

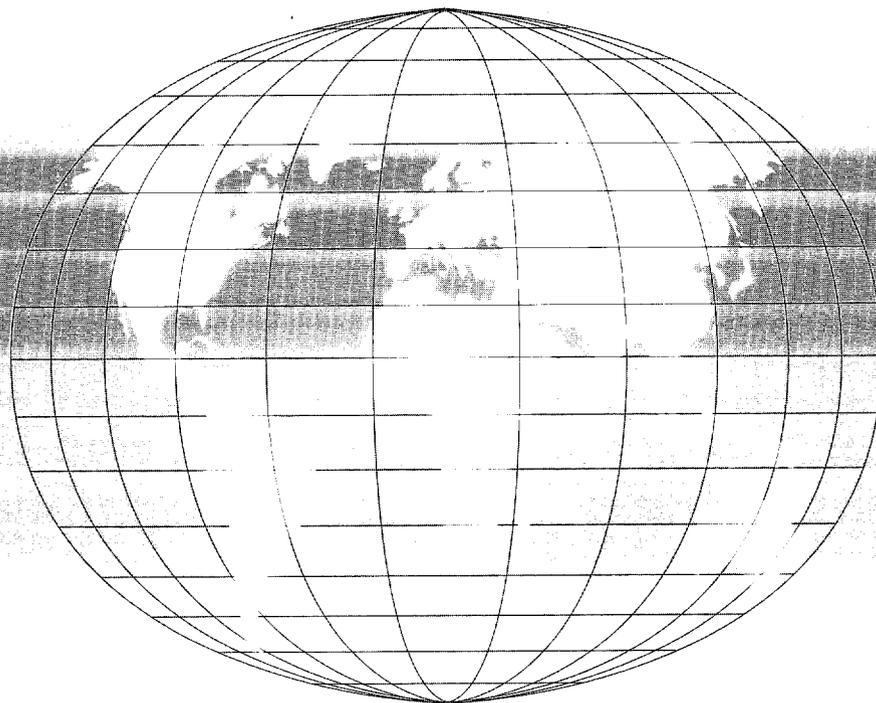
# Report of Audit

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**Audit of Coopers & Lybrand Contract  
No. 613-0234-C-00-4021 under the Zimbabwe  
Grain Marketing Reform Research Project**

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**Report No. 4-613-98-001-N  
November 12, 1997**



**REGIONAL INSPECTOR GENERAL/PRETORIA  
OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**Audit of Coopers & Lybrand Contract  
No. 613-0234-C-00-4021 under the Zimbabwe  
Grain Marketing Reform Research Project**

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November 12, 1997**

**REGIONAL INSPECTOR GENERAL/PRETORIA**



Regional Inspector General  
Pretoria

November 12, 1997

MEMORANDUM FOR MISSION DIRECTOR, USAID/Zimbabwe

FROM: Regional Inspector General/Pretoria, *James L. Farrell for* Joseph Farinella

SUBJECT: Audit of Coopers & Lybrand Contract Number 613-0234-C-00-4021 under the Zimbabwe Grain Marketing Reform Research Project No. 613-0234-00 for the Period February 7, 1994 to April 6, 1996.  
Report Number 4-613-98-001-N

Attached are three copies of an Agency-contracted Audit of Coopers & Lybrand performed by the accounting firm Deloitte & Touche. In 1991 the Government of Zimbabwe adopted a package of Economic Structural Adjustment Programs, an important component of which was the restructuring of the national grain marketing system. The same year (1991) USAID/Zimbabwe established its support to the Zimbabwe Grain Marketing Reform Research Project in the form of a US\$5,000,000 Non-Project Assistance Grant.

To assist USAID/Zimbabwe in implementing the project, USAID/Zimbabwe contracted Coopers & Lybrand Harare to provide support for those involved in the project implementation. This support was to be in the areas of: 1) developing and carrying out research required to assess policy options; and 2) determining and evaluating intra-sectional linkages of reform measures. Coopers & Lybrand was also to plan and conduct a series of workshops and seminars to disseminate the results of the research and analyses, and to implement the medium-term strategy.

The objectives of the audit were to:

- express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects, the project revenues received and costs incurred for the period in conformity with generally accepted accounting principles;

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THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY  
INFORMATION IS RELEASED TO THE PUBLIC.

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- evaluate and obtain a sufficient understand of the internal control structure of the auditee, assess control risk and identify reportable conditions, including material internal control weaknesses; and
- perform test on transactions to determine whether the auditee complied, in all material respects, with contract terms and applicable laws and regulations. Any material instances of non-compliance and all indications of illegal acts were to be identified.

The audit covered income and expenses of about \$952 thousand for the period February 7, 1994, to April 6, 1996.

The auditors issued an adverse opinion on the Fund Accountability Statement. Their report identified questioned ineligible costs of \$69,397 and unsupported costs of \$122,946.

The auditors identified no material internal control or compliance weaknesses.

Based on our review, we are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system.

**Recommendation No. 1: We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, questioned ineligible costs of \$69,397 from Coopers & Lybrand.**

**Recommendation No. 2: We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, questioned unsupported costs of \$122,946 from Coopers & Lybrand.**

We consider the recommendations to be awaiting management decisions. Management decisions for Recommendations 1 and 2 will be made when the Mission determines the allowability of the questioned amounts. Final action regarding the recommendations will be completed when the Mission takes appropriate collection actions relative to any disallowed costs. Please advise me within 30 days of actions planned or taken to reach management decisions on the audit recommendations.

Thank you for the cooperation extended to Deloitte & Touche auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s



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**INDEPENDENT AUDIT OF  
COOPERS & LYBRAND  
CONTRACT No. 613-0234-C-00-4021-00  
UNDER THE ZIMBABWE GRAIN MARKETING REFORM  
RESEARCH PROJECT No. 613-0234.00  
FOR THE PERIOD FEBRUARY 7, 1994 TO APRIL 6, 1996**

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**COOPERS & LYBRAND**  
**CONTRACT No. 613-0234-C-00-4021-00**  
**GRAIN MARKETING REFORM RESEARCH PROJECT**

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## **PART 1 INTRODUCTION**

### **1.1.0 Background**

In 1991 the Government of Zimbabwe adopted a package of Economic Structural Adjustment Programs (ESAPs), an important component of which was the restructuring of the national grain marketing system with a view to improving the welfare of consumers and producers.

The restructuring involved the transformation of the grain marketing system into a more competitive, lower-cost system through the reduction of statutory market controls and allowing an expanded private sector participation in the marketing of grain.

In the same year (1991) USAID/Zimbabwe established its support to the Zimbabwe Grain Marketing Reform Research Project in the form of a US\$5,000,000 Non-Project Assistance Grant. This involved a cash transfer to the Government of Zimbabwe, requiring the Government of Zimbabwe to implement policy reforms in the following areas:

- increasing the autonomy of the Grain Marketing Board
- reducing statutory controls restricting grain movement
- increasing all buyers' access to grain marketing

Experience with this program indicated the necessity to put in place a clear mechanism within which private and public institutions (including USAID/Zimbabwe) which were involved in the program could obtain research and analytical support needed to guide critical policy decisions. To this end, USAID/Zimbabwe authorized and funded the Grain Marketing Reform Research Project No. 613-0234.00, the subject of this financial audit.

To assist USAID/Zimbabwe in implementing the project, USAID/Zimbabwe contracted Coopers & Lybrand Harare (under Contract No. 613-0234-C-00-4021-00) to provide support for those involved in the project implementation. This support was to be in the areas of:

- developing and carrying out research required to assess policy options; and
- determining and evaluating intra-sectional linkages of reform measures.

