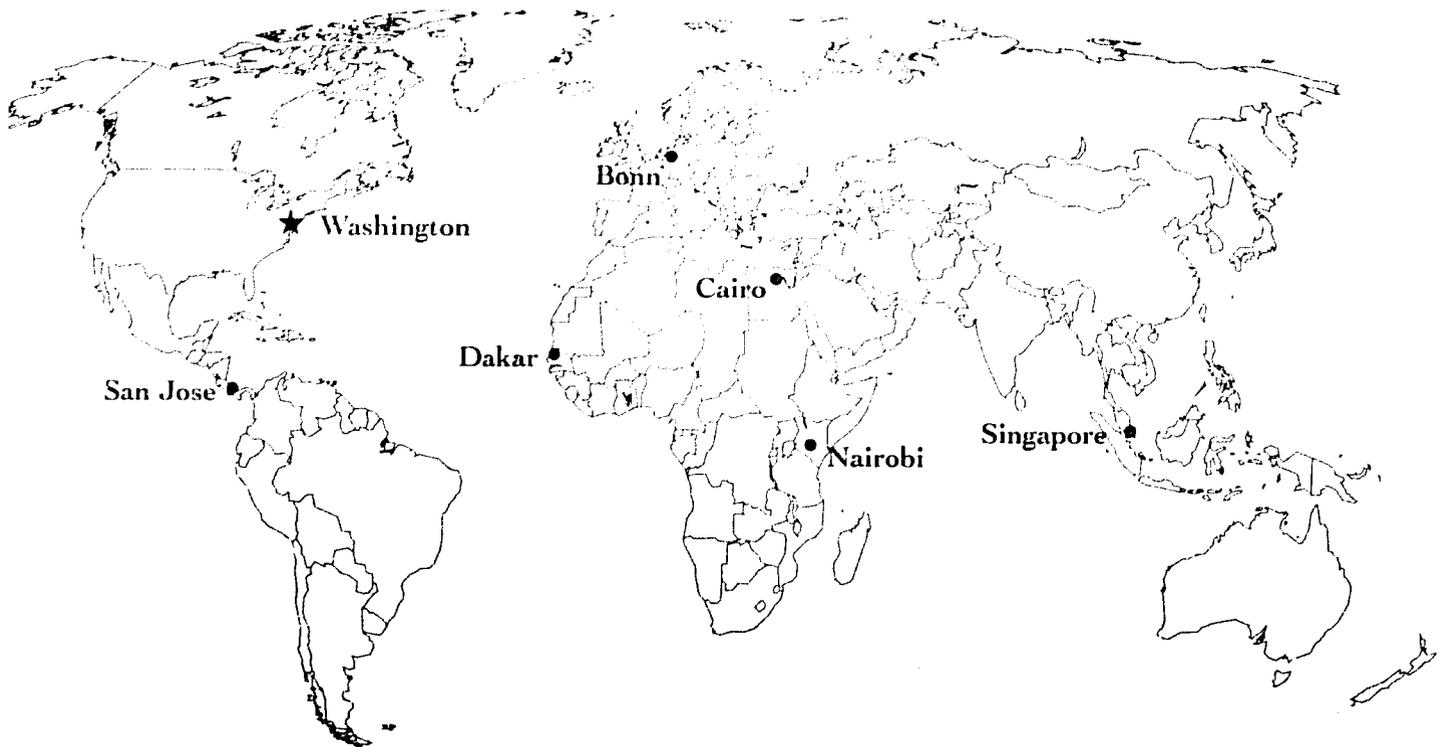
Regional Inspector General for Audit  
Nairobi, Kenya

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Audit of USAID/Mozambique  
Contract No. 656-0247-C-00-9211-00  
and Host Country Contract No. HCC-656-90-001  
with Enge-Rio

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Report No. 3-656-96-001-N  
November 20, 1995



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.



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*Regional  
Inspector General  
for Audit/Nairobi*

November 20, 1995

MEMORANDUM FOR MISSION DIRECTOR, USAID/MOZAMBIQUE

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

SUBJECT: Agency-contracted Audit of USAID/Mozambique Contract No. 656-0247-C-00-9211-00 for the Period August 7, 1989 to January 31, 1994 and Host Country Contract No. HCC-656-90-001 for the Period April 5, 1990 to July 31, 1994, With Enge-Rio, Audit Report No. 3-656-96-001-N

Attached are three copies of an Agency-contracted audit of USAID/Mozambique Contract No. 656-0247-C-00-9211-00 with Enge-Rio for the period August 7, 1989 to January 31, 1994 and host country contract No. HCC-656-90-001 between the Mozambique Railways and Enge-Rio for the period April 5, 1990 to July 31, 1994. The non-Federal accounting firm of Price Waterhouse, Johannesburg, South Africa, performed the audit.

Enge-Rio is a Brazilian engineering company with headquarters in Rio de Janeiro and a local branch in Maputo. USAID/Mozambique and Enge-Rio have two contractual relationships which were the subject of this audit. One is direct contract between USAID/Mozambique and Enge-Rio; the other is a "host country" contract between Enge-Rio and the Government of Mozambique but totally funded by USAID. The first contract was a joint venture of Enge-Rio with a Mozambican firm in support of the USAID-funded Regional Rail Systems Support Project No. 690-0247. This contract was awarded on August 7, 1989, and expired on January 31, 1994. The total contract amount was \$260,297. The second contract is a "host country" contract between Enge-Rio and the Government of Mozambique but totally funded by USAID. The purpose of this contract was to provide technical assistance to improve the Mozambique Railways maintenance capacity and financial management in support of the USAID-funded Regional Rail Systems Support Project. This contract was awarded on April 5, 1990, and was amended to terminate on July 31, 1994. The amended contract had a total award amount of \$5,387,317.

The objective of the audit was to examine Enge-Rio's Fund Accountability Statements (Statements) and express opinions as to whether the Statements present fairly the use of funds in accordance with the contracts. To answer the objective, the auditors were to review the auditee's internal control structure to determine the auditing procedures necessary for expressing opinions on the Statements. The auditors were required to report on

significant internal control deficiencies and material weaknesses. As part of obtaining reasonable assurance about whether the Statements were free of material misstatements, the auditors were required to test the auditee's compliance with the terms of the contracts and report any instances of material noncompliance. The audit covered contract expenditures of \$218,495 under contract No. 656-0247-C-00-9211-00 and \$4,970,067 under contract No. HCC-656-90-001 for the audited time period.

The auditors issued adverse opinions on Enge-Rio's Fund Accountability Statements since the audit identified substantial amounts of questioned costs. The auditors identified \$901,770 in questioned ineligible costs (\$59,122 under contract No. 656-0247-C-00-9211-00 and \$842,648 under contract No. HCC-656-90-C-001). Also, the auditors identified \$222,237 in questioned unsupported costs (\$2,009 under contract No. 656-0247-C-00-9211-00 and \$220,228 under contract No. HCC-656-90-C-001). In addition, the auditors identified one material instance of noncompliance. There were no material internal control weaknesses. The draft report was submitted to Enge-Rio and USAID/Mozambique for comments. USAID/Mozambique concurred with the audit findings and provided comments which were addressed in the final report. USAID/Mozambique comments are presented in their entirety at Appendix C. Enge-Rio did not provide any written comments within the agreed due date.

