

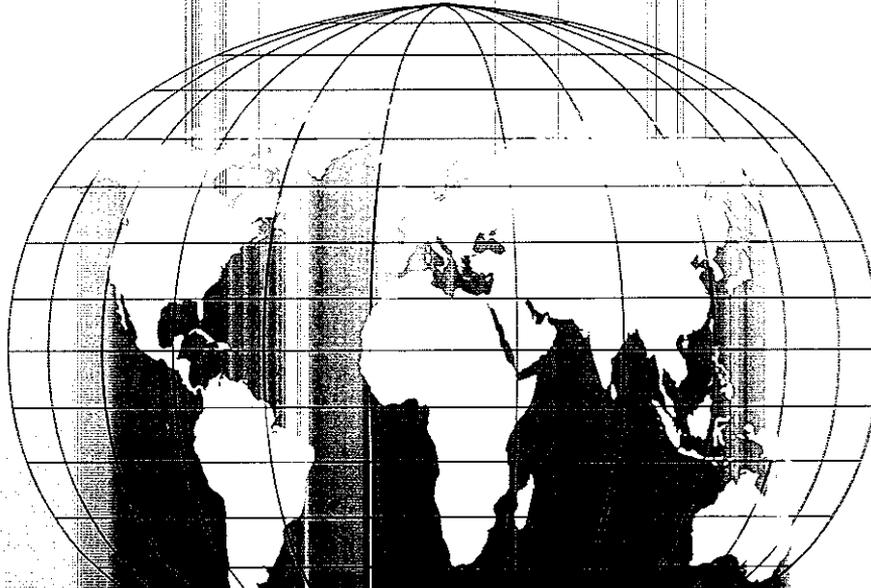
# Report of Audit

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## Concurrent Agency-contracted Audit of USAID/Mozambique's Resources Managed by Black & Veatch International under IRIP Post Emergency Project 656-0251 for the Period October 31, 2000 to September 30, 2001

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Report No. 4-656-02-004-N  
April 30, 2002



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

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REGIONAL OFFICE OF THE  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
LUSAKA, ZAMBIA



Regional Inspector General  
Pretoria

April 30, 2002

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

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

**SUBJECT:** Concurrent Agency-contracted Audit of USAID/Mozambique's Resources Managed by Black & Veatch International under IRIP Post Emergency Project 656-0251 for the period from October 31, 2000 to September 30, 2001, Audit Report No. 4-656-02-004-N

Attached is a report of the subject audit performed by Sithole A B & T Inc., Chartered Accountants, Johannesburg, South Africa.

The report was prepared in accordance with generally accepted auditing standards and the U.S. Government Auditing Standards issued by the Comptroller General of the United States.

In September 2000, the U.S. Agency for International Development (USAID), mission to Mozambique approved the Emergency Road: Building and Support Effort (ER: BASE), funds under USAID Project Number 656-0251 entitled IRIP Post Emergency Project to assist the Government of Mozambique with emergency recovery action from the Year 2000 floods. The project provided \$34 million to the Government of Mozambique for specific road construction. These activities were contracted to Black & Veatch International under a direct reimbursable management Contract No. 656-C-00-01-00002-00.

The primary responsibility of Black & Veatch International was to design the plan for and supervise the reconstruction of the EN205, EN208 and EN211 roads and the rehabilitation of the Save River Bridge. The scope of work for the design included the preparation of the tender documents for the reconstruction of these roads and bridge.

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The overall audit objective was to perform a financial audit of the USAID Resources managed by Black & Veatch under IRIP Post Emergency Project 656-0251 for the period from October 31, 2000 to September 30, 2001, for USAID funds of \$339,481. Specifically, the objectives were to:

- express an opinion on whether the Fund Accountability Statement for the USAID funded programs and projects present fairly, in all material respects, project revenues received, costs 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 understating of the Black & Veatch International internal control structure related to the USAID funded programs and projects, assess control risk and identify reportable conditions, including material internal controls weaknesses.
- perform tests to determine whether Black & Veatch International has complied, in all material respects, with agreement terms and applicable laws and regulations related to the USAID funded programs and projects.
- perform an audit of the indirect cost rate if the foreign recipient has been authorized to charge indirect cost to USAID using provisional rates and USAID has not yet negotiated final rates with the foreign recipient.