The contract was to support short-term research and analyses, and implementation of the medium-term grain marketing strategy. This involved:

- research and analytical work required by public and private sector entities (such as the Grain Marketing Board, grain millers and traders) and to support grain marketing reform program implementation; and
- research and analyses required to implement a medium-range grain marketing strategy.

Coopers & Lybrand were also to plan and conduct a series of workshops and seminars to disseminate the results of the research and analyses, and to implement the medium-term strategy. They were also to plan and conduct the necessary outreach activities.

#### **1.2.0 Audit objectives**

Deloitte & Touche Kenya were commissioned to perform a financial audit of the Coopers & Lybrand Grain Marketing Reform Research Project contract for the period February 7, 1994 to April 6, 1996 under Indefinite Quantity Contract No. 623-0510-I-00-4117-00, Delivery Order No. 02. The audit was contracted under the non-Federal audit program authorized by Section 4 of the Inspector General Act of 1978 and OMB Circular A-50 of September 1982. Thus for purposes of this contract, the client is the USAID Inspector General, as represented by the Regional Inspector General for Audit, located in Pretoria, Republic of South Africa.

The broad objectives of the audit are to perform a financial audit in accordance with generally accepted auditing standards and the standards of the United States Comptroller General's Government Auditing Standards (1994 Revision) and to:

- Express an opinion on whether the Fund Accountability Statement presents fairly, in all material respects, the project revenues received and costs incurred for the period in conformity with generally accepted accounting principles.
- Evaluate and obtain a sufficient understanding of the internal control structure of the auditee, assess control risk and identify reportable conditions, including material internal control weaknesses.
- Perform tests on transactions to determine whether the auditee complied, in all material respects, with contract terms and applicable laws and regulations. Any material instances of non-compliance and all indications of illegal acts were to be identified.

In answering the audit objectives we will address mission's concerns on whether:

1. expenditures submitted for payment of salaries and wages and fringe benefits for the contractor and subcontractors were supported by original source documents;
2. salaries and wages paid to the contractor and subcontractors may have been in excess of those allowable under the contract and/or US Government regulations;
3. rates applicable to fringe benefits and overheads were reasonable;
4. the contractor may have withheld payments to subcontractors for excessive periods of time after reimbursement by USAID, thereby accruing interest which should be refunded to USAID; and
5. the contractor may have exceeded the level of effort for salaries and wages, thus generating excess overheads based on possible misclassification of employee versus consultant (subcontractor).

### **1.3.0 Audit scope**

The audit scope required to ensure that the audit objectives are met was to:

- 1.3.1 Review the Fund Accountability Statement covering the financial period February 7, 1994 to April 6, 1996 as well as the project's billings and to express a written opinion in accordance with SAS 62.
- 1.3.2 Review, assess and report on compliance with the terms and conditions of the contract agreement, applicable standard provisions and recommendations contained in budgets and financial or project evaluations and correspondence.
- 1.3.3 Review and evaluate the auditee's internal control structure and capability thereof to properly identify and account for relevant expenditure in accordance with SAS 55. Assess and report as to whether or not the accounting system is adequate and effective.
- 1.3.4 Review agreements, handbooks and other pertinent laws and regulations which, if not observed, could have a material effect on the financial statements.
- 1.3.5 Review the chart of accounts, organizational charts, background booklets and material and other related studies.

- 1.3.6 Carry out audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a material direct or indirect effect on the financial statement amounts and to report in accordance with SAS 53 and 54.
- 1.3.7 Obtain specific written representations as listed in SAS 19.
- 1.3.8 Review records and other information relating to expenditure to determine their allowability, allocability, reasonableness, validity and accuracy as stipulated in the Coopers & Lybrand contract, OMB Circulars and applicable laws and regulations.
- 1.3.9 Scope limitations

- Continuing professional education requirements

We wish to disclose the fact that Deloitte & Touche in Kenya has not met the continuing professional education requirements of US Government Auditing Standards 3.6 by virtue of being in practice outside the United States. However, we have attended some relevant courses organized by USAID in Kenya and we do not believe that this scope limitation had an adverse effect on our audit. In July 1994, Deloitte & Touche Kenya organized a seminar on USAID and other donor funded projects. This was attended by representatives of USAID, Kenya RIG Office. The audit partner attended 15 hours of CPE. The audit manager is a former employee of the Regional Inspector General's Office in Nairobi where he worked over nine years.

In addition the audit partner attended a USAID organized conference in South Africa in May 1995 and obtained 26 CPE hours.

- External quality control reviews

We do not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, part 3.4.6 of the US Government Auditing Standards since no such program is offered by professional organizations in Kenya. We believe that the effects of this departure from US Government Auditing Standards is not material because we participate in the Deloitte & Touche world-wide internal quality control review programs which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

- Findings and recommendations

The project ended on April 6, 1996. Due to the delay between completion of the project and audit, the findings and recommendations may, in some cases, be unactionable. In such instances, these recommendations would have to be considered in any future projects handled by USAID and Coopers & Lybrand. This relates mainly to our findings on internal controls and compliance.

#### 1.4.0 Audit methodology

The audit methodology principally comprised:

##### (a) Audit of the Fund Accountability Statement

- Reconciled the Fund Accountability Statement to the underlying records - principally the auditee's Reconciliation of Amounts Audited and Payments Received, which comprises a summary of all billings by Coopers & Lybrand to USAID.
- Ensured the Fund Accountability Statement correctly identifies questioned costs and categorizes them into questioned ineligible and unsupported costs.
- Documented findings, observations and recommendations.

##### (b) Reviewed the auditee's Reconciliation of Amounts Audited and Payments Received

- Agreed cash received to supporting documents on a 100% test basis and also confirmed directly with USAID.
- Agreed expenditure to supporting documents on a sample basis ensuring at least 50% of actual expenditure for each line is tested.
- Reviewed the reconciliation of amounts audited and payments received and compared to budgeted expenditure per contract and subsequent amendments/modifications, ensuring excess or under budget expenditure is properly identified.
- Documented findings, observations and recommendations.

**(c) Evaluation of the adequacy and effectiveness of the internal control structure**

- The internal control structure is defined in the AICPA codification of statements and accounting standards section AU 319.06.08 as being “policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved ... (and) consists of three elements; the control environment, the accounting system and control procedures”. We performed a review of the internal control structure of the entity involved in the project in accordance with SAS 55.
- Documented findings, observations and recommendations.

**(d) Steps to provide reasonable assurance of detecting material errors, irregularities and illegal acts in accordance with SAS 53 and 54 respectively**

Errors are unintentional misstatements or omissions of amounts or disclosures in financial statements while irregularities are intentional misstatements or omissions of amounts or disclosures which may involve falsification or manipulation or alteration of accounting records or supporting documents and/or misrepresentations and omission of significant information. Illegal acts are violations of government regulations.

These were addressed by:

- Considering the audit risk as may be apparent from any weakness in the internal control structure, our assessment of the auditee’s attitude and our exercise of professional judgement regarding perceived audit risks.
- Focusing on specific areas which we consider as risky e.g. allocation of actual expenditures to expenditure lines as per approved budget.
- Being alert to identify and bring to light at the earliest stage any act or actions which appear to be violations of government laws and regulations, provisions of the agreement and other relevant directives.
- Obtaining letters of representation in accordance with SAS 19 from relevant parties.

**1.5.0 Results of the audit**

**1.5.1 Comments regarding audit objectives**

**(i) Determine the propriety and validity of the Fund Accountability Statement**

We concluded that the Fund Accountability Statement for the period February 7, 1994 to April 6, 1996 is not fairly presented due to the materiality of the questioned costs (about 20% of total expenditure) and unreconciled receipts of US\$113,718.

**(ii) Identify, evaluate and report on the auditee's internal control structure**

We reviewed the internal control structure. We concluded, based on our review, that the internal control structure was reasonably adequate except for the reportable conditions explained in part 3 of this report.