The report contains 11 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:

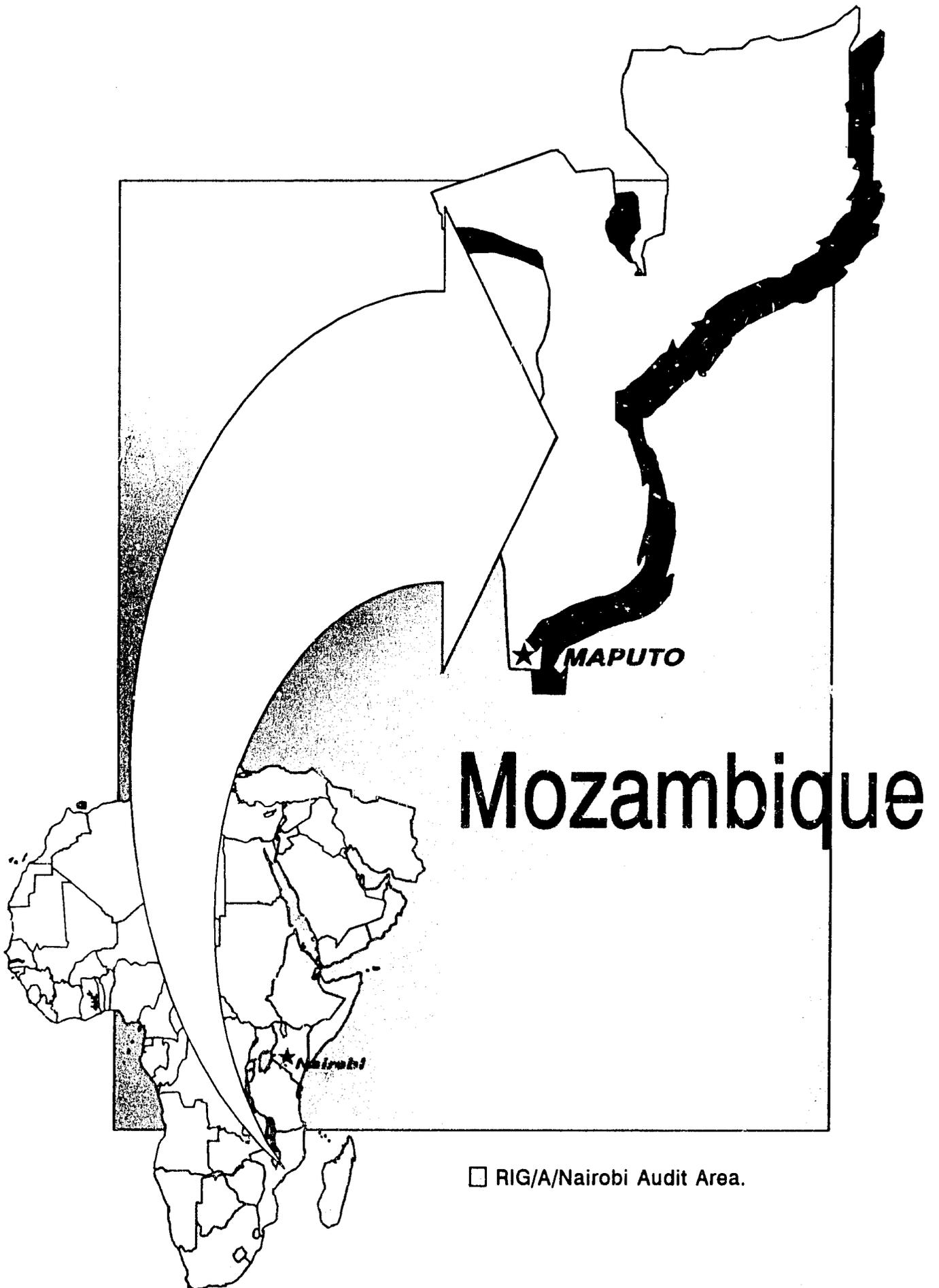
**Recommendation No. 1:** We recommend USAID/Mozambique determine the allowability and recover, as appropriate, from Enge-Rio, questioned ineligible costs of \$901,770.

**Recommendation No. 2:** We recommend USAID/Mozambique determine the allowability and recover, as appropriate, from Enge-Rio, questioned unsupported costs of \$222,237.

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



# Mozambique

□ RIG/A/Nairobi Audit Area.

Audit of USAID/Mozambique  
Contract No. 656-0247-C-00-9211-00  
for the period August 7, 1989 to January 31, 1994  
and Host Country Contract No. HCC-656-90-001 for the period  
April 4, 1990 to July 31, 1994 With Enge-Rio

A.R. No. 3-656-96-001-N

## ATTACHMENTS



*AGENCY-CONTRACTED AUDIT OF USAID/MOZAMBIQUE  
CONTRACT NO. 656-0247-C-00-9211-00 WITH ENGE-RIO  
FOR THE PERIOD AUGUST 7, 1989 TO JANUARY 31, 1994  
AND HOST COUNTRY CONTRACT NO. HCC-656-90-001  
BETWEEN CFM AND ENGE-RIO FOR THE PERIOD  
APRIL 5, 1990 TO JULY 31, 1994*



AGENCY-CONTRACTED AUDIT OF USAID/MOZAMBIQUE  
CONTRACT NO. 656-0247-C-00-9211-00 WITH ENGE-RIO  
FOR THE PERIOD AUGUST 7, 1989 TO JANUARY 31, 1994  
AND HOST COUNTRY CONTRACT NO. HCC-656-90-001  
BETWEEN CFM AND ENGE-RIO FOR THE PERIOD  
APRIL 5, 1990 TO JULY 31, 1994

TABLE OF CONTENTS		<u>Page</u>
1	INTRODUCTION	
1.1	Background	1
1.2	Audit Objectives and Scope	2
1.3	Brief Summary of Audit Results	5
1.4	Brief Summary of Management Comments	5
1.5	Brief Summary of Mission Comments	5
2	FUND ACCOUNTABILITY STATEMENTS	
2.1	Independent Auditor's Reports	6
2.2	Fund Accountability Statements	10
2.3	Findings and Recommendations	13
3	INTERNAL CONTROL STRUCTURE	
3.1	Independent Auditor's Report	23
3.2	Introduction	26
3.3	Finding and Recommendation	27
4	COMPLIANCE WITH CONTRACT PROVISIONS AND U.S. GOVERNMENT REGULATIONS	
4.1	Independent Auditor's Report	28
4.2	Introduction	30
4.3	Finding and Recommendation	30



AGENCY-CONTRACTED AUDIT OF USAID/MOZAMBIQUE  
CONTRACT NO. 656-0247-C-00-9211-00 WITH ENGE-RIO  
FOR THE PERIOD AUGUST 7, 1989 TO JANUARY 31, 1994  
AND HOST COUNTRY CONTRACT NO. HCC-656-90-001  
BETWEEN CFM AND ENGE-RIO FOR THE PERIOD APRIL 5, 1990  
TO JULY 31, 1994

APPENDICES

Appendix No.	Title
A	List of Report Recommendations
B	Management Letter
C	Mission Comments
D	Enge-Rio Comments
E	Indirect Cost Rate

EXHIBITS

Exhibit No.	Title
I	Schedule of Ineligible Fixed Fee
II	Schedule of Ineligible Salary Cost
III	Schedule of Ineligible Travel Costs
IV	Schedule of Unsupported Salary Costs Claimed in Excess of Actual Paid to Contract Employees
V	Schedule of Unsupported Costs



**1 INTRODUCTION**

**1.1 Background**

Enge-Rio is a Brazilian engineering company with headquarters in Rio de Janeiro and a local branch in Maputo.

USAID/Mozambique and Enge-Rio have two contractual relationships which are the subject of this Agency-contracted financial audit in accordance with generally accepted auditing standards and U.S. Comptroller General's Government Auditing Standards (1988 Revision). One contract is a direct contract between USAID/Mozambique and Enge-Rio; the other contract is a "host country" contract between Enge-Rio and the Government of Mozambique but totally funded by USAID.

**Contract No. 656-0247-C-00-9211-00**

This contract was a joint venture of Enge-Rio with a Mozambican firm (EGC) in support of the USAID-funded Regional Rail Systems Support Project No. 690-0247. This contract had three distinct phases: (1) architectural and engineering design, (2) supervision of the construction and rehabilitation of Mozambique Railway's (CFM's) Maputo diesel workshop, and (3) a feasibility study.

The contract was awarded on August 7, 1989, and expired on January 31, 1994. The total contract amount awarded was U.S.\$260,297. However, Mission records reveal that the contractor was only reimbursed for U.S.\$218,495 of contract expenditures.

