

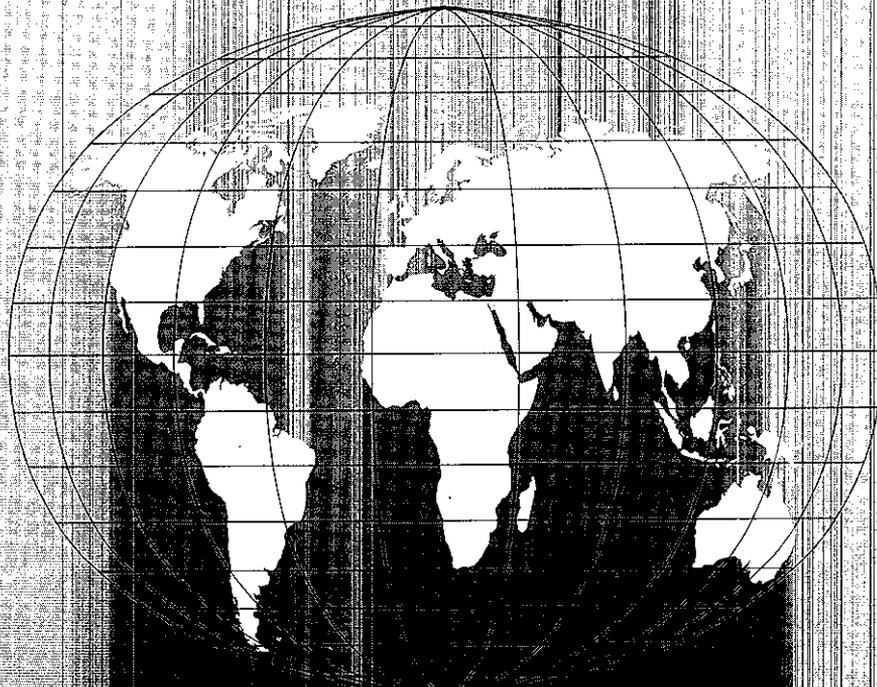
# Report of Audit

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## Audit of USAID Resources Managed by the Project Management Unit/Deloitte & Touche under the Emergency Recovery: Agriculture & Commercial Trade Program, Resettlement Grants Program for the Period October 2000 to June 30, 2001

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Report No. 4-656-02-002-N  
February 19, 2002



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contained in this report  
restriction of 18 USC  
considered before any  
to the public.

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REGIONAL  
OFFICE  
U.S. AGENCY

AMSTERDAM  
OFFICE  
DEVELOPMENT



Regional Inspector General  
Pretoria

February 19, 2002

**MEMORANDUM FOR MISSION DIRECTOR, USAID/MOZAMBIQUE**

**FROM:** Regional Inspector General/Pretoria, Joseph Fajrella

*Nancy J. Lawton, for*

**SUBJECT:** Agency-contracted Audit of USAID Resources Managed by the Project Management Unit/Deloitte and Touche under the Emergency Recovery: Agriculture and Commercial Trade Program (ER: ACT), Resettlement Grants Program for the period October 31, 2000 to June 30, 2001, Audit Report No. 4-656-02-002-N

Attached is a report from RIG/Pretoria of the subject audit performed by Sithole Inc., Chartered Accountants, Johannesburg, South Africa.

The audit report states that the audit was performed in accordance with generally accepted auditing standards, the U. S. Comptroller General's "Government Auditing Standards" and the USAID "Guidelines for Financial Audits Contracted by Foreign Recipients".

In August 2000, the U.S. Agency for International Development's (USAID) mission to Mozambique approved the Emergency Recovery: Agriculture and Commercial Trade Program, which granted funds to the Government of Mozambique. The program is composed of two major components, Economic Recovery and Emergency Mitigation. Management for the four Economic Recovery activities of a resettlement grants distribution, an inventory loan fund, a rural enterprise loan and the microfinance-matching grant was assigned to Deloitte and Touche (D&T). D&T established the Project Management Unit (PMU) to plan and implement the activities. The first activity performed was the resettlement grants distribution. The challenge was to distribute almost \$10 million in an orderly and efficient manner to more than 106,000 flood affected families. D&T/PMU claimed \$1,905,452 in costs incurred plus fees for this activity.

The overall audit objective of the engagement was to conduct a financial audit of all USAID resources used to manage and implement the Resettlement Grant Distribution Activity, i.e. the \$1,905,452.

The auditor's report on the fund accountability statement identified questioned ineligible costs for Value Added Tax (VAT) of \$1,093 and salaries of \$27,655. According to

*Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.*

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USAID/Mozambique, the contract will be amended to allow these salaries, but at this time they remain ineligible and, therefore, we are making a recommendation related to these costs.

**Recommendation No. 1: We recommend that USAID/Mozambique determine the allowability and collect from Deloitte & Touche, as appropriate, questioned ineligible costs totaling \$28,748 (\$1,093 for VAT and \$27,655 for salaries).**

Please respond within 30 days describing the actions taken or planned by USAID/Mozambique to address the above recommendations.

Attachments: a/s

**USAID Resources Managed by the Project  
Management Unit / Deloitte & Touche**

**AUDIT REPORT  
for period  
31 OCTOBER 2000 to 30 JUNE 2001**

Prepared by:

*Sithole* AB&T inc.  
CHARTERED ACCOUNTANTS (S.A.)

**PRIVATE AND CONFIDENTIAL**

*This report has been prepared for U.S. Agency for International Development (USAID) and  
Project Management Unit of Deloitte and Touche  
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*Sithole* AB&T inc.  
CHARTERED ACCOUNTANTS (S.A.)