**(iii) Reach an opinion as to whether or not the auditee complied, in all material respects, with contract terms and applicable laws and regulations**

We concluded that there was no material instance of non-compliance except for the findings included in part 4 of this report.

**1.5.2 Summary of the auditee's comments**

Upon completion of the draft audit report, an exit conference was convened to discuss the matters arising from the audit. A draft report was sent to the auditee, USAID/Zimbabwe and the Regional Inspector General's Office in Pretoria (RIG/A/P) for their comments.

Coopers & Lybrand officials generally disagreed with the audit findings on the questioned costs. We have summarized their comments after each recommendation and have provided our rebuttal where they disagree with our findings and/or recommendations.

The USAID/Zimbabwe and RIG/A/P had no comments to the audit report.

We have included the entire comments from Coopers & Lybrand as an appendix to this audit report.



**PART 2      AUDIT OF COOPERS & LYBRAND  
GRAIN MARKETING REFORM RESEARCH PROJECT  
UNDER CONTRACT NO. 613-0234-C-00-4021-00**

**INDEPENDENT AUDITOR'S OPINION  
ON THE FUND ACCOUNTABILITY STATEMENT**

We have audited the Fund Accountability Statement of the Coopers & Lybrand contract under the Grain Marketing Reform Research Project for the period February 7, 1994 to April 6, 1996. The Fund Accountability Statement is the responsibility of the management of Coopers & Lybrand. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except for not having a fully satisfactory continuing professional education program and not having an external quality control review conducted on us by an unaffiliated audit firm, we conducted our audit in accordance with generally accepted auditing standards and in accordance with Government Auditing Standards (1994 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The results of our tests disclosed questioned ineligible costs of US\$ 69,397 and questioned unsupported costs of US\$ 122,946. The questioned costs are about 20 % of the total expenditure. There is also an unreconciled difference of US\$ 113,718 between amounts received from USAID per Coopers & Lybrand's records and amounts disbursed per USAID/Zimbabwe's records.

Due to the materiality of the questioned amounts and the unreconciled receipt, the Fund Accountability Statement referred to above does not present fairly, project revenues and costs reimbursed and incurred for the period February 7, 1994 to April 6, 1996 in conformity with the cash basis of accounting.

This report is intended solely for the use of USAID and management of Coopers & Lybrand and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by USAID, is a matter of public record.

*Deloitte Touche*

*October 9,*                      1997

2.1.0 COOPERS & LYBRAND  
GRAIN MARKETING REFORM RESEARCH PROJECT  
UNDER CONTRACT NO. 613-0234-C-00-4021-00

FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD FEBRUARY 7, 1994 TO APRIL 6, 1996

	Amounts						Note
	Budget	Total	Unreconciled difference	Accepted	Questioned		
					Ineligible	Unsupported	
US\$	US\$	US\$	US\$	US\$	US\$	US\$	
TOTAL REVENUE	1,016,611	804,951	113,718	918,669			2.3.1
	=====						
Salaries & wages	58,316	77,039	-	26,042	3,030	47,967	2.3.2
Fringe benefits	17,670	23,343	-	7,891	6,365	9,087	2.3.2
Overheads	26,709	35,284	-	11,927	9,622	13,735	2.3.2
Travel, transport & per diem	33,542	3,514	-	2,576	270	667	2.3.3
Non-expendable equipment	56,738	46,440	-	3,250	-	43,190	2.3.4
Expendable supplies & equipment	8,175	889	-	-	-	889	2.3.4
Subcontracts	714,126	666,994	-	633,255	46,612	304	2.3.5
Other direct costs	37,760	39,371	-	29,791	3,498	7,107	2.3.6
Total costs before fixed fee	953,036	892,874	-	714,732	69,397	122,946	
Fixed fee	63,575	58,906	-	58,906	-	-	2.3.7
TOTAL EXPENDITURE	1,016,611	951,780	-	773,638	69,397	122,946	
	=====				=====	=====	
BALANCE DUE (TO)/ FROM USAID		146,829	(113,718)	(145,031)			
		=====	=====	=====			

## **2.2.0 Notes to the Fund Accountability Statement**

### **2.2.1 Basis of accounting**

The Fund Accountability Statement is prepared on a cash basis. As noted in notes 2.2.3 and 2.2.4 below, revenues and expenditures were recorded when cash was physically received or expended.

### **2.2.2 Reconciliation of bank accounts to FAS**

Coopers & Lybrand does not maintain a separate bank account for the Grain Marketing Reform Research Project. Transactions were processed through three bank accounts: two local accounts, one in local currency and one in US Dollars; and one overseas US Dollars account. It was thus not possible to reconcile the Fund Accountability Statement to a particular bank account balance.

### **2.2.3 Revenue**

Revenues represent reimbursements received under the grants from USAID in the period from February 7, 1994 to April 6, 1996.

### **2.2.4 Expenditure**

Expenditures represent amounts expended and reported, for claim purposes, in local currency.

### **2.2.5 Unexpended funds**

As Coopers & Lybrand does not operate a bank account purely for USAID purposes and as relevant expenditures are met out of three bank accounts, it was not possible to reconcile unexpended funds to a particular bank account balance.

2.2.6 Costs which have been accepted in the Fund Accountability Statement but are not included in the auditee's Reconciliation of Amounts Audited and Payments Received.

In our sample of billings tested, there were some billings which had acceptable expenses higher than was actually billed; in other cases, the expenses per the Reconciliation differed from those in the billings. As the Fund Accountability Statement has been prepared on the basis of the Reconciliation, the differences arising from such cases have been added to accepted costs in the FAS and are summarized below.

	Billing No.	Per billing/actual US\$	Per reconciliation US\$	Additional accepted cost US\$
<b>Expenses higher than billed:</b>				
Other direct costs	1	<u>7,225.05</u>	<u>6,200.00</u>	<u>1,025.05</u>
<b>Billings higher than reconciliation:</b>				
Subcontracts:				
Other direct expenses	16	15,673.27	14,200.45	1,472.82
Salaries and wages	17	13,301.66	12,505.20	796.46
Various expenditure lines	25	65,543.44	61,586.63	3,956.81
Various expenditure lines	28	22,798.16	22,321.56	476.60
Various expenditure lines	40	17,309.24	15,352.03	1,957.21
Various expenditure lines	46	14,808.14	11,503.88	3,304.26
Salaries and wages	57	15,341.67	15,206.77	134.90
Various expenditure lines	61	15,201.72	14,402.57	799.15
Other direct expenses	76	<u>18,851.99</u>	<u>18,573.59</u>	<u>278.40</u>
Totals		<u>198,829.29</u>	<u>185,652.68</u>	<u>13,176.61</u>
Total expenses not billed but accepted in the Fund Accountability Statement		=====	=====	=====
		206,054.34	191,852.68	14,201.66
		=====	=====	=====

**2.3.0 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS ON THE FUND ACCOUNTABILITY STATEMENT**

**2.3.1 Receipts from USAID**

USAID records indicate that US\$918,669 was disbursed to Coopers & Lybrand. However, Coopers & Lybrand reported that they received only US\$804,951. Therefore, there is a difference of US\$113,718 between USAID records and amounts included by Coopers & Lybrand in the Fund Accountability Statement.

**Recommendation No. 1**

We recommend that USAID/Zimbabwe and Coopers & Lybrand reconcile the difference of US\$113,718 between the USAID and Coopers & Lybrand records on the total revenue.

**Auditee comments**

We have given USAID our schedule of receipts which amounts to US\$905,081 and Z\$53,604.07. The figure of US\$804,951.00 included in the audit report is the amount audited and paid upto 26 March 1996. Subsequently other billings were approved and paid.