**Contract No. HCC-656-90-001**

The Government of the Republic of Mozambique (GRM)/Mozambique Railways (CFM) entered into this USAID-funded host country contract with Enge-Rio.

The purpose of this contract was to provide technical assistance to improve CFM's locomotive maintenance capacity and financial management in support of the USAID-funded Regional Rail Systems Support Project No. 690-0247.

The contract was awarded on April 5, 1990, and was amended to terminate on July 31, 1994. The amended contract had a total award amount of U.S.\$5,387,317. Mission records indicate that as of July 31, 1994, an amount of U.S.\$4,737,266 of contract expenditures had been reimbursed by USAID/Mozambique.



**1.2 Audit Objectives and Scope**

**1.2.1 Audit Objectives**

Price Waterhouse was contracted by USAID to perform Agency-contracted closeout audits of the USAID/Mozambique Contract No. 656-0247-C-00-9211-00 with Enge-Rio and USAID-funded Contract No. HCC-656-90-001 between CFM and Enge-Rio 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 Statements and express an opinion as to whether the Fund Accountability Statements present 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 contracts (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 Statements 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 contracts as part of obtaining reasonable assurance about whether the Fund Accountability Statements are 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 Statements of Enge-Rio, a review of compliance with provisions of the contracts 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 revenues received and contract expenditures incurred during the periods from August 7, 1989 to January 31, 1994 under Contract No. 656-0247-C-00-9211-00 and April 5, 1990, to July 31, 1994 under Contract No. HCC-656-90-001.



### 1.2.3 Audit Scope Limitations

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

- We have not been able to physically verify the existence of employees of the contractor. The contracts were completed and most employees were demobilized during 1994.

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 February 1995 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 Enge-Rio in Maputo and Brazil and at the offices of USAID/Mozambique. 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 contracts 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, the billing and accounting procedures and requirements placed on Enge-Rio by USAID/Mozambique, and the results of completed financial reviews;



- 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 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;
- calculation of an indirect cost rate for Enge-Rio/Mozambique for each of the years covered by the two contracts and identification of the base against which the rate is to be applied;
- a review of the application by Enge-Rio of its established indirect cost rates in billings made to USAID/Mozambique under the contracts;
- a review of the non-expendable property funded by the contract to determine whether these items were properly turned over to USAID/Mozambique or the Government of Mozambique at the close of the contracts;
- a review of direct salary costs to determine whether salary rates were in accordance with those approved by USAID/Mozambique, and supported by appropriate payroll records;
- a determination of actual salary payments made by Enge-Rio to contract employees;
- a review of travel and per diem costs to determine whether these costs were in accordance with the stated policy and contract rules and regulations;
- a review of actual social costs/benefits paid by the contractor on behalf of its contract employees to determine whether the contractor was over or under reimbursed by USAID/Mozambique for these costs; and
- a review of fixed fees claimed for reimbursement by Enge-Rio from USAID/Mozambique to determine whether these fees were in accordance with the contracts and regulations.

*Price Waterhouse*

## 2. FUND ACCOUNTABILITY STATEMENTS

### 2.1 Independent Auditors' Reports

#### 2.1.1 Independent Auditors' Report - Contract No. 656-0247-C-00-9211-00

We have performed a financial audit of the Fund Accountability Statement of Enge-Rio under the USAID/Mozambique Contract No. 656-0247-C-00-9211-00 for the period August 7, 1989 to January 31, 1994.

The Fund Accountability Statement is the responsibility of Enge-Rio'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 been able to physically verify the existence of employees of the contractor. The contracts were completed and most employees were demobilized in 1994.

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.

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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.\$59,122 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.\$2,009 in costs that are not supported with adequate documentation.

In our opinion, because of the significance of the questioned costs and the audit scope limitations as discussed in the preceding paragraphs the Fund Accountability Statement examined by us does not present fairly in accordance with the terms of the contract and in conformity with the basis of accounting described in the notes thereto, contract revenues and costs reimbursed for the period August 7, 1989 to January 31, 1994.

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 Enge-Rio but this is not intended to limit the distribution of the report, if a matter of public record.

*Patricia Waterhouse*

February 25, 1995

*Price Waterhouse*

8



## FUND ACCOUNTABILITY STATEMENTS

### 2.1.2 Independent Auditor's Report - Contract No. HCC-656-90-001

We have performed a financial audit of the Fund Accountability Statement of Enge-Rio under the USAID-funded host country contract No. HCC-656-90-001 for the period April 5, 1990 to July 31, 1994.

The Fund Accountability Statement is the responsibility of Enge-Rio'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 been able to physically verify the existence of employees of the contractor. The contracts were completed and most employees were demobilized in 1994.

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.\$842,648 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.\$220,228 in costs that are not supported with adequate documentation.

In our opinion, because of the significance of the questioned costs and the audit scope limitations as discussed in the preceding paragraphs the Fund Accountability Statement examined by us does not present fairly in accordance with the terms of the contract and in conformity with the basis of accounting described in the notes thereto, contract revenues and costs reimbursed for the period April 5, 1990 to July 31, 1994.

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 Enge-Rio but this is not intended to limit the distribution of the report, if a matter of public record.

*Pricewaterhouse*

February 25, 1995



## 2.2 Fund Accountability Statements

2.2.1 Fund Accountability Statement of Enge-Rio under USAID/Mozambique Contract  
No. 656-0247-C-00-9211-00 for the period August 7, 1989 to January 31, 1994

	Budget	Actual	Accepted	Questioned	Costs
	US\$	US\$	US\$	Ineligible US\$	Unsupported US\$
<b>Revenue :</b>					
-Reimbursements received	260,297	218,495	218,495		
<b>Total Revenue</b>	<b>260,297</b>	<b>218,495</b>	<b>218,495</b>		
<b>Expenditure :</b>					
-Salaries	89,716	73,908	73,908		
-Indirect Costs/Social Charges	102,229	85,625	43,708	41,917	
-Travel & Transportation	7,760	7,319	5,310		2,009
-Other Direct Costs	22,230	22,230	22,230		
-Fixed Fee	38,362	29,413	12,208	17,205	
<b>Total Expenditure</b>	<b>260,297</b>	<b>218,495</b>	<b>157,364</b>	<b>59,122</b>	<b>2,009</b>
Balance as of January 31, 1994		0	61,131	Finding 2.3.1	Finding 2.3.1



2.2.2 Fund Accountability Statement of Enge-Rio under USAID-funded Contract No. HCC-656-90-001 between CFM and Enge-Rio for the period April 5, 1990 to July 31, 1994

	Budget US\$	Actual US\$	Accepted US\$	Questioned Costs	
				Ineligible US\$	Unsupported US\$
<b>Revenue :</b>					
-Reimbursements received to July 31, 1994	5,387,317	4,737,266	4,737,266		
-Reimbursements received after July 31, 1994		166,989	166,989		
- Receivable at December 31, 1994		65,812	65,812		
<b>Total Revenue</b>	<b>5,387,317</b>	<b>4,970,067</b>	<b>4,970,067</b>		
<b>Expenditure :</b>					
-Salaries	2,249,775	2,115,382	2,077,483	28,123	9,776
-Social costs/Benefits	1,166,676	1,024,704	145,834	878,870	
-Indirect Costs	1,106,214	1,040,750	1,107,943	(67,193)	
-Travel & transportation	391,684	321,206	107,906	2,848	210,452
-Vehicles	43,665	43,665	43,665		
-Other Costs	218	218	218		
-Fixed Fee	429,085	424,142	424,142		
<b>Total Expenditure</b>	<b>5,387,317</b>	<b>4,970,067</b>	<b>3,907,191</b>	<b>842,648</b>	<b>220,228</b>
Balance as of July 31, 1994		0	1,062,876	Finding 2.3.2	Finding 2.3.2



### 2.2.3 Notes to the Fund Accountability Statements

- **Basis of Accounting**

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

Enge-Rio submitted monthly vouchers to CFM for the host country Contract and to USAID/Mozambique for both contracts requesting reimbursement for contractual expenses and a portion of its fixed fee. Enge-Rio received no advances and claims were only on a cost reimbursement basis. Enge-Rio/Mozambique maintained separate accounting records such as a cash book or general ledger to account for contract revenue and expenditure under both of these contracts.