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## TRANSMITTAL LETTER AND SUMMARY

Director USAID/Mozambique  
USAID/Mozambique  
Rua Faria de Sousa, 107  
Maputo, Mozambique

Dear Sir or Madam:

Audit of USAID Resources Managed by Deloitte & Touche  
Contract No. Contract 656-C-00-00066-00

We have completed our audit of the above grant for the period October 30, 2000 to June 30, 2001 and report as follow:

### Background

In August 2000, the U.S Agency for International Development (USAID), mission to Mozambique approved the Emergency Recovery: Agriculture and Commercial Trade Program, (ER: Act), which provided \$42.0 million in grant funds to the Government of Mozambique for emergency recovery action from the 2000 floods.

ER: ACT is composed of two major programs, an Economic Recovery Component and an Emergency Mitigation Component. The Economic Recovery activities, consisted of:

- Family Resettlement Grants
- Rural Enterprise Reconstruction Loan programs
- Inventory Credit (Merged into the above-mentioned activity)
- Micro-finance Grants (has been eliminated and the funds reprogrammed to other activities)

The management of these activities were contracted to Deloitte and Touche (D&T) under a direct reimbursable contract. Deloitte and Touche D&T established the Project Management Unit (PMU) with the primary responsibility to design an implementation system. The subject of this report is an audit of the \$10.0 million family resettlement grants program that has now been completed.

### Title

Audit of the USAID Resources Managed by the Project Management Unit/Deloitte & Touche under the Emergency Recovery: Agriculture and Commercial Trade Program (ER: ACT) Resettlement Grants Program for the period October 30, 2000 to June 30, 2001. Contract number 656-C-00-00066-00.

### Objectives

The objective of this engagement was to conduct a financial audit of all USAID resources used to managed and implement the Family Resettlement Grants program.

The financial audit of funds provided by USAID is performed in accordance with U.S. Government Auditing Standards, and accordingly include such tests of the accounting records as deemed necessary under these circumstances. The specific objectives of the audit of the USAID funds are to:

- Express an opinion on whether the Fund Accountability Statement for the USAID funded programs and projects present fairly, in all material respects, projects revenues received, cost incurred, and commodities/technical assistance directly procured by USAID in terms of the agreement and in conformity with generally accepted accounting practice or other comprehensive basis of accounting
- Evaluate and obtain a sufficient understanding of Deloitte & Touche PMU internal control structure related to the USAID funded programs and projects, assess control risk and identify reportable conditions, including material internal control weaknesses.
- Perform test to determine whether Deloitte & Touche/PMU has compiled, in all material respects, with agreement terms and applicable laws and regulations related to the USAID funded programs and projects.
- Perform test on a representative sample of the statistics compiled by the PMU to validate the recipient data reported by the PMU
- Perform an audit of the indirect cost rate if the recipient has been authorized to charge indirect cost to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient.

The audit was performed in accordance with generally accepted auditing standards, the U.S. Comptroller General's "Government Audit Standards" and the USAID " Guidelines for Financial Audits Contracted by Foreign Recipients". Accordingly, the audit included such tests of accounting records as deemed necessary under the circumstances.

The main focus of the audit was directed towards the internal control structure within the Deloitte & Touche/PMU, the validity with regards to the expenses incurred, as well as the controls implemented for the family resettlement grants distributions.

The volume of tests regarding the validity of expenses is set out as follows:

Total expenses incurred until 30 June 2001	\$1 905 451.66
Amount reimbursed by USAID	\$1 863 482.76
Percentage of expenses audited	100%

**The overall results of our audit procedures were satisfactory**

Included in this report are various areas audited as follows:

**Section B: Fund Accountability Statement**

This section includes the fund accountability statement, related notes and the report of the independent auditors.

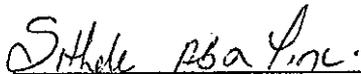
**Section C: Report of the independent auditor on the Internal Control Structure and validity of statistical information compiled by PMU**

**Section D: Report of the independent auditor on the Compliance of laws and agreements and regulations**

**Section E: Indirect Cost Rate**

This section includes the Indirect Cost Rate Schedule and the report of the independent auditors

We would like to thank Iris Macoo, Paula Ferreira, Carvalho Neves and all other members of staff of Deloitte & Touche for their kindly assistance throughout the audit.



**Sithole A B & T Inc.**  
**Registered Accountants and Auditors**  
**Chartered Accountants (SA)**

Section B

DELOITTE & TOUCHE/ PROJECT MANAGEMENT UNIT

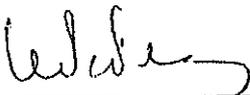
FUND ACCOUNTABILITY STATEMENT

31 OCTOBER 2000 TO 30 JUNE 2001

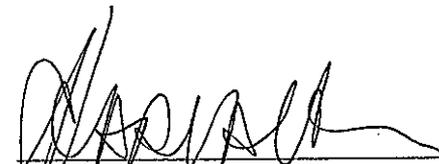
	BUDGET	ACTUAL	QUESTIONED COSTS		NOTES
			INELIGIBLE	UNSUPPORTED	
	\$	\$	\$	\$	
Revenue					
Grant No. 656-C-00-00-00006-00	2,934,264.16	1,863,482.76			3
Cost incurred	2,934,264.16	1,905,451.66			2
Equipment	68,700.00	185,618.54	1 093.37		7a
Salaries	802,440.50	553,199.86	27 655.00		7b
Travel and Transportation	1,041,108.07	485,295.06			
Supplies	37,500.00	28,290.06			
Other Direct Costs	236,300.00	147,905.34			
<i>Sub total</i>	<i>2,186,048.57</i>	<i>1,400,308.86</i>			
Indirect costs @ 60% of salaries	481,464.30	331,919.92			
<i>Sub total</i>	<i>2,667,512.87</i>	<i>1,732,228.78</i>			
Fee @ 10 %	266,751.29	173,222.88			
Surplus/(deficit)	0	(41,968.90)			6