**Auditors' Rebuttal**

At time of audit we were not provided with the amounts subsequently approved and paid. Furthermore, the US\$918,669 was what was certified to us by USAID as amount disbursed to Coopers & Lybrand. Therefore, our recommendation still stands that a reconciliation is necessary.

**2.3.2 Salaries and wages, fringe benefits and overheads**

The Project Executive Director exceeded his contracted level of effort resulting in excess billings of US\$45,860 as follows:

	US\$
Salaries and wages	26,042.08
Fringe benefits	7,890.75
Overheads	<u>11,927.40</u>
Total	<u>45,860.23</u>

However, in response to a request from Coopers & Lybrand for approval to virement funds to cover salaries, overhead and fringe benefits where the budget line items had been exceeded by over 15%, the USAID Project Officer approved the requested virement as evidence provided to the auditors subsequent to the fieldwork audit shows. Accordingly, these expenditures have been treated as eligible in the Fund Accountability Statement.

In addition, on Billing No. 97, the Project Executive Director used higher rates in billing USAID than was approved by the contract. This resulted to excess billings as follows:

	US\$
Salaries and wages	3,030.50
Fringe benefits	918.00
Overheads	<u>1,387.98</u>
Total	<u>5,336.48</u>

The Secretary/Administrator signed a contract as a subcontractor. However, Coopers & Lybrand included her salaries in the line item "Salaries and wages". This resulted in overstatement of fringe benefits and overheads billed as follows:

	US\$
Fringe benefits	5,447.02
Overheads	<u>8,233.54</u>
Total	<u>13,680.56</u>

We have included the above amounts totalling US\$19,017 (salaries & wages US\$3,030, fringe benefits US\$6,365 and overheads US\$9,622) in the Fund Accountability Statement as questioned ineligible costs.

The balance of expenditures for salaries and wages (US\$ 47,967), fringe benefits (US\$ 9,087) and overheads (US\$ 13,735) have been treated as questioned unsupported costs as we were unable to determine the actual number of person days worked on the project by Coopers & Lybrand staff. Coopers & Lybrand did not provide us with supporting documents (such as timesheets, work in progress reports etc) that would allow us to do so. Consequently, we could also not ensure that fringe benefits and overheads were correctly computed as these are based on salaries and wages.

## Recommendation No. 2

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand the following questioned ineligible costs:

- Salaries and wages US\$3,030;
- Fringe benefits US\$6,365; and
- Overheads US\$9,622.

### Auditee comments

The amount billed on billing 97 relate to time inputs subsequent to the end of contract which were billed at actual current local office rates. There is also considerable further time input which relates to the audit period including meetings, extraction of information for the auditors, and work involved in addressing audit queries. This time has not been billed. Additional billings will be raised shortly.

Coopers & Lybrand also rejects that the secretary should be treated as a subcontractor because:

- Coopers & Lybrand is entitled to claim a 5 percent escalation in salary;
- treatment of the Secretary was agreed at inception by USAID; and
- USAID has acknowledged that the GRAMMAR office function was covered by the overhead rate on the Secretary by declining to allow Coopers & Lybrand to claim for consumables.

### Auditor's Rebuttal

If Coopers & Lybrand was claiming the salaries as the 5 percent escalation, the bill should clearly state so. Correct amounts should be claimed under the right categories, as it would be difficult to control costs if they are not included in the right categories.

We were not provided with evidence that the contractor could charge USAID at the rates included in bill No. 97. During the audit, we were not provide with information/evidence that USAID agreed with inclusion of the Secretary's remuneration under salaries and wages. The agreement from USAID that the position could be treated separately was not provided to us during the audit.

Therefore our finding and recommendation still stands.

Recommendation No. 3

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned unsupported costs of US\$70,789:

- Salaries and wages US\$47,967;
- Fringe benefits US\$9,087; and
- Overheads US\$13,735.

Auditee comments

We have provided USAID with copies of timesheets which have been removed from archives. These costs are therefore supported.

Auditors' Rebuttal

USAID/Zimbabwe should review the documents provided and make a determination of whether the amounts questioned are properly supported.

2.3.3 Travel, transport and per diem

Ineligible Costs

We noted that included in travel, transport, and per diem are the following ineligible costs:

Billing No.	Amount US\$	Description
19	27.73	Sales tax included in amount billed
29	29.53	"do"
28	<u>212.92</u>	"do"
Total	<u>270.18</u>	

Recommendation No. 4

We recommend that USAID/Zimbabwe determine the allowability and recover as appropriate from Coopers & Lybrand, questioned ineligible costs of US\$270.

Auditee comments

USAID has agreed to pay all sales tax amounts. At the inception of the project, USAID should have provided Coopers & Lybrand with their exemption number if sales tax was not to be paid.

Auditor's Rebuttal

USAID/Zimbabwe should make a determination as included in the recommendation.

Unsupported Costs

We noted that the following travel, transport and per diem amounts were not supported by the original documents but by photocopies:

Billing No.	Amount US\$
1	176.98
28	<u>489.96</u>
Total	<u>666.94</u>

Recommendation No. 5

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned unsupported costs of US\$667.

Auditee comments

All originals went to USAID.

Auditor's Rebuttal

We did not get the original documents at USAID/Zimbabwe offices. Our recommendation therefore is unchanged.

#### 2.3.4 Non-expendable and expendable supplies & equipment

The following billings for Non-expendable equipment and expendable supplies and equipment were not supported by the required documents:

Billing No.	Amount US\$	Description
1	43,190.00	Non-expendables - no original supporting documents (supported only by photocopies)
28	<u>889.01</u>	Expendables - no supporting documents seen
Total	<u>44,079.01</u>	

We have included the above questioned amounts in the Fund Accountability Statement as questioned unsupported costs.

#### Recommendation No. 6

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned unsupported costs of US\$44,079.

#### Auditee comments

We have sent to USAID the photocopy vouchers for all items. These costs were never unsupported and would not have been paid if USAID had not received the original vouchers.

#### Auditor's Rebuttal

We did not get the original documents at USAID/Zimbabwe offices. Our recommendation therefore is unchanged.

### 2.3.5 Subcontracts/consultants

Under subcontracts we identified the following questioned ineligible and unsupported costs which we have included in the Fund Accountability Statement as questioned costs.

Subcontract expenditure details	Billing No.	Ineligible costs US\$	Unsupported costs US\$
Other direct expenses - a mattress hired and lost for which supplier charged Z\$235.80	16	28.41	
Salary for local subcontractor (A Hawke) overcharged - 5 days @ US\$250 disallowed Sales tax payable in Z\$ Underclaimed per diem for local subcontractor - K Cassavant Overclaimed per diem	25	1,250.00 156.88 (30.00) 7.10	
Sales tax for various services	28	257.78	
C&L billing (US\$ 17,309.24) disputed by subcontractor, Purdue University, who gave a lower figure (US\$ 17,304.96) - Salaries & wages - Fringe benefits - Overheads	40		2.47 0.82 0.99
Salary - Dr Maramba paid for 15 days @ US\$300 instead of US\$86.28	46	3,205.80	
Travel & transport - sales tax paid by various individuals	61	450.53	
Travel & transport - sales tax paid Other direct costs - sales tax paid	76	4,130.87 8.40	
Accommodation - extra charge for double room disallowed Per diem - 3 days claimed when not actually claimable Other direct expenses: - Z\$ 4,000: Computer hire which would be covered in overheads - Z\$ 2,000 and Z\$ 800: Secretarial services and stationery for which supporting documents were not seen Add: excess on total number of person days worked by the Project Director; 120 days @ US\$304.50	87	75.88 102.00  428.64  36,540.00	300.05
<b>Total questioned ineligible/unsupported costs</b>		<b>46,612.29</b>	<b>304.33</b>

## Recommendation No. 7

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned ineligible costs of US\$46,612.