Reimbursements received from USAID/Mozambique were deposited directly into Enge-Rio's bank accounts in Maputo.

- **Revenues**

Revenues represent amounts received in cash from USAID/Mozambique during the period of review under both of the contracts. Revenues are stated at the actual U.S. dollar amounts received at the date of reimbursement from USAID/Mozambique. All reimbursements were made in U.S. dollars.

- **Expenditures**

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

### 2.2.4 Sample Selection Criteria

The scope of this audit included only the revenue and expenditure of the contracts already reimbursed by USAID/Mozambique for the respective periods of August 7, 1989 to January 31, 1994 and April 5, 1990 to July 31, 1994. Enge-Rio 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 and traced to bank deposit slips and bank statements.

**Expenditure**

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

**Direct USAID/Mozambique Contract**

	Total Costs (Actual)	Sample Selected	Percentage Selected	Not Reviewed
	U.S.\$	U.S.\$	%	U.S.\$
Total expenditure	218,495	218,495	100%	-

**Host Country Contract**

	Total Costs (Actual)	Sample Selected	Percentage Selected	Not Reviewed
	U.S.\$	U.S.\$	%	U.S.\$
Total expenditure	4,970,067	4,970,067	100%	-

**2.3 Findings and Recommendations**

**2.3.1 Direct USAID/Mozambique Contract No. 656-0247-C-00-9211**

**Finding No. 1 - No Original Supporting Documentation - U.S.\$2,009**

We were unable to locate original travel documentation for U.S.\$2,009 in travel costs claimed by Enge-Rio and reimbursed by USAID/Mozambique since only photostat copies of the original documentation were available for our inspection. This expenditure involved mobilization costs for one employee dating back to 1990.

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



**Recommendation No. 1**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate costs of U.S.\$2,009 in questioned unsupported costs that were only supported by photostats.

**Breakdown of Ineligible Costs**

Description	Finding No.	Ineligible Costs U.S.\$
• Compulsory Social Charges Paid Directly to Employee	2	33,048
• Indirect Cost Rate	3	8,869
• Ineligible Portion of Fixed Fee	5	17,205
Total Ineligible Costs		59,122

**Finding No. 2 - Compulsory Social Charges Paid Directly to Employee - U.S.\$33,048**

As explained in Enge-Rio's original cost proposal for this contract, the budget line item for indirect costs was made up of "social charges" and indirect costs with both elements being a percentage of basic salaries. In describing "social charges" for the one Brazilian employee provided under the contract, Enge-Rio's cost proposal stated that expatriate personnel were "subject to Brazilian salary policies and rules" and included under indirect costs in its contract budget an amount for the social charges which would cover "compulsory" charges under Brazilian law (41.4% of basic salary) and various benefits such as medical assistance and holiday pay (19.6%).

During our review of Enge-Rio's payroll and accounting records we found that Enge-Rio had paid the Brazilian employee the contractual basic salary and all of the corresponding social charges. The employment contract with the employee similarly provided for the higher salary amount (inclusive of all the social charges). Nothing was paid to any Brazilian governmental or professional institution as a "compulsory" cost or tax. In discussions with Enge-Rio management officials in both Maputo and Rio de Janeiro, we were told that the Brazilian employee brought over to Mozambique to work under this contract was not subject to Brazilian work laws or taxes and that neither the company nor the individual were required to make these "compulsory" payments. In addition, Mozambican labor laws and taxes did not apply to the employee.



Although it is logical that the benefits such as medical assistance and holiday pay were paid directly to the employee, it is not clear why the employee should have received payment for labor-related charges or taxes that did not exist. Since these costs did not exist as stated in Enge-Rio's cost proposal (cost proposal rates were incorporated into the contract), we are questioning all of the compulsory portion of the social charges for this employee (41.4% of basic salary) as ineligible contract costs. In addition, Mozambican employees of the contract received a higher salary amount which included Mozambican labor laws and taxes not actually paid to any Mozambican governmental or professional institution. We have calculated this amount at U.S.\$33,048. In our opinion, Enge-Rio's payment of this amount directly to its employees does not make it an eligible contractual cost.

In the exit conference the auditee noted that employees under this contract were not employed by Enge-Rio/Brazil at the time of commencement of this contract. They were employed specifically for the contract in Mozambique and are referred to as either autonomous or international contractors. Autonomous or international contractors employed by Enge-Rio/Mozambique are paid on a gross remuneration basis which includes social charges. The auditee noted that Brazilians are required by law to declare all their remuneration to the Government of Brazil and to pay the compulsory social charges. Management of Enge-Rio also believe that non-Brazilian employees will pay over a portion of their salaries to institutions in order to accrue the social benefits given by those institutions.

We still consider the social costs to be unallowable for the following reasons:

- Enge-Rio/Mozambique paid the amount of the compulsory social charges directly to the employees and not to the Brazilian Government;
- the contractor could not provide evidence that the employees actually incurred social charges or paid these over to the Brazilian Government; and
- the employment contracts with the employees did not state that the employees were obligated to pay the compulsory social charges to the Brazilian Government or any other institution to accrue social benefits.

**Recommendation No. 2**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate questioned social charges of U.S.\$33,048 that are ineligible because they were improperly included in the contractor's cost proposal.



**Finding No. 3 - Indirect Cost Rate - U.S.\$8,869**

In terms of the contract, Section B - Services and Costs, the contractor claimed from USAID/Mozambique for reimbursable indirect costs on the basis of a predetermined provisional indirect cost rate of 65% of basic salaries.

We performed an audit of the indirect costs of Enge-Rio's Maputo office for 1989 - 1994. However, we were unable to perform an audit of the provisional indirect cost rate of Enge-Rio/Brazil due to a lack of adequate supporting records. We do not believe that this will have a material effect on the final indirect cost calculation as only one employee was employed from Brazil and he was remunerated in Maputo.

The calculation of the indirect cost rate and basis of calculation are presented in Appendix E of this report. The results of the audit revealed an average rate of 53% for the period under review.

We have questioned as an ineligible cost, U.S. \$8,869 indirect costs claimed in excess of the audited rate of 53% of basic salaries.

**Recommendation No. 3**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate indirect costs of U.S. \$8,869 claimed by the contractor in excess of the audited indirect cost rate.

**Finding No. 4**

The 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.

**Finding No. 5 - Ineligible Portion of Fixed Fee - U.S.\$17,205**

In terms of U.S. Government Federal Acquisition Regulations (FAR) 16.306 regarding Cost-plus-fixed-fee contracts, a cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. However, no cost-plus-fixed-fee contract shall be awarded unless the limitations in FAR 16.301.3 and FAR 15.903(d) are complied with.



FAR 15.903(d)(1) states that "the contracting officer shall not negotiate a price or fee that exceeds the following statutory limitations, imposed by 10 U.S.C. 2306(d) and 41 U.S.C. 254(d): ..... (ii) For architect-engineering services for public works or utilities, the contract price or the estimated cost and fee for production and delivery of designs, plans, drawings and specifications shall not exceed 6% of the estimated cost of construction of the public work or utility, excluding fees; (iii) For other cost-plus-fixed-fee contracts, the fee shall not exceed 10% of the contract's estimated cost, excluding fee".

We noted that the contracting officer negotiated the following actual fixed fees:

- Original contract - Architect/Engineering Design Project provided for a fixed fee of U.S.\$15,203 which represents 18% of total estimated costs before fixed fee;
- Amendment Nos. 2 and 3 - Architect/Engineering supervision of the construction and rehabilitation of the Maputo diesel workshop of CFM provided for a fixed fee of U.S.\$21,968 which represents 16.8% of total estimated cost before fixed fee; and
- Amendment No. 4 - Feasibility study of alternatives for the elimination of the existing locomotive turntable in the Maputo workshop of CFM provided for a fixed fee of U.S.\$1,190 which represents 16% of total estimated cost before fixed fee.