CERTIFICATE OF APPROVAL

The Fund Accountability Statement as set out on this page is approved by the management of PMU and signed on their behalf by:



Managing Partner  
Maputo  
30 November 2001



Senior Project Manager  
Maputo  
30 November 2001

**PROJECT MANAGEMENT UNIT – DELOITTE & TOUCHE  
NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**1. BASIS OF ACCOUNTING**

The Fund Accountability Statement has been prepared on a cash basis of accounting.

**2. PROGRAM EXPENDITURE**

Program Expenditure represents expenses incurred by Deloitte & Touche and Austral Consultoria E Projectos, LDA and are presented in United State Dollars. The total expenditure is net of all disallowable expenses incurred for the project.

**3. REVENUE**

Revenue represents amounts reimbursed by USAID under the USAID ACT Program Management Unit Contract NO. 656-C-00-00066-00. The amount excluding all the disallowable expenses incurred for the project.

**4. ACCOUNTING RECORDS**

Project Management Unit set up by Deloitte & Touche kept all the accounting records and the supporting documentation.

**5. AMOUNT INVOICED**

The amount invoiced by Deloitte & Touche / Project Management Unit is made up as follows:

- Salaries
- Overheads at 60% of Salaries
- Reimbursable
- Fee at 10% of the above-mentioned costs

**6. SURPLUS/DEFICIT**

Surplus/deficit represents the amount disallowed by USAID on the amount invoiced.

**7. QUESTIONED COSTS**

- a. It is a common practice in South Africa that any person, who has a foreign passport and crosses a South African border with goods purchased of value over R200.00 inclusive of VAT, the VAT is refundable at the border gate. During the audit we discovered that USAID was invoiced of the total invoice amount inclusive of VAT.
- b. On examining the timesheets of the people contracted to the project under Deloitte & Touché, we found that there were no records kept that supported the hours spent by Eduardo Franca on project as the PMU accountant.

## INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

Project Management Unit  
Deloitte & Touche  
Av. Zedequias Manganhela, 95  
4 Andar  
Maputo, Mozambique

We have audited the fund accountability statement of Deloitte & Touche – Project Management Unit (PMU) for period from October 31,2000 to June 30,2001. The Fund Accountability Statement is the responsibility of PMU's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

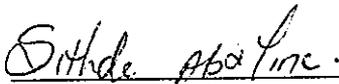
### Scope

We have conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards 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 audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the period ended in accordance with the terms of agreements and in conformity with basis of accounting in note 1 of notes to Fund Accountability Statement.

This report is intended for the information of PMU and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

  
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Sithole A B & T Inc.  
Registered Accountants and Auditors  
Chartered Accountants (SA)

## Section C

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS STRUCTURE

Paula Ferreira  
Managing Partner  
Deloitte & Touche  
Av. Zedequias Manganhela, 95  
4 Andar  
Maputo, Mozambique

We have audited the fund accountability statement of Deloitte & Touché for the period October 31, 2000 to June 30, 2001, and have issued our report thereon dated November 30, 2001.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Controller 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 misstatements.

The management of Deloitte & Touché is responsible for establishing and maintaining an internal control structure and validating of statistical information compiled by PMU. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

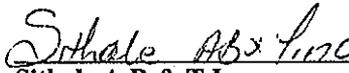
- The assets are safeguarded against loss from unauthorized use or disposition
- Transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements
- And transactions are properly recorded to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 1 to notes to the Fund Accountability Statement.
- Statistical information compiled by PMU is valid

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection 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.

Our consideration of the internal control structure would not necessarily disclosed all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). A material weakness is a reportable condition in which the design or operation of one or more 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 and the cost sharing schedule may occur and not be detected within timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. We also noted no matters involving the validity of statistical information compiled by PMU that we consider to be materially inaccurate and invalid.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Deloitte & Touché/PMU in Section F of this report.

This report is intended for the information of Deloitte & Touché and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

  
Sithole A B & T Inc.  
Registered Accountants and Auditors  
Chartered Accountants (SA)

Section D

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

Paula Ferreira  
Managing Partner  
Deloitte & Touche  
Av. Zedequias Manganhela, 95  
4 Andar  
Maputo, Mozambique

We have audited the Fund Accountability Statement of Deloitte & Touche for the period October 30, 2000 to June 30, 2001 and have issued our report thereon dated November 30, 2001.

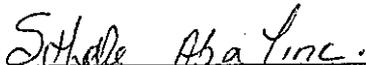
We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to Deloitte & Touche is the responsibility of Deloitte & Touche's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of Deloitte & Touche compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material non-compliance that are required to be reported herein under U.S Government Auditing Standards.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Deloitte & Touche/PMU in Section F of this report.