The auditor's report on the fund accountability statement identified questioned ineligible costs of \$3,000 and questioned unsupported costs totaling \$80,325. The majority of these questioned unsupported costs pertained to the calculation of the indirect cost rate. Specifically, there were no back-up calculations of how the indirect cost rate was determined. Therefore, we are making the following recommendations:

**Recommendation No. 1: We recommend that USAID/Mozambique determine the allowability and collect, as appropriate, questioned ineligible costs of \$3,000 from the Black & Veatch International.**

**Recommendation No. 2: We recommend that USAID/Mozambique determine the allowability and collect, as appropriate, questioned unsupported costs totaling \$80,325 from the Black & Veatch International.**

In addition, the auditors identified certain matters involving the internal control structure that were reported in a management letter.

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

Attachments: a/s

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**USAID Resources Managed by  
Black & Veatch International**

**AUDIT REPORT  
30 SEPTEMBER 2001**

Prepared by:

*Sithole* AB&T inc.  

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CHARTERED ACCOUNTANTS (S.A)

**PRIVATE AND CONFIDENTIAL**

*This report has been prepared for U.S. Agency for International Development (USAID) and  
Black & Veatch International*

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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 Black & Veatch International  
Contract No. Contract 656-C-00-01-00002-00

We have completed our audit of the above grant for the period October 31, 2000 to September 30, 2001 and report as follows:

### **Background**

In September 2000, the U.S Agency for International Development (USAID), mission to Mozambique approved the Emergency Road: Building and Support Effort (ER: BASE), funds under USAID project Number 656-0251-00 entitled IRIP Post Emergency Project to assist the Government of Mozambique for emergency recovery action from the 2000 floods. The project provided \$34.0 million to Government of Mozambique for the specific road reconstruction.

ER: BASE is composed of

- Design phase
- Tender phase and
- Reconstruction phase.

These activities were contracted to Black & Veatch International under a direct reimbursable management contract.

The primary responsibility of Black and Veatch International was to design the plan for, supervise the reconstruction of the EN205, EN208 and ER211 roads and the rehabilitation of the Save River Bridge. The scope of work for the design included the preparation of the tender documents for the reconstruction of these roads and bridge.

### **Title**

Audit of the USAID Resources Managed by Black & Veatch International under the Emergency Road: Building and Support Effort (ER BASE)  
Program for the period October 30, 2000 to September 30, 2001. Contract number 656-C-00-01-00002-00.

### **Objectives**

The objective of this engagement was to conduct a financial audit of the USAID resources.

The purpose of financial audit is an audit of all recipient's USAID-funded programs. 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 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 presents 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 understating of Black & Veatch International internal control structure related to the USAID funded programs and projects, assess control risk and identify reportable conditions, including material internal controls weaknesses.
- Perform test to determine whether Black & Veatch International has complied, in all material respects, with agreement terms and applicable laws and regulations related to the USAID funded programs and projects and express positive assurance on those items tested and negative assurance on those items not tested.
- 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 audit 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 volume of tests regarding the validity of expenses is set out as follows:

Total expenses incurred until 30 September 2001 (FAS) excluding indirect cost	\$ 232,188.37
Amount reimbursed by USAID	\$ 339,480.84
Percentage of expenses audited	100%

The results of our audit procedures were satisfactory and 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**

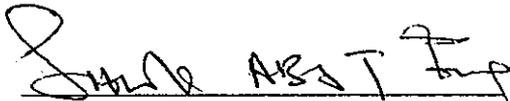
**Section D: Report of the independent auditor on the Compliance of laws and agreements and regulations**

**Section E: Indirect Cost Rate**

This section includes the report of the independent auditors

**Section F: Management Letter to the Members of Black & Veatch International**

We would like to thank Val Morgan and Mahadivha Gopinath for their kindly assistance throughout the audit.