### Auditee comments

For some of the questioned, USAID had reimbursed Coopers & Lybrand less the questioned amounts. In addition, per diems cannot be ineligible as amounts represent per diems for project staff which were budgeted for. The claimed amounts were approved and paid for by USAID and cannot therefore be ineligible. USAID also approved payment of sales tax.

In regard to excess man-days by the Project Director and included in the report as questioned costs, the total budget value for salaries and wages was not exceeded and total contractor man-days input was lower than budgeted. USAID has agreed to this cost and the amount is not therefore not ineligible.

### Auditors' Rebuttal

#### Amounts Rejected by USAID

The questioned amounts included above are included in the Fund Accountability Statement as part of subcontract expenses. We cannot exclude these amounts from questioned costs as there is no reconciliation of amounts claimed and receipts from USAID. If we are to exclude the amounts from the list of questioned costs, Coopers & Lybrand could use our report to state that we accepted the costs and request USAID to reimburse the cost. Therefore USAID should make a determination over the amounts questioned.

#### Per Diems

Payments by USAID to Coopers & Lybrand are subject to audit. In addition payment should not be made to vendors just because the amount is budgeted for. This means that USAID can claim for any inappropriate payment that may be made to a vendor. The fact that USAID made payments for a certain cost does not constitute approval.

#### Excess Days

In addition, we do not have USAID's approval for the extra days that were claimed under bill No. 87. We need USAID to make a determination of the allowability of this amount

Due to the above reason we have retained the recommendation in the audit report.

Recommendation No. 8

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned unsupported costs of US\$304.

Auditee comments

The costs questioned are legitimate costs. The original supporting documents were sent over to USAID.

Auditors' Rebuttal

The USAID Inspector General Standards do not allow us to accept copies as supporting documents. Therefore, our recommendation is retained in the audit report.

2.3.6 Other direct costs

Under other direct costs our audit identified the following questioned costs:

Billing No.	Amount Ineligible US\$	Amount Unsupported US\$	Description
67	189.00	-	Sales tax
53	-	246.00	No original supporting documents seen - only photocopies
84	136.00	-	Rent billed for Jimat Consult
84	-	960.00	No original supporting documents seen - only photocopies
85	741.31	-	Calculation error
86	-	479.63	No original supporting documents seen - only photocopies
86	731.61	-	Office tea and computer hire
77	-	5,421.25	No original supporting documents seen - only photocopies
-	1,700.00	-	Total overcharge on rent for the project period
Totals	<u>3,497.92</u>	<u>7,106.88</u>	

Recommendation No. 9

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned ineligible costs of US\$3,498.

Auditee comments

Sales tax has been approved.

As regards billings Nos. 84, 85 and 86 we claimed the amounts but the amounts were not paid to us by USAID.

For the rent overcharge of US\$1,700, we were requested by USAID to undertake certain tasks and continue for an additional two months beyond the contract period. The lease had to be extended for an additional 6 months to accommodate the project.

Auditor's Rebuttal

Sales Tax: We have not seen USAID's approval of this questioned amount.

Amounts not Reimbursed by USAID.

These amounts are included in the Fund Accountability Statements as part of "other direct costs". If amounts were not reimbursed they should not have been included in the Fund Accountability Statement as part of costs incurred.

Rent Overcharge

USAID should make a determination over the allowability of this amount based on information and facts as provided by the auditee.

Our recommendation remains as above.

Recommendation No. 10

We recommend that USAID/Zimbabwe determine the allowability and recover, as appropriate, from Coopers & Lybrand questioned unsupported costs of US\$7,107.

Auditee comments

All originals were sent to USAID.

## Auditors' Rebuttal

The USAID Inspector General Standards do not allow us to accept copies as supporting documents. Therefore, our recommendation is retained in the audit report.

### 2.3.7 Fixed fee

The total fixed fee payable to Coopers & Lybrand as the contractor is US\$63,575. The contract between Coopers & Lybrand and USAID states that at the time of each payment to the contractor on account of allowable dollar costs, the contractor shall be paid a dollar amount which is in the same ratio to the total fixed fee as the related payment being made on account of allowable dollar costs is to the total estimated costs (i.e. in the Fund Accountability Statement, total costs before fixed fee). These payments would have been payable on a percentage of project completion basis (up to a maximum of 85% of the total fixed fee - or US\$54,039 - should the Contracting Officer decide the balance of 15% was payable after clearance of all matters outstanding at the end of the project).

Thus the accepted fixed fee for purposes of the Fund Accountability Statement would have been computed as total accepted costs (US\$ 714,732) divided by total budgeted costs before the fixed fee (US\$ 953,036) multiplied by the total fixed fee payable (US\$ 63,575). The actual fixed fee charged to date is US\$58,906 while the fee computed as described above based on total accepted costs would be US\$47,678. Fixed fees are therefore currently US\$11,228 over the 85% limit allowed for in the contract. However, we have not seen any evidence of the Contracting Officer exercising his discretion in applying the 85% limit.

On the basis of the contracted mode of payment, Coopers & Lybrand appear to have been overpaid on the fixed fee. However, the purpose of this mode of payment was to ensure payment was on the basis of stage of completion of work. The contract has been completed and, therefore, USAID should remit to Coopers & Lybrand the balance of US\$4,669 payable on the contracted amount of US\$63,575 once all matters have been cleared.

2.3.8 Comparison of Coopers & Lybrand's "Reconciliation of Amounts Audited and Payments Received" with the cumulative expenditures and cheques received per actual billings

A comparison of the individual expenditure line totals (before reclassification of salaries and wages) according to the reconciliation and cumulative totals per the actual billings revealed the following differences:

Expenditure line	Totals per reconciliation US\$	Cumulative per final billing US\$	Difference US\$
Salaries and wages	77,039.09	70,038.69	7,000.40
Fringe benefits	23,342.86	23,342.84	0.02
Overheads	35,284.26	35,284.08	0.18
Travel, transportation and per diem	3,513.81	6,660.27	(3,146.46)
Non-expendable equipment	46,439.73	43,790.81	2,648.92
Expendable supplies and equipment	889.01	889.01	0.00
Subcontractors	666,993.58	669,527.02	(2,533.44)
Other direct costs	39,370.76	43,057.62	(3,686.86)
Coopers & Lybrand fixed fee	58,906.03	59,787.21	(881.18)
	<hr/>	<hr/>	<hr/>
Total	951,779.13	952,377.55	(598.42)
	=====	=====	=====

The reconciliation of amounts audited and payments received prepared by Coopers & Lybrand formed the basis for the preparation of the Fund Accountability Statement. This reconciliation is a summary of all billings made out by Coopers & Lybrand to USAID. Each actual billing up to Billing No. 95 shows cumulative line expenditure brought forward, expenditure relating to the current billing, and cumulative expenditure carried forward. Hence cumulative expenditure per Billing No. 95 plus that on Billings 96 and 97 should equal the totals per the reconciliation. A reconciliation is therefore necessary.

## Recommendation No. 11

We recommend that Coopers & Lybrand reconcile the actual billings and the amounts summarized in the Fund Accountability Statement.

### Auditee comments

We consider the difference too small to warrant a reconciliation exercise.

### Auditors Rebuttal

USAID/Zimbabwe should determine whether a reconciliation is necessary.