This report is intended for the information of Deloitte & Touche/PMU and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

  
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Sithole A B & T Inc.  
Registered Accountants and Auditors  
Chartered Accountants (SA)

Section E

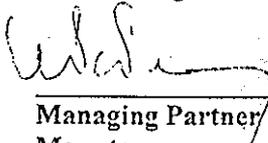
PROJECT MANAGEMENT UNIT – DELOITTE AND TOUCHE  
SCHEDULE OF COMPUTATION OF INDIRECT COST RATE

FOR THE PERIOD MAY, 2000 TO JUNE, 2001

Description	Expenses	Exclusions/ Unallowable Expenses	Direct Cost Base	Other Direct Costs	Indirect
	000' MTS	000' MTS	000' MTS	000' MTS	000' MTS
Salaries Admin	1,296,845				1,296,845
Salaries Accounting	518,308		124,291		394,017
Salaries Audit	6,807,252		4,076,993		2,730,259
Salaries Consulting	1,263,083		505,233		757,850
Salaries Tax	1,598,596		415,635		1,182,961
Salaries PMU	8,557,527		8,557,527		0
Employee Benefits	61,513				61,513
Professional Training	206,350				206,350
Water and Electricity	34,916				34,916
Tools and Utensils	225,196				225,196
Technical Assistance	9,345,687			9,345,687	0
Repairs & Maintenance	64,520				61,513
Communication	274,292				206,350
Bank Charges and Interest	610,538				34,916
Depreciation	365,300				225,196
Rentals Leasing	765,937			68,435	697,502
Insurance	361,565				361,565
Per diem and Travel	139,562				139,562
Representative Expenses	17,102	17,102			0
Other expenses	185,709				185,709
<b>Total</b>	<b>32,699,798</b>	<b>17,102</b>	<b>13,679,679</b>	<b>9,414,122</b>	<b>9,588,895</b>
Indirect Cost Rate		<u>9,588,895</u>	<u>70.10%</u>		
		13,679,679			

**CERTIFICATE OF APPROVAL**

The Computation of the indirect cost rate schedule as set out on this page is approved by the management of PMU and signed on their behalf by:



Managing Partner

Maputo

30 November 2001

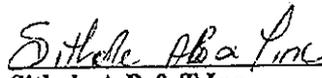
## Report on Schedule of Computation of Indirect Cost Rate

**Project Management Unit  
Deloitte and Touche  
Av. Zedequias Manganhela, 95  
4 Andar  
Maputo, Mozambique**

Our audit was made for the purpose of forming an opinion on the **Deloitte and Touche** financial records taken as a whole. The schedule of computation of indirect cost rate contained on page 11 is presented for purpose of additional; analysis and is not a required part of the financial records. Such information has been subject to the auditing procedures applied in the audit of the **Deloitte and Touche** financial records and, in our opinion, are fairly stated in all material respects in relation to the **Deloitte and Touche** financial records taken as whole.

Without qualifying our opinion above, we draw attention to the fact that:

- All indirect cost incurred by Deloitte & Touche/PMU for the project were included in the payment vouchers and were reimbursed by USAID.
- The majority of people involved in the project were contracted by Austral Consultoria e Projectos Lda.
- All the indirect cost reimbursed were included in Computation of the Indirect Cost Rate.

  
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**Sithole A B & T Inc.**  
**Registered Accountants and Auditors**  
**Chartered Accountants (SA)**

**SECTION F**

**MANAGEMENT LETTER TO MEMBERS OF  
DELOITTE AND TOUCHE/PMU**

Section F

**MANAGEMENT LETTER TO THE MEMBERS OF DELOITTE & TOUCHÉ**

The audit was conducted in accordance with the guidelines stipulated in the "Guidelines for financial audits contracted by foreign recipients" as issued by the office of the Inspector General.

In conducting the audit we came to the conclusion that the internal control structure, namely the budget control system, which was designed by Deloitte & Touché and implemented throughout the duration of the project does justify the expression of an unqualified audit opinion. We would like to refer you to Section C, for our opinion on the internal control and validity of statistical information compiled by PMU. The following non-material weaknesses discovered during our performance of the audit procedures.

- 1. Audit Finding:** Lack of segregation of the duties of accountant and office manager during January.

On inspection of the payment vouchers for the month of January 2001, we noticed that Luis Jamo instead of Jose Carreira performed the function of the office manager during that month. Luis Jamo throughout the project was rendering his service as an accountant for 40 hours per month, instead of Eduardo Franca, who was supposed to performed this function

**Recommendation:**

The employees should perform duties as specified in their employment contracts. There should be segregation of duties on specific functions to avoid collusion and misappropriation of funds.

**Management Comment:**

*The Office Manager was Mr. Rui Teodoro and not Mr. Jose Carreira. Mr. Teodoro's functions were ceased in January when we learned that the Ministry of Labour did not approve his contract. The Ministry of Labour reviewed positively its decision and approved the contract in February, and Mr. Teodoro was re-admitted. Therefore, this was a very temporary short-term situation, which was dealt with swiftly when considering the difficulties related with hiring expatriates in Mozambique.*

2. **Audit Finding:** Damaged and stolen vehicles (Refer to PV 009/APR/2001 & PV 016/APR/2001)

There were no control put in place to safeguard the assets, which were entrusted to peoples involved in the project this led to the loss of one vehicle. Also Deloitte & Touché incurred other unnecessary expenses due to repairs of damages to rented vehicles

**Recommendation:**

Management should have ensured that people using the assets belonging to the project carry the responsibility of any damages. Management should implement a logbook for vehicles; this logbook should be used to state the condition of vehicles at departure and return. This logbook should be checked and signed by Logistic manager and the driver.