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

28 February 2002

Section B

BLACK & VEATCH INTERNATIONAL

FUND ACCOUNTABILITY STATEMENT

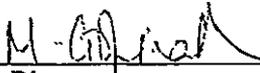
30 OCTOBER 2000 TO 30 SEPTEMBER 2001

*DESIGN & TENDER PHASE*

	BUDGET DESIGN	BUDGET TENDER	TOTAL BUDGET	ACTUAL	QUESTIONED COSTS		NOTES
					Ineligible	Unsupported	
	\$	\$	\$	\$	\$	\$	
Revenue							
Grant No. 656-C-00-01-00002-00	313,277.40	30,472.97	343,750.37	339,480.84			3
Cost incurred	313,277.40	30,472.97	343,750.37	339,480.84			2
Equipment	19,000.00	3,000.00	22,000.00	15,777.37			
Salaries	79,438.50	7,000.00	86,438.50	92,519.77			
Allowances	21,025.00	250.00	21,275.00	24,575.00			
Travel and Transportation	27,800.00	3,800.00	31,600.00	26,011.39			
Supplies	12,000.00	4,000.00	16,000.00	14,033.00	3,000.00	3,894.00	5a & 5b
Other Direct Costs	59,910.00	3,870.00	63,780.00	59,271.83			
Indirect costs @ 82.61% of Salaries	65,624.14	5,782.70	71,406.84	76,430.58		76,430.58	5c
Fixed Fee @ 10%	28,479.76	2,770.27	31,250.03	30,861.89			
Surplus / Deficit	0.00	0.00	0.00	0.00			

**CERTIFICATE OF APPROVAL**

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

  
 Project Director  
 February 2002



**BLACK & VEATCH INTERNATIONAL**  
**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 Black & Veatch International presented in United State Dollars. The total expenditure is net of all disallowable expenses.

**3. REVENUE**

Revenue represents amounts reimbursed by USAID under the USAID ER-BASE Contract NO. 656-C-00-01-00002-00. The amount excluding all the disallowable expenses incurred for the project.

**4. AMOUNT INVOICED**

The amount invoiced by Black & Veatch International is made up as follows:

- Salaries
- Overheads at 82.61% of Salaries
- Reimbursables
- Fee at 10% of the above-mentioned costs

**5. UNSUPPORTED and INELIGIBLE COSTS**

- a. The unsupported costs relate to the following rent expenses of which no supporting documentation was found:

Accommodation for expat - P Gateere	\$2,760.00
Office rent - April 2001	\$ 434.00
Office rent - May 2001	\$ 700.00
<b>Total</b>	<b>\$3,894.00</b>

- b. The ineligible costs relate to the rent invoice for \$3,000.00 from Eteng Lda which was claimed twice.
- c. *The Indirect Cost Rate:*  
There are no back-up calculations of how the indirect cost rate of 82.61% was determined. We therefore could not verify the provisional rate per the agreement, was calculated according to Federal Acquisition Regulations (FAR).

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

Black & Veatch International  
209 Smit Street  
Braamfontein

We have audited the fund accountability statement of Black & Veatch International (BVI) for period from October 31,2000 to September 30,2001. The Fund Accountability Statement is responsibility of BVI's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

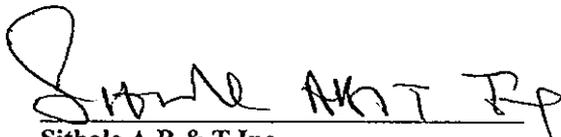
### Scope

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 United States Agency for International Development (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 BVI and 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)

28 February 2002

## Section C

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

Mahadivha Gopinath  
Black & Veatch International  
209 Smit Street  
Braamfontein

We have audited the fund accountability statement of Black & Veatch International as for the period October 31, 2000 to September 30, 2001, and have issued our report thereon dated December 31, 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 Black & Veatch International is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

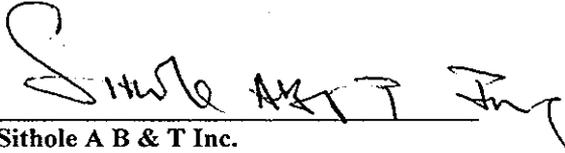
- The assets are safeguarded against loss from unauthorized use or disposition
- Transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements
- And transactions are recorded properly to permit the preparation of the fund accountability statement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

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 disclose 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 may occur and not be detected within timely period by employees in 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.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Black & Veatch International in Section F of this report.