## 2.3.9 Comparison of budgeted and actual expenditure

As at Billing No. 97 the total expenditure incurred was US\$64,831.86 (6%) below budget. This is mainly due to below budget expenditures recorded in

- Subcontractors - US\$47,132.41, or 7%
- Travel, transport and per diem - US\$30,028.19, or 90%, and
- Non-expendable equipment - US\$10,298.27, or 18%

Salaries and wages, fringe benefits and overheads were each 32% over budget, or US\$18,723.09, US\$5,672.86 and US\$8,575.26 respectively; other direct costs were US\$1,610.76 (4%) over budget; expendable supplies were US\$7,285 (89%) below budget; and the fixed fee to Coopers & Lybrand was US\$4,668.97 (7%) below budget - according to the contract between the auditee and USAID, 15% of the fixed fee was to be withheld at the end of the contract until all matters have been cleared.

Our audit established that the Mission allowed the contractor to virement funds from other line items of the contract to cover costs incurred on salaries and wages, fringe benefits and overheads where the budget had been exceeded by over 15 percent.



**PART 3    AUDIT OF COOPERS & LYBRAND  
GRAIN MARKETING REFORM RESEARCH PROJECT  
UNDER CONTRACT NO. 613-0234-C-00-4021-00**

**INDEPENDENT AUDITOR'S OPINION  
ON THE INTERNAL CONTROL STRUCTURE**

We have audited the USAID Project Fund Accountability Statement of the Coopers & Lybrand contract under the Grain Marketing Reform Research Project for the period February 7, 1994 to April 6, 1996, and have issued our report thereon dated 9 October 1997.

Except for not having a fully satisfactory continuing professional education program and not having an external quality control review conducted on us by an unaffiliated audit firm, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1994 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 material misstatement.

In planning and performing our audit of the Grain Marketing Reform Research Project we considered Coopers & Lybrand's internal control structure in order to determine our auditing procedures for the purpose of forming an opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of Coopers & Lybrand is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of internal control structure, policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Due to inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

For the purpose of this report, we have identified the significant internal control structure elements in the following revenue and expenditure categories:

- system of receipt of funds by Coopers & Lybrand
- disbursement system for project funds
- overall monitoring, control and co-ordination of the project

For all the control categories listed above we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation so as to assess control risk.

The purpose of our evaluation was to determine the nature, timing and extent of auditing procedures necessary for forming an opinion on the Fund Accountability Statement. Our study and evaluation was more limited than would be necessary to express an opinion on the relevant internal control structure taken as a whole.

Our consideration and evaluation of the internal control structure would not necessarily disclose all material weaknesses in the system.

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

Although our consideration and evaluation of the categories identified above disclosed no conditions that we believe to be material weaknesses, we have noted some minor issues in the internal control structures which should be addressed. Our findings, observations and recommendations are presented in Section 3.1.0 of this report.

This report is intended solely for information of USAID and the management of Coopers & Lybrand. This restriction is not intended to limit the distribution of this report which, upon acceptance by USAID, is a matter of public record.

*Delville Truche*

October 9, 1997

### **3.1.0 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS REGARDING THE INTERNAL CONTROL STRUCTURE**

The contract for the implementation of Grain Marketing Reform Research Project ended on April 6, 1996. Therefore, for the internal control issues noted below we are not making formal recommendations. The findings are, however, included here for reference as "lessons learnt" for future similar contracts.

#### **3.1.1 General**

Coopers & Lybrand's summary of billings (Reconciliation of Amounts Audited and Payments Received) does not agree with the cumulative expenses per actual billings as illustrated in paragraph 2.3.8 above. The differences in the various expenditure lines occurred since the first billing and do not appear to have been followed up. Hence differences were carried forward to completion of the project.

Differences should be followed up and resolved as soon as is practicable and not carried forward over long periods of time. The difference between the cumulative expenses per the final billing and the Reconciliation should be resolved.

Auditee comments

The difference is too small to warrant a reconciliation exercise.

#### **3.1.2 Contracts with subcontractors**

We were unable to review the contract signed between Coopers & Lybrand and Probe Market Research, a local subcontractor, as it could not be traced. Upon follow-up, we were informed it may be possible there was no contract. We could not, therefore, determine if the tasks assigned to Probe Market Research were performed in accordance with the contract.

Contracts should be prepared for all individual subcontractors and consultants as a basis for ensuring tasks are performed in accordance with agreements and contracts with USAID.

Auditee comments

A contract was not signed with PMR. The project was transferred to GRAMMAR from another USAID project

### 3.1.3 Other direct costs - rent

Total rent billed was US\$22,100 whereas the amount computed in our review based on the period of occupancy is US\$20,400. Rent was thus overcharged by US\$1,700; this has been treated as a questioned ineligible cost (per paragraph 2.3.6 above). This indicates that the payments to the lessor were not checked against the actual occupancy of the premises. Payments should be made on the basis of occupancy of premises.

Auditee comments

See our comment under section 2.3.6.

### 3.1.4 Bank accounts

The Principal Contract did not have a requirement for a separate bank account being opened for the project and the auditee used its own general accounts to process payments and receipts. Due to this, the Mission's requirement that we as auditors examine bank statements to determine that they are reconciled on a timely basis and that transactions are appropriate would not be practicable as far as the Grain Marketing Reform Research Project is concerned.

It should be noted separate bank accounts opened for specific projects enhance control over the funds related to those projects. Consideration should be made to include the opening of separate accounts for different projects in future contracts.

Auditee comments

Comment noted.

### 3.1.5 Ineligible costs

Included in billings sent to USAID for payment are costs incurred on ineligible costs such as sales tax and costs in excess of amounts allowed under the contract. This suggests that the contractor was not strictly following the terms of the contract and applicable regulations. This has resulted in questioned ineligible costs as included in the Fund Accountability Statement section. In future, the contractor should ensure that costs incurred are as allowed by the contract.

Auditee comments

We disagree. Ineligible costs were not paid by USAID.

### 3.1.6 Unsupported costs

Included in amounts billed under the contract are costs which could not be supported by the required documents. These included costs supported by photocopies. Photocopies are not acceptable supporting documents under USAID contracts.

Auditee comments

### 3.1.7 Receipts from USAID

Amounts received from USAID were not being reconciled on a periodic basis. This resulted in a big difference between amounts reported as received by Coopers & Lybrand and amounts included in USAID records.

Auditee comments

### 3.1.8 Reclassification of expenditure lines

Ms Maceline Musa signed a contract with Coopers & Lybrand as a subcontractor in the capacity of Secretary/Administrator for the Project. However, her remuneration was charged to the salaries and wages line as an employee of Coopers & Lybrand although she was not in the Coopers & Lybrand payroll. Consequently, salaries and wages were overstated by US\$17,976.98 and subcontract costs understated by a similar amount. Ms Musa's remuneration has, therefore, been reclassified from salaries and wages to subcontract costs in the Fund Accountability Statement.

The misclassification resulted in overstatement of the related fringe benefit and overhead expenditure lines by US\$5,447.02 and US\$8,223.54 respectively as these are computed on the basis of salaries and wages. We have included the overstated amounts in the Fund Accountability Statement as questioned ineligible costs (see finding No. 2.3.2).

Auditee comments



**PART 4    AUDIT OF COOPERS & LYBRAND  
GRAIN MARKETING REFORM RESEARCH PROJECT  
UNDER CONTRACT NO. 613-0234-C-00-4021-00**

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH CONTRACT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

We have audited the Fund Accountability Statement of the Coopers & Lybrand Grain Marketing Reform Research Project for the period February 7, 1994 to April 6, 1996 and have issued our report thereon dated 9 October 1997.

Except for not having a fully satisfactory continuing professional education program and not conducting an external quality control review by an unaffiliated audit firm, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1994 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 and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Compliance with contract terms, laws and regulations, subcontracts and binding policies and procedures is the responsibility of management of Coopers & Lybrand. As part of our audit we selected and tested transactions and records to determine the contractor's compliance with contract terms, laws, regulations, subcontracts, binding policies and procedures. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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 on compliance disclosed the following material instances on non-compliance, the effects of which are shown as questioned costs in the Coopers & Lybrand Fund Accountability Statement.