**Management Comment:**

*Please consider the situation of the roads in rural areas as well as the fact that drivers do not have financial/assets capacity for assuming broader insurance risks. The vehicles were rented out, and insurance coverage was ensured and paid for. Costs derived from the few accidents that occurred were covered to the maximum by the insurance. We would welcome recommendations on how to safeguard more the assets.*

3. **Audit Finding:** Failure to allocate expenses incurred to their respective account codes

On inspection of payment vouchers, it came to our attention that some of the transactions were not allocated accounting code. As a result we initially experience difficulties in obtaining supporting documents. But this problem was subsequently resolved.

**Recommendation:**

When reviewing the payment vouchers, management should ensure that all the transactions are allocated to correct code.

**Management Comment:**

*In May 01 it was detected that some expenditures were not classified or were incorrectly classified per budget line. During the month of June, a thorough review of all expenditures since project start was done. In this exercise all documents were reviewed, their budget classification confirmed and corrections were introduced in the registers. This was submitted to the USAID and adjustments agreed upon and made. The auditors were informed of this exercise and the detailed process of all adjustments made per document was made available for consultation.*

4. **Audit Finding:** Absence of a level of control over the hiring and use of motor vehicles

Management failed to put in place a system of controls over hiring and use of motor vehicle, even though the project involved a lot of travelling. "Coordinators" were responsible for hiring of motor vehicle instead of the Logistic Assistant. In January 2001 there was an attempt to introduce the system of travel authorization but it was already too late.

**Recommendation:**

The Logistic Assistant was supposed to be the responsible for carry out the function of hiring of motor vehicles.

**Management Comment:**

*A PMU letterhead signed by the Logistic Assistant always initiated all car-hiring operations. In the case of car hiring outside Maputo, the car was taken by the head of that specific mission who signed the relevant documentation. All expenses related with car hiring were reviewed when later submitted by the car rental company, and paid only after approval, as per expenses approval system.*

*In terms of travel authorization it should be considered that the (very) detailed work plans for each operation were prepared with the relevant mission members, and authorized and ordered by the PMU Coordinator. These plans were then handed over to the Logistic Assistant for implementation.*

5. **Audit Finding:** Treatment of VAT refundable for goods bought in South Africa

As it is a common practice in South Africa whereby any person, who is having a foreign passport and crosses the South African border with goods purchased of value over R200.00 inclusive of VAT, may have the Vat refunded at the border gate. During the audit we discovered that USAID was invoiced amounts inclusive of this VAT.

Purchaser	Payment Voucher #	Rand Value Inclusive	VAT (Rand)	VAT (US\$)
Dra Celia Meneses	026/SEP/2000	900.20	110.55	18.43
Dra Celia Meneses	013/SEP/2000	1 759.35	216.06	30.87
Jose Carreira	032/NOV/2000	1 780.00	218.60	30.07
Lawrence Iannucci	003/NOV/2000	4 644.62	570.39	77.39
Austral	031/OCT/2000	7 053.97	866.27	119.82
Austral	022/DEC/2000	27 920.84	3 908.92	570.64
Carvalho Neves	011/MAR/2001	1 912.92	267.81	35.38
Charmaine Vedova	006/APR/2001	13 042.95	1 601.82	210.77
				1 093.37

**Recommendation:**

Invoices to USAID should always be exclusive of VAT.

**Management Comment:**

*Agreed.*

6. **Audit Finding:** Inconsistency in recognising of salary expenses in the financial records

The budgeted and actual salaries for the people contracted to the project were recorded differently. For all people who were employed under Deloitte & Touché, their salaries were recorded and reimbursed by USAID net of employee's tax and for all those employed by Austral their salaries were gross of employee's tax.

**Recommendation:**

Salaries reimbursable by USAID were supposed to be gross salaries and the tax collected by Deloitte & Touché and Austral on behalf of the Mozambican government and paid over to them. This was only done by Austral for the team.

**Management Comment:**

*This problem was already identified and the claim was made to USAID and reimbursed. Evidence of this claim were made available to the auditors*

7. **Audit Finding:** Outsourcing of the project to a third party without written agreement or set rules

During the audit we became aware that the project was run by two organizations, namely Austral and Deloitte & Touché. The majority of people working for the project were employed by Austral, but there was no written contract or rules which were agreed upon by both parties, except that Austral will get 7% of the fee and Deloitte & Touché will receive 3% of the fees.

**Recommendation:**

Deloitte & Touché should have entered into a written agreement with Austral. The agreement was supposed to contain most of the key agreement contained in the contract between USAID and Deloitte & Touché.

**Management Comment:**

*Deloitte & Touche has entered jointly in several projects with Austral, although this was the first project with USAID funding. A trust relationship has therefore developed during the past years, and rules have been put into practice. It is true, however, that it was felt that a formal signed agreement should exist for this particular case. In fact, an agreement has been drafted and finalized (establishing rules, including but not limited to the split of the fees), but never signed. Legally speaking, therefore, Deloitte & Touche was the sole contractor and assumed the responsibility for the management of the project, including inputs made by Austral. This situation was discussed openly and clearly with the USAID since inception. Most of the meetings were tripartite: USAID/Deloitte & Touche/Austral, as can be seen in the minutes.*

8. **Audit Finding:** Lack of authorization by senior member on the payment vouchers

There is no evidence that some of the payment vouchers sent to USAID for reimbursement were reviewed by either Paula Ferreira nor Carvalho Neves for validity or completeness, e.g.