We have therefore questioned U.S. \$17,205 as an ineligible cost representing the portion of the fixed fee which relates to the amount reimbursed in excess of allowable fixed fee rates permitted under U.S. law. Details of the fixed fee amounts claimed in excess of allowable FAR amounts are illustrated in Exhibit I to this report.

We have been advised that the responsible technical office, with the assistance of the Regional Contracting Officer, will, for this contract, request approval of a deviation to the statutory limit on fees for cost-reimbursement contracts.

**Recommendation No. 5**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible fixed fee costs of U.S.\$17,205 relating to fixed fees claimed in excess of the limitations allowable under U.S. law.



**2.3.2 Contract No. HCC-656-90-001**

**Finding No. 6 - No Original Supporting Documentation - U.S.\$220,228**

We were unable to locate original supporting documentation for several costs claimed by Enge-Rio and reimbursed by USAID/Mozambique. See Exhibit V for a breakdown of these costs. The bulk of these costs were for travel and transportation costs such as air tickets for which Enge-Rio generally only kept photostat copies of the original documentation. In addition, timesheets for the month of April 1990 at the onset of contract implementation could not be located.

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

**Recommendation No. 6**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate costs of U.S.\$220,228 in questioned unsupported costs not supported by original documentation.

**Breakdown of Ineligible Costs**

Description	Finding No.	Ineligible Costs U.S.\$
• Travel and Per Diem Claimed for Extra Family Member	7	2,848
• Ineligible Salaries, Benefits and Indirect Costs Claimed	8	45,052
• Compulsory Social Charges Improperly Claimed	9	875,768
• Indirect Cost Rate	10	(81,020)
Total Ineligible Costs		842,648



**Finding No. 7 - Travel and Per Diem Claimed for Extra Family Member - U.S.\$2,848**

We noted that the contractor claimed travel and per diem costs for mobilization of one additional family member than was provided for in the contract. Employee W1 and employee W3 each claimed travel costs for 4 dependents.

In terms of Annexure II to the contract regarding Contract Budget and Schedule of Personnel, Section 4 - Cost Estimation states that "12 technicians under Regime A will be transferred to Mozambique with their families" and that "each family will be composed by 4 persons (the technician plus 3 dependents).

We have therefore questioned as an ineligible cost, travel costs of U.S.\$2,848 in respect of one additional dependent per family claimed in excess of the number of dependents per family allowed under the contract. Details of the amounts questioned are illustrated in Exhibit III to this report.

**Recommendation No. 7**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible travel and per diem costs of U.S.\$2,848 relating to additional dependents in excess of the allowable number of dependents per family.

**Finding No. 8 - Ineligible Salaries, Benefits and Indirect Costs Claimed - U.S.\$45,052**

We noted that the contractor claimed excess reimbursement for salaries, social costs (benefits) and indirect costs in respect of one employee (number F10) for the period November 1992 to October 1993. Our computation of these overcharges of U.S.\$45,052 is illustrated in Exhibit II of this report.

Salary and salary-related charges for the employee in question were first charged to the USAID on Enge-Rio's reimbursement claim for the month of June 1993. Enge-Rio's June 1993 claim included an inordinately large amount for this employee because it actually covered the employee's initial several months of work on the USAID contract. In its next four monthly claims, Enge-Rio inadvertently continued to list the employee's monthly salary (and salary-related charges) as U.S.\$17,500 instead of the correct contract approved rate of



U.S.\$4,005. The error went unnoticed by USAID/Mozambique and the higher (incorrect) amount was reimbursed by the Mission. Enge-Rio detected the error and claimed the correct amount for the employee beginning with its November 1993 claim. Enge-Rio officials could not explain why the overcharges for the previous months were not corrected at the same time. Accordingly, we are questioning the U.S.\$45,052 associated with this error as ineligible contractual costs.

**Recommendation No. 8**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate questioned ineligible salary, benefit and indirect costs of U.S.\$45,052 which are in excess of contract approved rates.

**Finding No. 9 - Compulsory Social Charges Improperly Claimed - U.S.\$ 5,768**

As explained in Enge-Rio's original cost proposal for this contract, the budget line item for "social costs/benefits" for Brazilian employees was to be calculated as a percentage of the basic salary and was made up of two elements - compulsory costs (41.4% of basic salaries) and company benefits (14.13% of basic salaries). The itemized list of compulsory costs were payments one might expect for employees "subject to Brazilian labor laws" - payments to Brazilian institutions for social welfare, education fund, work accidents fund, etc. Company benefits were for such things as vacation pay, medical insurance and life insurance.

As discussed earlier in Finding No. 2, our review of Enge-Rio payroll and accounting records showed that Enge-Rio paid its Brazilian employees the contractual basic salary and all of the corresponding social charges/benefits. Enge-Rio's employment contracts with each of the employees also provided for the higher salary amount (inclusive of the social charges). Nothing was paid to any Brazilian governmental or professional institution as a "compulsory cost" or tax. In discussions with Enge-Rio management officials in both Maputo and Rio de Janeiro, we were told that Brazilian employees working under the contract were not subject to Brazilian work laws or taxes and that neither the company nor the employees were required to make these "compulsory" payments. In addition, Mozambican labor laws and taxes did not apply to these employees.

Although it is logical that the company benefits portion of the social charges were paid directly to the employees, it is not clear why employees should have received payment for labor-related charges or taxes that did not exist. Since these costs did not exist as stated in Enge-Rio's cost proposal, we are questioning all of the compulsory portion of the social charge costs (41.4% of



basic salaries) applicable to Brazilian employees as ineligible contract costs. We have calculated this amount to be U.S.\$875,768 being actual salaries of U.S.\$2,115,381 reimbursed by USAID/Mozambique at the social charge cost rate of 41.4%. This is a computed amount, as the auditee has not prepared a detailed analysis of social charges by employee. In our opinion, Enge-Rio's payment of this amount directly to its employees does not make it an eligible contractual cost.

As discussed above, Enge-Rio's general policy was to pay the compulsory social charges to the employee rather than to Brazilian institutions as intended under the contract. However, our review of Enge-Rio payroll records identified five contract employees where Enge-Rio claimed and received reimbursement for salaries and social charges in excess of what it paid the employee. These excess reimbursements total U.S.\$92,590 of the U.S.\$875,768 cited above and are detailed in Exhibit IV. Enge-Rio officials offered no explanation for the overcharges.

In our recommendation below, we have divided the questioned ineligible social charges into those that were paid to the employees and those that were not.

In the exit conference the auditee noted that employees under this contract were not employed by Enge-Rio/Brazil at the time of commencement of this contract. They were employed specifically for the contract in Mozambique and are referred to as either autonomous or international contractors. Autonomous or international contractors employed by Enge-Rio/Mozambique are paid on a gross remuneration basis which includes social charges. The auditee noted that Brazilians are required by law to declare all their remuneration to the Government of Brazil and to pay the compulsory social charges. Management of Enge-Rio also believe that non-Brazilian employees will pay over a portion of their salaries to institutions in order to accrue the social benefits given by those institutions.

We still consider the social costs to be unallowable for the following reasons

- Enge-Rio/Mozambique paid the amount of the compulsory social charges directly to the employees and not to the Brazilian Government;
- the contractor could not provide evidence that the employees actually incurred social charges or paid these over to the Brazilian Government; and
- the employment contracts with the employees did not state that the employees were obligated to pay the compulsory social charges to the Brazilian Government or any other institution to accrue social benefits.



**Recommendation No. 9**

We recommend that USAID/Mozambique determine the allowability and recover as appropriate questioned ineligible social charges of U.S.\$875,768. This amount includes U.S.\$783,178 paid to employees instead of to the intended Brazilian authorities and U.S.\$92,590 improperly claimed and retained by the contractor.