- Coopers & Lybrand did not use authorized rates in billing for salaries and wages; fringe benefits and overheads;
- authorized person days were exceeded without authority; and
- auditee billed for ineligible and unsupported costs.

Except for matters mentioned above the results of our tests indicate that, with respect to the items tested, Coopers & Lybrand complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Coopers & Lybrand had not complied, in all material respects, with those provisions.

This report is intended for the information of USAID and the management of Coopers & Lybrand. However, upon acceptance by the USAID Regional Inspector General, this report is a matter of public record and its distribution is not limited.

*Deloitte Touche*

*October 9,* 1997

#### 4.1.0 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS REGARDING COMPLIANCE WITH CONTRACT TERMS AND APPLICABLE LAWS AND REGULATIONS

Below are our findings on compliance with applicable terms of the contract, applicable laws and regulations.

Coopers & Lybrand generally complied with the terms of the contract. Non-compliance was however noted as follows:

##### 4.1.1 Authorized rates for salaries and wages

As indicated in paragraph 2.3.2, the number of person days billed were not always actual but were sometimes derived from cost which was based on daily charge-out rates rather than the agreed rates. This consequently resulted in billings for salaries being at rates above those authorised.

The resultant excess billings for salaries and wages and the consequent excess on fringe benefits and overheads have been treated as questioned ineligible costs as detailed in paragraph 2.3.2.

Auditee comments

See section 2.3.2 above.

##### 4.1.2 Authorized person days

The contractor exceeded authorized person days without written authority. The excess was the equivalent of 78.44 person days resulting in excess billings of US\$45,860 (see paragraph 2.3.2. In addition, the Executive Director's rates used in Billing No. 97 were higher than the rate approved by the contract, resulting in excess billings of US\$5,336 for salaries and related fringe benefits and overheads.

Furthermore, other Coopers & Lybrand staff charging the contract at times claimed from USAID at the Executive Director's rate of US\$332 per day.

However, discussions during the exit conference revealed that there was authorization for extra person days but this was not evidenced to the auditors in writing during the audit. Written evidence was availed to us subsequent to the audit fieldwork by the USAID Mission. Therefore US\$45,860 has been treated as eligible in the Fund Accountability Statement while US\$5,336 has been treated as questioned ineligible costs and the balance as questioned unsupported costs as detailed in paragraph 2.3.2.

Auditee comments

See Comments under section 2.3.2.

4.1.3 Supporting documentation

Not all billings were supported by original documents as required by USAID contracts resulting in questioned unsupported costs. Examples of such billings can be found in paragraphs 2.3.2, 2.3.3, 2.3.4 and 2.3.6.

Auditee comments

See comments as included in relevant sections above.

4.1.4 Sales tax

The contractor billed for some ineligible costs such as sales tax (see paragraphs 2.3.3, 2.3.5 and 2.3.6) on the basis that the expenditures had to be incurred in the ordinary course of the project. However, the contract specifically omits sales tax from recoverable expenses.

Auditee comments

See comments as included in the relevant sections above.

**PART 5 STATEMENT OF GENERAL COMMENTS**

**5.1.0 Proportion of original source documents tested**

Based on our evaluation of the entity's internal control structure and volume of transactions, we tested a minimum of 50% of all recorded expenditure by line by examination of original source documentation.

**APPENDIX 1**

**COMMENTS BY AUDITEE**

DATE OF REGISTRATION		- 1 SEP 1997	
	PASSE FOR ACTION	INFORMATION	INITIALS
D.M.N.			
V.M.A			
J.S.L.B.			
J.D.K.			
S.O.O.		✓	
SMK		✓	

your reference

our reference

c:adlr/lh/gramaraud.sam

25 August 1997

Mr S M Kariuki  
Delloitte & Touche  
P O Box 40092  
Nairobi  
KENYA

Dear Mr Kariuki,

**RESPONSE TO DRAFT AUDIT REPORT ON THE ZIMBABWE GRAIN REFORM RESEARCH PROJECT**

I reply to your letter of 10 June 1997 under the same paragraph reference numbers.

*Paragraph 2.2.6*

You seem to have misconstrued the purpose of this schedule. The reconciliation schedule you refer to had 3 purposes :

- (i) To ensure that the cumulative totals did not exceed the 15% stipulated budget line item overrun.
- (ii) To keep a record of payments.
- (iii) To ensure that underpayments were followed up and rectified.

The schedule achieved these objectives. It was not designed as the basis for preparing a Fund Accountability Statement. We were not given any guidelines by USAID at any stage during this programme on requisite formats for the audit. The use of this schedule for audit purposes is therefore probably inappropriate.

Your schedule includes inaccuracies. For example :

Billing 16 - You refer to "other direct expenses". This is wrong. The amounts under their billing are subcontracts (in fact travel and per diems). There are no "other direct expenses". You also quote the audited amount at US\$15673.27. This figure does not exist. The actual equivalent amount audited and paid was US\$13120.63. A supplementary billing was submitted (16 supp.) covering the items rejected at audit resulting in USAID paying US\$1079.82. The actual equivalent figure is therefore 13120.63 + 1079.52 = 14200.45. Our reconciliation schedule figure is therefore correct.

Billing 17 - You have made the same mistakes with both description and figures. There was also a supplementary billing which covered the initial shortfall. Our figure is correct.

Billing No 25 - The same problem exists. Your figure of US\$65543.44 per billing is incorrect. What was actually billed was US\$67037.95 of which US\$62 689.63 was paid by USAID. Part of this was not paid by USAID resulting in a supplementary billing of US\$2877.75 which was paid. This is a total payment of US\$65567.38 (2877.75 + 62689.63). Where your figure of US\$65543.44 comes from is not clear but it must include the fixed fees. Your figure of US\$61556.63 does not include the fixed fee which is also shown on our reconciliation. Your difference results from comparing items which are not the same, and represents the fixed fee which was actually approved and paid by USAID. Again our reconciliation schedule is correct.

In all these instances the actual billing figures on your schedule include Coopers and Lybrand fixed fee whereas the "per reconciliation" figure does not. You are therefore comparing apples and pears. The differences are mainly fixed fee.

I have not checked the remaining items on your list as I assume you have made the same mistake in each instance where you have reported differences. I suggest you leave out this whole paragraph as it's inclusion seems pointless.

*Paragraph 2.3.1.*

**Receipts from USAID**

We have given USAID our schedule of receipts which amounts to US\$905 081.45 and Z\$53 604.07. Your figure of US\$804 951.00 is the amount audited and paid up to 26/03/96. Subsequently other billings were approved and paid. The difference is therefore of the order of US\$7282 and not US\$113 718.00 as stated in your report. USAID are comparing their payments with ours to identify this small difference.

*Paragraph 2.3.2*

**Recommendation 2**

The amounts billed on Billing 97 relate to time inputs subsequent to the end of the contract which were billed at actual current local office rates. There is also considerable further time input which relates to the audit period including meetings, extraction of information for the auditors, work involved in addressing audit queries, etc. This time has not yet been billed. Additional billings will be raised shortly.

Furthermore, in terms of the contract we are entitled to claim a 5% escalation in salary per annum. This we did not do. However as we will be raising additional billings we will be claiming the 5% escalation in full for the whole contract period. Any net amounts due will be in favour of Coopers and Lybrand and not USAID.

The fact that Musa signed a contract was entirely in conformity with our Human Resource policy. All staff in this firm sign employment contracts upon when they join setting out the terms and conditions of their service. Musa provided in terms of her contract a secretarial support service just as any other secretary in this firm is employed to do. Her contract of employment set out the terms and conditions of her job. At the end of the project she elected to leave the firm of her own accord despite having been offered relocation to another secretarial position within the firm. She was also paid locally in local currency through our salaries department as is the case with all our staff.