Payment Voucher #	Date	Amount
027/SEP/2000	29/09/2000	\$ 3 191.12
026/SEP/2000	29/09/2000	\$ 147.25
004/SEP/2000	14/09/2000	\$ 1 000.00
002/OCT/2000	02/10/2000	\$ 842.61
018/DEC/2000	21/12/2000	\$ 6 600.00
004/JAN/2001	01/01/2001	\$ 1 140.00
024/JAN/2001	24/01/2001	\$ 106.48
016/JAN/2001	17/01/2001	\$ 2 093.72
012/JAN/2001	08/01/2001	\$ 59.32
012/MAR/2001	15/03/2001	\$ 261.00
008/MAR/2001	14/03/2001	\$ 934.00
006/MAR/2001	14/03/2001	\$12 858.00

**Recommendation:**

All payment vouchers should be reconciled to the supporting documentation and reviewed by both Paula Ferreira and Carvalho Neves before they can be forwarded to USAID for reimbursement.

**Management Comment:**

*Both Paula Ferreira and Carvalho Neves reviewed all payment vouchers. The original vouchers sent to USAID were signed. As we have 2 copies, one at the Accounting Department and other at PMU, sometimes one of them fails to be signed. However, the other copy could be taken as signed.*

9. **Audit Finding:** Failure to reconcile the expense incurred on fuel and the distance travelled.

The Deloitte & Touché/PMU reconciliation of the fuel consumption has no record of the distance travelled by the hired motor vehicle. When we went through the suppliers' invoices for fuel consumption, we observed that certain hired vehicles were refuelled on daily base and other invoices for fuel purchased do not have the registration number of the vehicle.

**Recommendation:**

In future a record must be kept of the amount of fuel purchased and the distance travelled, before the vehicle is returned to the hiring company. The total kilometres travelled must be reconciled to the volume of fuel consumption as per the amount purchased.

**Management Comment:**

*All vehicles had a mileage sheet. The head of the specific mission, usually the Regional Coordinator, authorized refuelling. Reconciliation of mileage and fuel consumption was not practical, if ineffective, considering that:*

- *Mileage is only verifiable by those travelling, considering the road conditions in Mozambique;*
- *Refuelling has to take place wherever a petrol station with fuel is found, due to poor fuel and unreliable network distribution, especially in the rural areas.*

10. **Audit Finding:** Inconsistency in the translation of foreign currency

We were unable to conclude on the exchange rate used to translate the foreign currency into U.S. Dollars on the payment vouchers, because of the following:

- Jose Carreira, the office manager who was responsible for the conversion of foreign currency into U.S. dollars has left the project.
- For certain transaction they used the exchange rate applicable on the day the money was advanced to the coordinators or Core team members.
- For certain transaction they used the exchange rate when the expense was incurred.
- For certain transaction they used they exchange rate applicable when they payment voucher was prepared.

**Recommendation:**

All payment vouchers should be translated at date of the invoice, this will prevent the holding of the payment of the invoice to gain or loss on foreign exchange.

**Management Comment:**

*Mr. Jose Carreira was not in charge of converting expenses in terms of currencies. This was done by Mr. Rui Teodoro who compiled the rates of exchanges for the relevant currencies on a daily basis.*

*As per international practice, currency conversion takes place at the time of payment, which is the date of payment in cash or date of issuing the cheque, this also applies to advance payments. This principle was adopted for this project. The date of the exchange rate could only coincide with the date of the payment voucher if that was also the date of payment, which very often happened.*

11. **Audit Finding:** Salary paid out to PMU Accountant, Eduardo Franca without proof that he is the one who performed the function of the accountant.

Our review of timesheets of the people contracted to the project under Deloitte & Touché, revealed that there were no records kept which supported the hours spent by Eduardo Franca on project as the PMU accountant. The following peoples' hours were kept:

Period	Hours spent by Juis Jamo on the project	Hours spent by Margarida Sambo on the project	Hours spent by Paula Ferreira on the project
September 2000	40	30	40
October 2000	45	35	57
November 2000	28	38	32
December 2000	25	25	24
January 2001	45	40	25
February 2001	30	54	40
March 2001	87	20	16
April 2001	55	18	60
May 2001	40	40	24
June 2001	40	40	80
<b>TOTAL HOURS</b>	<b>435</b>	<b>340</b>	<b>398</b>
<b>SALARY TO BE PAID OUT FOR THE PERIOD SEPTEMBER 2000 TO APRIL 2001</b>	<b>\$3 195.00</b>	<b>\$1 560.00</b>	

**Recommendation:**

The salaries paid out to Eduardo Franca must be disallowed and the following salaries as written above paid out:

Margarida Sambo: Was paid \$240.00 per month for the month of May and June for 40 hours spent on the project per month. Hence for the period September 2000 to April 2001 salary of  $[(340\text{hrs}-80\text{hrs}) * \$240.00 / 40\text{hrs}] = \$1\ 560$

Luis Jamo: Was paid \$360.00 per month for the month of May and June for 40 hours spent on the project per month. Hence for the period September 2000 to April 2001 salary of  $[(435\text{hrs} - 80\text{hrs}) * \$360/40\text{hrs}] = \$3\ 195$  must be paid out.

Paula Ferreira: We were unable to quantify the salary to be paid out to her, because at no stage during the period under audit was a salary was paid to her.

Eduardo Franca: Salary to the amount of \$27 655.00 for the period September 2000 to April 2001 should be disallowed as costs for the project.

**Management comment:**

*The salary claims for Mr. Eduardo Franca were disallowed by the USAID already in March. As per meetings with the USAID, this was corrected by submitting a special invoice – which was given to the auditors. In terms of salaries, please check Biographical Data Sheets required for every individual that is included in an invoice payable by the USAID.*

**Auditors' comments**

The documents were subsequently verified that the salary claims for Mr Eduardo Franca was disallowed by USAID.