**Finding No. 10 - Indirect Cost Rate - U.S.\$(81,020)**

In terms of the contract, Section B - Services and Costs, the contractor claimed from USAID/Mozambique for reimbursable indirect costs on the basis of a predetermined provisional indirect cost rate of 49.17% of basic salaries.

We performed an audit of the indirect costs of Enge-Rio's Maputo office for 1989 - 1994. However, we were unable to perform an audit of the provisional indirect cost rate of Enge-Rio/Brazil due to a lack of adequate supporting records. We do not believe that this will have a material effect on the final indirect cost calculation as personnel employed from Brazil were remunerated in Maputo.

The calculation of the indirect cost rate and basis of calculation are presented in Appendix E of this report. The results of the audit revealed an average rate of 53% for the period under review.

Using the 53% indirect cost rate we have calculated an underpayment of indirect costs to Enge-Rio of U.S.\$81,020.

**Recommendation No. 10**

We recommend that the Regional Contracting Officer finalize an indirect cost rate of 53% for Enge-Rio for the period under review. Use of this rate results in an underpayment of U.S.\$81,020 for indirect costs which should be paid to Enge-Rio or offset against any outstanding amounts owed to USAID.

**Finding No. 11**

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. 11**

Deleted as described above.



### 3. INTERNAL CONTROL STRUCTURE

#### 3.1 Independent Auditor's Report

We have audited the Fund Accountability Statements of Enge-Rio under USAID/Mozambique contract no. 656-0247-C-00-9211-00 for the period from August 7, 1989 to January 31, 1994 and host country contract no. HCC-656-90-001 for the period from April 5, 1990 to July 31, 1994.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our reports on the Fund Accountability Statements) 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 Statements of Enge-Rio contracts for the periods mentioned above we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statements and not to provide assurance on the internal control structure.

The management of Enge-Rio 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 Statements in accordance with the basis of accounting described in Section 2.2.3 to the Fund Accountability Statements.

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 Enge-Rio 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 a reportable condition 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 Statements.

The following reportable condition was noted:

- Lack of accounting and control policies and procedures.



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 the reportable condition described above does not constitute a material weakness.

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 to Enge-Rio management in a Management Letter which we have included 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 Enge-Rio but this is not intended to limit the distribution of the report if a matter of public record.

*Pricewaterhouse*

February 25, 1995



## 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 finding and recommendation 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 Finding and Recommendation**

**Finding No. 12 - Accounting and Control Policies and Procedures**

We noted that at the time of our review there were no formal written policies explaining the procedures to be followed when receipting and disbursing funds and when recording, processing and accumulating transactions in the accounting records of the program. The failure to formalize policies could result in administration and accounting staff at Enge-Rio being unaware of management's accounting and internal control instructions.

**Recommendation No. 12**

We recommend that the management of Enge-Rio establish formal written policies and procedures for future contracts.

*Price Waterhouse*

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

##### 4.1 Independent Auditor's Report

We have audited the Fund Accountability Statements of Enge-Rio under USAID/Mozambique Contract No. 656-0247-C-00-9211 for the period August 7, 1989 to January 31, 1994 and Contract No. HCC-656-90-001 for the period from April 5, 1990 to July 31, 1994 (see Section 2.2) and have issued our reports thereon dated February 25, 1995 (see section 2.1.1 and 2.1.2).

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 Enge-Rio is the responsibility of management. As part of obtaining reasonable assurance about whether the Fund Accountability Statements are free of material misstatement, we performed tests of Enge-Rio'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.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instance of non-compliance, the effect of which are shown as questioned costs in Enge-Rio's fund accountability statement:

- Inadequate level of awareness of U.S. Government Regulations.

We considered this material instance of non-compliance in forming our opinion on whether Enge-Rio's fund accountability statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in 2.2 to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated February 25, 1995.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Enge-Rio complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Enge-Rio had not complied, in all material respects, with those provisions.



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 Enge-Rio 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.

*Pricewaterhouse*

February 25, 1995



## **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 Enge-Rio's compliance with these provisions and regulations.

## **4.3 Finding and Recommendation**

### **4.3.1 Finding No. 13 - Inadequate Level of Awareness of U.S. Government Regulations**

During the course of our audit we noted that the control environment as regards the general level of awareness of U.S. Government Regulations by the contractor was inadequate.

This lack of awareness was evident through the several instances of non-compliance with Federal Acquisition Regulations as noted in findings under the Fund Accountability Statement section of this report. In particular, Enge-Rio failed to maintain adequate records to support the audit of the indirect cost rate calculation as required.

#### **Recommendation No. 13**

We recommend that USAID/Mozambique develop procedures to ensure that its future prospective contractors/grantees (particularly non-U.S. entities) have a basic level of awareness and understanding of U.S. Government Regulations applicable to the contract/grant before USAID executes such agreements.

## APPENDICES

## LIST OF REPORT RECOMMENDATIONS

Finding No.	Recommendations
1	We recommend that USAID/Mozambique determine the allowability and recover as appropriate costs of U.S.\$2,009 in questioned unsupported costs that were only supported by photostats.
2	We recommend that USAID/Mozambique determine the allowability and recover as appropriate questioned social charges of U.S.\$33,048 that are ineligible because they were improperly included in the contractor's cost proposal.
3	We recommend that USAID/Mozambique determine the allowability and recover as appropriate indirect costs of U.S.\$8,869 claimed by the contractor in excess of the audited indirect cost rate.
4	Deleted.
5	We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible fixed fee costs of U.S.\$17,205 relating to fixed fees claimed in excess of the limitations allowable under U.S. law.
6	We recommend that USAID/Mozambique determine the allowability and recover as appropriate costs of U.S.\$220,228 in questioned unsupported costs not supported by original documentation.
7	We recommend that USAID/Mozambique determine the allowability and recover as appropriate ineligible travel and per diem costs of U.S.\$2,848 relating to additional dependents in excess of the allowable number of dependents per family.
8	We recommend that USAID/Mozambique determine the allowability and recover as appropriate questioned ineligible salary, benefit and indirect costs of U.S.\$45,052 which are in excess of contract approved rates.

Finding No.	Recommendations
9	We recommend that USAID/Mozambique determine the allowability and recover as appropriate questioned ineligible social charges of U.S.\$875,768. This amount includes U.S.\$783,178 paid to employees instead of to the intended Brazilian authorities and U.S.\$92,590 improperly claimed and retained by the contractor.
10	We recommend that the Regional Contracting Officer finalize an indirect cost rate of 53% for Enge-Rio for the period under review. Use of this rate results in an underpayment of U.S.\$81,020 for indirect costs which should be paid to Enge-Rio or offset against any outstanding amounts owed to USAID.
11	Deleted as described above.
12	We recommend that the management of Enge-Rio establish formal written policies and procedures for future contracts.
13	We recommend that USAID/Mozambique develop procedures to ensure that its future prospective contractors/grantees (particularly non-U.S. entities) have a basic level of awareness and understanding of U.S. Government Regulations applicable to the contract/grant before USAID executes such agreements.

MANAGEMENT LETTER

*Price Waterhouse*



February 25, 1995

Director  
Enge-Rio  
Engenharia E Consultoria  
PO Box 1348  
MAPUTO  
Mozambique

Dear Mr Maltezinho

**MANAGEMENT LETTER FOR THE PERIOD ENDED JULY 31, 1994**

During our audit of the fund accountability statement of Enge-Rio for the period ended July 31, 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 co-operation 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 sincerely  
for PRICE WATERHOUSE

STEVE KILLICK

**MANAGEMENT LETTER**

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

We noted that Enge-Rio does not prepare a formal reconciliation of the cashbook to bank statements on a monthly basis.

We also noted that due to the size of the Enge-Rio 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, informal bank reconciliations are not reviewed by an independent official.

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

**Recommendation**

We recommend that the accountant prepare a formal reconciliation of the cashbook balances to the bank statements and that the Enge-Rio Director review the bank reconciliation on a monthly basis, initialing the reconciliation as evidence of review.