This treatment of Musa was agreed at inception with Mr Ray Edler of USAID and accepted on that basis by the local USAID office. Hence they paid fringe and overhead throughout the project. There is also a clear distinction between a secretary and industry specialists who provided high level technical inputs on a project by project basis.

Furthermore USAID have effectively acknowledged that the GRAMMAR office function was covered by our overhead rate on Musa by declining to allow us to claim for office consumables.

We therefore reject any assertion that Musa should be treated as a subcontractor.

### **Recommendation 3**

We have provided USAID with copies of time sheets which have been removed from the archives. These costs are therefore supported.

### **Recommendation 4**

#### *Paragraph 2.3.3.*

USAID have agreed to pay all sales tax amounts. This was confirmed by Ms Maureen Shauket during a meeting in our offices between myself herself and Mr Tom Johnstone. These amounts are part of the project cost. If USAID had dispensation from the Zimbabwe Government not to pay sales tax on project inputs, the local USAID office should have provided us with their exemption number at the inception of the project. As it is the items were never queried so we are entitled to assumed they are legitimate costs.

### **Recommendation 5**

Of course they were photocopies! All originals went to USAID. They would only pay on originals. I suggest AID searches through its files.

*Paragraph 2.3.4.*

Non-expendable and expendable supplies and equipment

**Recommendation 6**

As per my comment under recommendation 5 above. Despite having requested from you a detailed breakdown of these figures on a number of occasions nothing was been forthcoming. We have therefore had to piece the items together and have sent USAID the photocopy vouchers for all items. These costs were never unsupported and would not have been paid if USAID had not received the original vouchers.

*Paragraph 2.3.5.*

Subcontracts / Consultants

We respond to your schedule totalling US\$46612.29 as follows :-

**Recommendations 7 and 8**

- a) Hawke overpaid 5 days US\$1250.00 -Billing 25

You are incorrect. The amount claimed by Coopers and Lybrand was US\$3750.00 but the amount audited and paid by USAID was US\$2500.00 USAID paid the correct amount having picked up the error in their payment audit.

- b) Penalty for lost mattress Z\$235.80 - Billing 16

You are incorrect. The amount was claimed but was not paid by USAID as it was established as an ineligible cost at the time of payment. Coopers and Lybrand therefore owes nothing to USAID.

- c) Sales tax amounts were paid by Coopers and Lybrand and are legitimately reimbursable in Zimbabwe dollars - see our comments under Recommendation 4 paragraph 2.3.3. USAID have approved this reimbursement policy.

- d) Under claimed per diem for K Cassavant US\$30.00 - Billing 25.  
Over claimed per diem US\$7.10 - Billing 25.

You are incorrect. These amounts were paid correctly by USAID and moneys are not due to or from either party.

- e) The amounts you have noted on this schedule under Billing 40 are trivial amounting as they do to US\$4.28. We have therefore taken no further action.

- f) Salary Dr Maramba US\$3205.80

You are again incorrect. The amount paid to Coopers and Lybrand was 15 days at US\$86.28 and not 15 days at US\$300.00 as claimed. USAID queried the rate before payment and therefore nothing is due by Coopers and Lybrand.

- g) Billing No 87

- i) Computer Hire Z\$4 000.00.

Had you read the detail on the billing file with due care you would have noted that the computer hire of Z\$4 000.00 was for a specialist cartography input called "Production of soil map to indicate boundaries for irritable soils". We do not have such equipment and this is certainly not covered in the overheads. Hence we reject your assertion of ineligibility.

- ii) Accommodation extra charge US\$75.88.

Again you are confusing what was claimed and what was paid. USAID did not pay the US\$75.88 as audit picked this up prior to payment. Coopers and Lybrand therefore owe nothing.

- iii) Per diem - 3 days. US\$102.00

This was approved and paid by USAID. How can it therefore be ineligible. It represented per diems for project staff in the field which had been budgeted for. It was supported by vouchers.

- iv) Secretarial costs Z\$2000.00 and Z\$800.00

Contrary to your statement this is a legitimate cost supported by Occupational Health & Environmental Protection (Pvt) Ltd. invoice no 44 dated 10/02/96. The photocopy is on file and the original went to USAID.

- v) Project director excess days - US\$ 36540.00.

As discussed with you and USAID the total budget value for salaries and wages was not exceeded and the total contractor man-days input was actually lower than budgeted. USAID have agreed to this cost and have written to you confirming this. The cost is therefore not ineligible. We also appraised USAID of all contractor and project director man-days input actuals compared to budget for the project to date, in our letter to the PDO of 14 December 1995 so AID is well aware of this.

*Paragraph 2.3.6.*

**Recommendation 9**

Billing 67 - Sales tax has been approved.

Billing 84 - JIMAT Rent US\$136.00. Again you are confusing what was claimed and paid. The amount was claimed but not paid by USAID. Coopers and Lybrand can not therefore repay this as it was not paid to us in the first place.

Billing 85 - USAID did not pay this so Coopers and Lybrand owe nothing. The same problem again.

Billing 86 - Again you have got it wrong. We were not paid this amount and therefore nothing is due by us. The same problem.

Rent overcharge - US\$1 700.00

We were requested by USAID to undertake certain tasks and continue for an additional two months beyond the contract termination date of 6 February 1996. We acceded to this. As a result the lease had to be extended by a further 6 months to accommodate the project. We would therefore not be prepared to bear this cost. Your assertion that cost is intelligible is therefore rejected.

**Recommendation 10.**

All originals were sent to USAID. Hence we only have photocopies. USAID should look in their files for the originals. Further copies have however been sent to USAID.

*Paragraph 2.3.7*

We note your comment that USAID owe Coopers and Lybrand US\$4 669.00.

*Paragraph 2.3.8.*

We note the difference in aggregate of US\$598.42 We consider the difference too small to warrant such a reconciliation exercise.

*Paragraph 3.1.1.*

See our comment under paragraph 2.3.8. above.

*Paragraph 3.1.2.*

A contract was not signed with PMR. This project was transferred to GRAMMAR from another USAID program. We had major problems with PMR, in particular their rates which were questionable and involved duplications of direct costs in overheads.

However there was a conflict of interest which was disclosed to USAID in that PMR are long standing clients of Coopers and Lybrand. We therefore referred all contractual difficulties, particularly with respect to rates, to USAID. By the time the issues were resolved the project had terminated.

*Paragraph 3.1.3.*

This was dealt with under paragraph 2.3.6., Recommendation 10.

*Paragraph 3.1.4.*

Your comment is noted.

*Paragraph 3.1.5.*

We disagree. All amounts claimed which were ineligible were NOT paid by USAID. Your comment arises out of a fundamental error of principle by yourselves that you did not take account of the reconciliations on each billing file between claims and payments. We have given explanations for each item above. The ineligibles you have listed are therefore invalid.

*Paragraph 3.1.6.*

All original documents were sent to USAID. There is clearly a major filing problem at USAID as not only are originals "missing" but we received frequent request for copies of reports and other material which we had sent but could not be found. Photocopies will therefore have to suffice. In many instances we have supplied these but if other copies are required we can supply.

*Paragraph 3.1.7.*

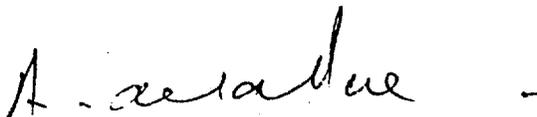
Your figures are incorrect. As detailed above the difference is small and USAID are reconciling their payments to the schedule we supplied.

*Paragraph 3.1.8.*

We have given a detailed reply to this query above.

I trust this information will enable you to finalise your report.

Yours faithfully



**A DE LA RUE**  
Managing Partner

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