12. **Audit Finding:** Timesheet not kept for monitors, field works, drivers and other core member of the project, namely Larry Iannucci, Jose Carreira etc.

For certain members working for the project, records were not kept of the time spent by them on the project. We were unable to agree the salaries/wages paid to those members to the time spent on the project.

**Recommendation:**

Timesheet must be kept for people employed on the project.

**Management comment:**

*It was agreed with the USAID that all those individuals that work regularly on a full time basis do not need to submit timesheets. That was the case with monitors, field workers, drivers (most from Wackenhut) and Larry Iannucci. Please consider the disallowances made by USAID when timesheets are required but not submitted with the invoice.*

13. **Audit Finding:** Tomanine – Giaja

- (i) The Implementation list was signed by the PC (Program Committee) that is the Minister as well as the representative of the USAID. Both the members of the PMU and the bank for the following regions did not sign the distribution list.

Area	District	Locality
Tomanine	Guija	Tomanine B4
Tomanine	Guija	Tomanine B5

- (ii) The following differences with regard to the reconciliation of the distribution list occurred.

Verified beneficiaries per distribution list	1 624
Verified beneficiaries per distribution recon	1 547
Difference	77

The difference of 77 was supposed to be recorded as unissued cheques in the reconciliation statement but it was never recorded.

**Management comment:**

- (i) *Following the Distribution process the PMU, jointly with representatives of BCI, once again reconciled all lists to ensure that no blank spaces were present. During the distribution process two systems of safe guards were in place in relation to closing the lists. The Distribution Lists were signed in two areas by the appropriate field staff (four in total). Signatures were required along designated blank lines in addition to the upper right hand corner, which included illustrating the final results of the particular list. The lists highlighted under numbers 13, 15, 16 and 18 were found to be complete in at least one of the two safe guard systems created by the PMU. Where necessary blanks were rectified by the PMU in consultation with BCI lists and copies of the BCI lists were made available to PMU.*
- (ii) *The original number of beneficiaries targeted for the distribution in Tomanine included 77 families listed under Bairro B. During the pre-advisory stage, 3 days prior to the actual distribution, it was discovered that the families registered under Bairro B were those registered under Chuvucane Bairro E. The decrease in targeted beneficiaries from 1,624 to 1,547 was calculated prior to the distribution day hence the 77 family difference (those repeated in Bairro B) was not represented as unissued checks in the reconciliation statement but rather as a decrease in the overall projected number for the distribution point.*

14. **Audit Finding:** Canizado

The PMU member did not sign the second page of the distribution reconciliation.

**Management comment:**

*Palmira Bila on the second page signed the reconciliation statement although it is difficult to see as her initials (PB) appear slightly outside of the designated boxes.*

15. **Audit Finding:** only one member of the bank signed Distribution list for this area.

Province	Region	Area
Gaza	Chaimite Sede	Ngungunyane Zona
Gaza	Mucambene	Macambene B2
Maputo	Magude	Tchovete-Chichaci
Sofala	Buzi	Nhamatupo
Inhambane	Maxixe	Chicunque
Inhambane	Maxixe	Bairro-Macuamene
Inhambane	Panda	Inhassune
Inhambane	Inhambane Cidade	Liberdade

**Management comment:**

*Please refer to the explanation provided in the management Comments space under Question 13. It should be noted that the lack of signatures by bank individuals on the reconciliation lists in possession of the PMU was due to the fact that often only one bank representative was present at a distribution site or throughout a distribution operation. Also the bank representatives on several occasions left with the helicopters back to the base (Beira, Vilankulos, Chimoio, etc) after reconciling their lists, which were always signed by the PMU representative. A copy of the bank lists was solicited by PMU in order compile complete files at the PMU office.*

16. **Audit Finding:** None of the bank representatives actually signed the distribution list for the following areas.

Province	Region	Area
Sofala	Estaquina	Inhajoou
Sofala	Estaquina	Mussaradje
Sofala	Estaquina	Mauire - Nhamboa
Sofala	Grudja-Inhamachido	Inhamachido
Sofala	Grudja-Inhamachido	Bopira VI
Sofala	Grudja-Inhamachido	Bopira V
Sofala	Grudja-Inhamachido	Bopira IV
Sofala	Grudja-Inhamachido	Mapsinda
Sofala	Grudja-Inhamachido	Nhamatupo
Manica	Mossurize-Dacata	Moanga
Manica	Mossurize-Dacata	Matete

**Management comment:**

*Please refer to the explanation provided in the management Comments space under Question 13. It should be noted that the lack of signatures by bank individuals on the reconciliation lists in possession of the PMU was due to the fact that often only one bank representative was present at a distribution site. Additionally the bank representatives on several occasions left with the helicopters back to the base (Beira, Vilankulos, Chimoio, etc) after reconciling their lists, which were always signed by the PMU representative. A copy of the bank lists was solicited by PMU in order compile complete files at the PMU office.*

17. **Audit Finding:** Page 1 & 2 of the distribution list for Chaimite sede in Southern Gaza province was signed by different PMU representative.