**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 timely followed up by a contractor official.

We believe that a lack of variance analysis could result in delays in requesting and obtaining approved amendments to the contract budget and in the contractor exceeding allowable budgets by line item. This could result in non-reimbursement of costs incurred.

**Recommendation**

We recommend that a contractor official 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 promptly of revised requirements or needed budget amendments.

### **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**

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**

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.

### **Lack of Incoming Check Register**

We noted that the contractor does not maintain a check register to record checks received from USAID. This could result in checks being misplaced and going undetected.

### **Recommendation**

We recommend that the contractor employee who receives checks records all incoming checks in a check register. An independent senior official should review the check register periodically and agree checks received to bank deposit slips.

**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 2130

RUA FARIA DE SOUSA, 107  
MAPUTO, MOZAMBIQUE  
CAIXA POSTAL, 783  
TELEX : 6180 USAID MO  
TELEPHONE : 480728, 491888, 744484  
FAX : 482088

M E M O R A N D U M

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

FROM : USAID/Mozambique, <sup>JDS for RC</sup> Roger D. Carlson  
Mission Director

SUBJECT : Non-Federal Audit of Enge-Rio

REFERENCE : USAID/496/95/mk

DATE : June 30, 1995

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We refer to the final draft of the above referenced audit, received from Price Waterhouse Meyermel at the exit conference dated May 15, 1995. The Mission concurs with the contents of the above report and would like to make the following additional comments:

Finding No. 4:

As agreed in the exit conference, this finding will be removed as the fixed fee is negotiated at the time the contract is signed.

Finding No. 5:

The responsible technical office, with the assistance of the Regional Contracting Officer, will request approval of a deviation to the statutory limit on fees for cost-reimbursement contracts.

Finding No. 9:

On page 21 of the draft report, this finding states:

"We have calculated this amount as U.S.\$875,768."

It would be appreciated if Price Waterhouse could supply both the Mission and the contractor, Enge-Rio, with a breakdown of this amount by staff member.

Finding No. 11:

As agreed in the exit conference, this finding will be removed as the fixed fee is negotiated at the time the contract is signed.

Given that both the contract number 656-0247-C-90-9211-00 and the host country contract HCC-656-90-001 have expired, 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 11 of Appendix A of the draft audit report. Upon receipt of the final audit report, the Mission will work with the RCO and Enge-Rio 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.

4/0

**ENGE-RIO'S COMMENTS**

(Enge-Rio failed to provide any written comments  
within the agreed due date)

INDIRECT COST RATE CALCULATION

## INDIRECT COST RATE CALCULATIONS

### **Audit Scope Limitations**

- We were unable to locate the original indirect cost rate calculations performed by Enge–Rio to support the rates agreed to in the contracts with USAID and CFM.
- We were unable to calculate an indirect cost rate for the Brazilian office of Enge–Rio due to the lack of accurate, reliable accounting records and breakdown in the internal control system of the company.
- We were unable to determine the basis of mix between Brazilian indirect costs and Mozambican indirect costs to calculate the actual indirect cost to be applied to the contracts.

### **Audit procedures followed to calculate the indirect cost rate for the period 1989–1994 Maputo, Mozambique Office :**

- Determine the basis used to allocate employees labor cost between direct and indirect labor cost for all Enge–Rio employees based in Maputo and paid from Maputo.
- Test check the arithmetic accuracy of the allocation of labor cost between direct and indirect cost.
- Test check the payroll records at Enge–Rio/Maputo including payment to personnel.
- Determine the accounting treatment of direct and indirect labor costs in the books and records of Enge–Rio/Maputo.
- Determine for each year the total indirect labor cost of Enge–Rio/Maputo.
- Determine for each year the total direct labor cost of Enge–Rio/Maputo projects.
- Determine the basis used to allocate other costs between direct and indirect costs, direct costs being costs directly reimbursable under the projects
- Determine the accounting treatment of direct and indirect costs in the books and records of Enge–Rio/Maputo.
- Eliminate any unallowable costs in the components of the costs referred to above.
- Test check the allocation of costs between direct and indirect costs.
- Test vouch expenditure transactions to supporting documentation.
- Determine for each year the total indirect cost of Enge–Rio/Maputo.
- Determine for each year the total direct cost of Enge–Rio/Maputo projects.
- Calculate the indirect cost rate for Enge–Rio/Maputo for the years under review, and for the period in total. Basis of calculation = Total indirect costs divided by total direct project labor costs.

ENGE RIO - MAPUTO/MOZAMBIQUE

APPENDIX E

INDIRECT COST RATE CALCULATION OF MAPUTO OFFICE ONLY

a/c no	Account description	1989	1989	1990	1990	1991	1991	1992	1992	1993	1993	1994	1994	Total	Line items
		Project costs	Overhead costs	Overhead costs	as % of ind										
		US\$	US\$	US\$	cost rate										
620	Salaries projects	34,486.67	92,182.00	441,583.50	240,905.72	825,191.49	301,804.60	1,074,396.61	300,286.73	795,662.16	240,687.52	307,329.43	142,992.96	1,318,859.53	37.91
621	Salaries Admin					59.26		95.31		660.65		0.00			
630	Third party supplies - projects	192.21		69,158.78											
635	Repairs & Maintenance materials		846.35		326.42		1,132.91		633.11		731.13		420.70	4,080.62	0.12
636	Office Supplies		5,312.87		9,887.96		1,140.78		899.07		1,183.10		212.47	18,636.25	0.54
639	Other supplies & materials		899.00		212.89		62.12		0.00		0.00		0.00	1,174.01	0.03
640	Third party services - projects	20,817.82		91,011.13		130,266.91		165,026.25		115,042.46		259,109.28			
641	Repairs & Maintenance services		30.00		4,180.00		0.00		1,065.90		189.63		866.64	6,332.17	0.18
642	Transport of personal luggage		2,908.00		680.25		1,779.61		0.00		0.00		0.00	5,367.86	0.15
643	Telephone & Postage		7,382.00		2,939.82		4,087.14		1,401.39		2,508.63		201.53	11,138.51	0.32
644	Passenger travel				11,896.60		20,500.40		3,734.65		16,934.29		2,290.38	62,738.32	1.80
645	Commission				0.00		2,797.40		0.00		0.00		0.00	2,797.40	0.08
646	Sub Contracts				0.00		0.00		0.00		0.00		0.00	36,120.00	1.04
647	Medical Assistance		44.16		6,600.45		8,574.27		10,656.42		7,594.73		7,391.12	40,861.15	1.17
648	Staff Welfare -		5,494.78		2,411.26		923.23		0.00		401.51		0.00	9,230.78	0.27
649	Other services		1,559.07		2,559.83		1,602.23		220.45		144.00		3.97	6,089.55	0.18
650	Finance charges - projects	310.63		3,915.33		3,064.21		12,298.44		15,821.10		10,971.07		15,048.41	0.43
658	Finance charges / bank charges		356.64		1,128.77		2,988.84		4,217.87		3,516.58		2,839.71	3,105.24	0.09
652	Bank interest				0.00		0.00		0.00		0.00		0.00	80.00	0.00
663	Customs charges		80.00												
670	Depreciation on project assets														
672	Depreciation - equipment		7,387.58		10,053.65		10,053.65		10,086.95		10,086.95		10,086.95	57,755.73	1.66
673	Depreciation - other		3,242.53		5,804.42		5,804.42		5,809.48		5,809.48		5,809.48	32,279.81	0.93
680	Other project costs	373.00		2,156.64		5,621.72		7,713.29		4,385.01		2,636.11			
681	Rent & Hire		16,651.91		24,346.06		32,472.08		46,800.00		20,400.00		19,000.00	159,670.05	4.59
682	Insurances				2,356.35		3,234.63		3,326.60		3,667.16		3,094.40	15,679.14	0.45
684	Tender document aquis		500.00		289.01		441.75		577.05		0.00		0.00	1,807.81	0.05
686	Participants Training		130.00		5,941.33		750.00		935.00		800.00		0.00	1,685.00	0.05
687	Sponsorship/Publications/Entert		1,857.48		17,268.08		1,630.29		6,077.01		0.00		0.00	14,578.63	0.42
688	Proposal Costs		5.49		6.43		4.94		0.00		0.00		0.00	19,125.56	0.55
689	Other													16.86	0.00
	Total for year	56,180.33	146,869.86	607,825.38	349,795.30	964,233.59	401,785.29	1,259,529.90	396,727.68	931,571.38	317,759.95	580,045.89	231,330.31	1,844,268.39	53
			203,050.19		957,620.68		1,366,018.88		1,656,257.58		1,249,331.33		811,376.20		
	Indirect cost rate calculation:														
	Total indirect/Overhead costs	=	146,869.86		349,795.30		401,785.29		396,727.68		317,759.95		231,330.31	1,844,268.39	
	Total direct project salary costs		34,486.67		441,583.50		825,191.49		1,074,396.61		795,662.16		307,329.43	3,478,649.86	
	Indirect cost rate %	=	426		79		49		37		40		75	53 %	