**Management comment:**

*The list includes the supervisors, Michele Gross, signature in the two designated areas hence validating the results. When necessary, for example if an individual was required to return to base and was not present during reconciliation, the supervisor assumed a role in the reconciliation process. The individual who received and worked with the list was required to place their name on the appropriate blank of the distribution list whether they were present at reconciliation or not.*

18. Audit Finding: only one PMU member signed the distribution lists for the following areas.

Province	Region	Area
Gaza	Alto Changane	Catlene
Gaza	Alto Changane	Nhatlololo
Gaza	Mavue/Sketo	Macambene B3
Maputo	Magude	Pontia
Maputo	Magude	Manguingane
Sofala	Chibabava	Mudala
Manica	Dombe	Sambanhê sede

Management comment:

*Please refer to the explanation provided under Question 13.*

19. Audit Finding: The reconciliation sheet and the distribution list of Gaza-Khekhe do agree to each other however the list that is labelled the results of the distribution does not agree with other sheets.

Beneficiaries verified per the reconciliation	1 131
Beneficiaries verified per the distr. Results	1 097
Difference	34

Management comment:

*Approved targeted beneficiaries included 1,131 families. Checks were issued on the day of distribution for this amount. It was discovered, as can be verified on the Nhanale 4B, during distribution that the list was not properly enumerated. The list began with number 35 and ended with 83 (the total number used when calculating beneficiaries was 83). Therefore the total number of targeted beneficiaries included 34 families, which did not exist. The difference of 1,131 represented on the reconciliation sheet and 1097 recorded on the Distribution Results Sheet reflects the change in numeration of the list for Nhanale 4B (34 less families). (1,131 targeted beneficiaries – 34 fictitious targeted beneficiaries = 1,097 targeted beneficiaries of which 1,050 received assistance).*

20. **Audit Finding:** Gaza

Due to incorrect numbering in the Muteto village, the numbers of cheques were added by 27. These 27 cheques were meant to be for Sketo since payment was cancelled on that date.

**Management comment:**

*Once again the list for Muteto was incorrectly enumerated starting over with number 1 following number 44. The situation created a shortage of checks at the distribution point. Due to the fact that the Sketo distribution, scheduled for the same day and checks issued to PMU, was unable to take place the checks for Sketo were transferred to the Mabondzo distribution site to rectify the problem of shortage due to incorrect enumeration. This is justified in the reconciliation statements for both Sketo and Mabondzo. Checks issued for Sketo were 351, returned were 324 representing a difference of 27. At Mabondzo 636 checks were issued and there were 663 beneficiaries representing an increase of 27 over the targeted number. This is explained in the observation boxes of both reconciliation sheets.*

21. **Audit Finding:** In Maputo – Mudongo region beneficiary number 51 on the list never actually cashed the cheque, he just took it and went away.

**Management comment:**

*This phenomenon occurred more than one time throughout the 5-month distribution process. The situation could not be controlled nor rectified by the PMU or the bank representatives. A note was included in the observation box of the reconciliation sheet and the check was subsequently cancelled by BCI as referred to in a letter dated 3-9-2001 received by PMU.*

22. **Audit Finding:** In the Pazimane region at Maputo province the signature of one province was tippexed.

**Management comment:**

*The lists contain the signatures of those responsible for completing designated work. Signatures required along the blanks and in the upper right hand corner are present. The tippexed signature was replaced by the Grants Coordinators signature based on the reconciliation process with the bank representatives conducted recently by the PMU as referred to in the Comments section of Question 13*

23. **Audit Finding:** Grudja – Sede

Cheque No. 898884 was never cashed; as person given the cheque just took it away.

**Management comment:**

*Refer to the explanation provided in the Comments section under Question 22. This occurrence was once again documented and can be seen in the observation box of the reconciliation sheet. As previously mentioned this was out of the control of the PMU and bank representatives.*

24. **Audit Finding:** Sofala - Machanga

Both the bank representative and the PMU have not signed the distribution list for this region. Reconciliation for the distribution list has not been done. There were no voucher numbers in the distribution list, there was nothing to show that the people had received payment.

**Management comment:**

*The comments referring to Machanga are extremely generalized. Machanga is a District, within the Province of Sofala, where 6,340 beneficiaries were assisted at nine distribution points over a seven-day period. Therefore to say that the distribution lists were not signed, no voucher numbers were present, etc. makes confirming the ascertainment nearly impossible. If specific questions are directed towards the PMU the information can be sought out and the misunderstanding rectified.*

*PMU attempted to reconfirm the generalized statements although the single file documenting the distribution proceedings within the District of Machanga was unable to be located in the offices of the PMU and Deloitte and Touche. The disappearance of the file has been documented and Sithole AB&T have been requested to respond as to the whereabouts of the file.*

*Once again, if more direct questions can be posed PMU would be able to provide the information based upon the records kept at BCI.*

**Auditor's comment**

With regards to the missing file, we would like to draw to your attention that nothing came to our attention indicated that the PMU could not account for the distribution and that we would be justified in qualifying our report.

25. **Audit Finding:** Inhambane

In the Mabote district, the Covane list had 2 number 139's. Therefore the total number of names is 402 and the number of beneficiaries is 373. However the numbers of issued cheques were 374 instead of 375.

**Management comment:**

*The final number of beneficiaries was registered as 374 not the original 373 targeted once again due to improper enumeration. This is referred to in the observation box of the reconciliation sheet. Despite this the final statistics recorded by the PMU and the bank do not reflect the additional beneficiary.*

26. **Audit Finding:** In the Panda/Inharimme district 390 cheques were issued and according to the verification list there were 389 beneficiaries.

**Management comment:**

*The verification list was not properly enumerated. Two individuals with the number 212 appear on the list therefore the final number of targeted beneficiaries was 390 as opposed to 389.*