44

## EXHIBITS

## ENGE RIO – USAID/MOZAMBIQUE CONTRACT NO. 656–0247–C–00–9211

## SCHEDULE OF INELIGIBLE FIXED FEE

<u>Contract</u>	Actual Expenditure before Fixed fee US\$	Audit–Adjusted Expenditure before Fixed fee US\$	Allowable FAR Fixed fee %	Allowable Fixed fee US\$
Original contract – A/E design	83,337.24	62,660.10	6	3,759.61
Amendment 2 & 3 – Supervision	98,300.56	78,671.76	10	7,867.18
Amendment 4 – Feasibility Study	7,433.64	5,822.83	10	582.28
	<u>189,071.44</u>	<u>147,154.69</u>		<u>12,209.07</u>

U.S.\$ 29,413.35 (Adjusted Fixed Fee actually reimbursed) less U.S.\$ 12,209,07 (Allowable Fixed Fee per FAR) = U.S.\$ 17,204.28 (Recommendation No. 5 adjustment)

ENGE RIO – Contract No. HCC-656-90-001

SCHEDULE OF INELIGIBLE SALARY COSTS

Employee	Month	Salaries and Benefits				Total Allowable US\$	Man month Worked %	Allowable US\$	Actual Claimed US\$	Ineligible Costs US\$
		Basic Salary Allowed US\$	Company Ben Allowed US\$	Indirect costs Allowed US\$						
F10	Nov 92-June 93	17,500.00	1,930.25	8,604.75	28,035.00	0.848	23,773.68	14,845.97	(8,927.71)	
	July 93	2,500.00	275.75	1,229.25	4,005.00	1.00	4,005.00	17,500.00	13,495.00	
	August 93	2,500.00	275.75	1,229.25	4,005.00	1.00	4,005.00	17,500.00	13,495.00	
	September 93	2,500.00	275.75	1,229.25	4,005.00	1.00	4,005.00	17,500.00	13,495.00	
	October 93	2,500.00	275.75	1,229.25	4,005.00	1.00	4,005.00	17,500.00	13,495.00	
							39,793.68	84,845.97	45,052.29	

Breakdown of Ineligible Costs

Being :	Salaries	28,123
	Social Costs	3,102
	Indirect Costs	13,827
		45,052

111

ENGE RIO – Contract No. HCC-656-90-001

## SCHEDULE OF INELIGIBLE TRAVEL COSTS

<u>Ref Invoice No</u>	<u>Month</u>	<u>Traveller</u>	<u>Route</u>	<u>Amount US\$</u>
705-1/90	April 1990	Endrika Trindade (W1 dep)	RIO/JHB/MPM/JHB/RIO	2,014.19
			Per diem	145.25
705-9/90	Dec 1990	Ana Clara Fernandes (W3 dep)	RIO/JHB/MPM	605.60
			Per diem	83.00
				<u>2,848.04</u>

ENGE RIO – Contract No. HCC 656–90–001

## SCHEDULE OF UNSUPPORTED SALARY COSTS CLAIMED IN EXCESS OF ACTUAL PAID TO CONTRACT EMPLOYEES

For the period April 1990 to July 1994

<u>Employee</u>	<u>Employee Name</u>	<u>Amount paid by Enge-Rio US\$</u>	<u>Amount claimed from USAID US\$</u>	<u>Excess Reimbursed US\$</u>
W1a	Paulo Magalhaes	260,042.85	262,026.41	1,983.56
W2	Fransisco Mario Co	219,820.38	226,856.07	7,035.69
W14	Oswaldo Areias	201,809.06	209,859.22	8,050.16
F2	Jorge Perrolas	187,580.25	232,605.79	45,025.54
F3	Oberland Farrulla	133,428.44	163,923.44	30,495.00
				<u>92,589.95</u>

## SCHEDULE OF UNSUPPORTED COSTS

INV #	DATE OF EXPENSE	DESCRIPTION	AMOUNT US \$	BUDGET LINE ITEM
705-01/90	April 90	Timesheets	9,775.75	Salaries
705-01/90	April 90	Air Tickets	22,857.40	Travel & Transportation
705-02/90	May 90	Air Tickets	2,130.40	Travel & Transportation
705-02/90	May 90	Unaccompanied baggage	33.53	Travel & Transportation
705-06/90	June 90	Air Tickets	1,173.52	Travel & Transportation
705-08/90	November 90	Air Tickets	1,195.60	Travel & Transportation
705-08/90	November 90	Unaccompanied baggage	50.00	Travel & Transportation
705-09/90	December 90	Air Tickets	4,192.41	Travel & Transportation
705-09/90	December 90	Unaccompanied baggage	181.27	Travel & Transportation
705-01/91	January 1991	Air Tickets	1,349.72	Travel & Transportation
705-03/91	March 91	Air Tickets	10,101.56	Travel & Transportation
705-04/91	April 91	Unaccompanied baggage	1,754.80	Travel & Transportation
705-05/91	May 91	Unaccompanied baggage	500.00	Travel & Transportation
705-12/91	December 91	Air Tickets	301.08	Travel & Transportation
705-12/91	December 91	Unaccompanied baggage	3,271.00	Travel & Transportation
705-01/92	January 92	Air Tickets	13,402.49	Travel & Transportation
705-07/92	July 92	Air Tickets	4,470.68	Travel & Transportation
705-08/92	August 92	Air Tickets	375.36	Travel & Transportation
705-11/92	November 92	Air Tickets	6,243.43	Travel & Transportation
705-02/93	February 93	Air Tickets	48,738.62	Travel & Transportation
705-07/93	July 93	Air Tickets	15,960.65	Travel & Transportation
705-08/93	August 93	Air Tickets	5,966.53	Travel & Transportation
705-08/93	August 93	Unaccompanied baggage	737.70	Travel & Transportation
705-09/93	September 93	Unaccompanied baggage	1,063.34	Travel & Transportation
705-10/93	October 93	Air Tickets	4,684.95	Travel & Transportation
705-11/93	November 93	Air Tickets	1,462.24	Travel & Transportation
705-01/94	January 94	Air Tickets	9,429.00	Travel & Transportation
705-02/94	February 94	Air Tickets	6,978.41	Travel & Transportation
705-03/94	March 94	Air Tickets	4,833.88	Travel & Transportation
705-04/94	April 94	Air Tickets	1,563.83	Travel & Transportation
705-05/94	May 94	Air Tickets	12,163.85	Travel & Transportation
705-07/94	July 94	Air Tickets	11,604.65	Travel & Transportation
705-07/94	July 94	Unaccompanied baggage	2,641.86	Travel & Transportation
705-10/94	October 94	Air Tickets	9,038.68	Travel & Transportation
Total Unsupported			220,228.19	

The first line item in the above schedule is not supported by third party documentation. All other expenses listed above were only supported by a photocopy of the supporting documentation.

\* = Actual amount per timesheet = \$ 20,010.96 of which  
\$ 5,428.47 social charges have been disallowed under Finding No. 9, and  
\$4,806.74 indirect costs have been disallowed under Finding No.9.