This report is intended for the information of Black & Vatch International 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)**

28 February 2000.

**Section D**

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

Mahadivha Gopinath  
Black & Veatch International  
209 Smit Street  
Braamfontein

We have audited the Fund Accountability Statement of Black & Veatch International for the period October 30, 2000 to September 30, 2001 and have issued our report thereon dated December 31, 2001.

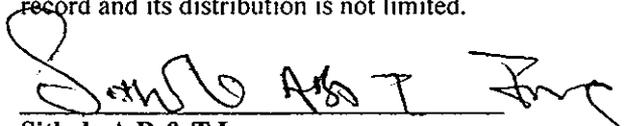
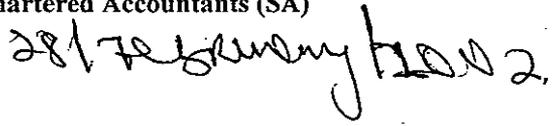
We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to Black & Veatch International is the responsibility of Black & Veatch International's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of Black & Veatch International compliance with certain provisions of agreement terms. 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 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 Black & Veatch International in Section F of this report.

This report is intended for the information of Black & Veatch International 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)  


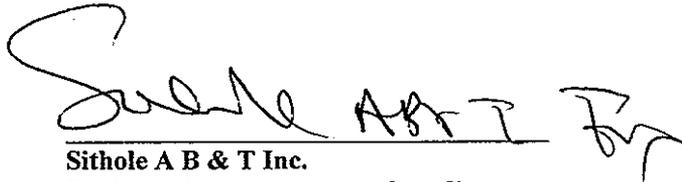
**Report on Schedule of Computation of Indirect Cost Rate**

**Black & Veatch International**  
209 Smit Street  
Braamfontein

Our audit was made for the purpose of forming an opinion on the **Black & Veatch International** financial records taken as a whole. The schedule of computation of indirect cost rate was not available for the audit.

Details of how the indirect cost rate of 82.61% was determined, was not presented for the audit. We therefore could not verify its reasonableness according to Federal Acquisition Regulations.

Based on the above paragraph we do not express an opinion on the indirect cost rate computation.



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

28 February 2007

**SECTION F**

**MANAGEMENT LETTER TO MEMBERS OF  
BLACK AND VEATCH INTERNATIONAL**

**Section F**

**MANAGEMENT LETTER TO THE MEMBERS OF BLACK AND VEATCH INTERNATIONAL**

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 our audit we found the following weaknesses in the internal controls of the company relating to the project:

**1. Audit finding:** Lack of authorisation of timesheets.

When conducting the audit we found that time sheets are not reviewed and signed by management as proof of approval.

**Recommendation:**

All the employees timesheets should be reviewed and authorised by management to ensure that only actual time worked is charged to correct client.

**Management Comment:**

This was because at the time the design phase of the project was undertaken, all members of the team were exclusively on the USAID project and there was no need for management approval.

**2. Audit finding:**

The company does not maintain separate ledger accounts for the different projects, therefore we were unable to ensure that the expenses were allocated to the correct accounts.

**Recommendation:**

Separate ledger accounts should be maintained for all the different projects for ease of tracing and for profit or loss calculations.

**Management Comments**

It is not a Black & Veatch International requirement to maintain separate ledger accounts. It is neither a requirement by USAID.

**3. Audit finding: Lack of supporting documentation**

The following amounts did not have supporting documentation:

Accommodation for expat - P Gateere	\$2 760.00
Office rent for April 2001	\$ 434.00
Office rent for May 2001	\$ 700.00
Total	\$3,894.00

**Recommendation:**

All payments made should be supported by a supplier's invoice.

The amount was accounted for as unsupported questioned cost in the Fund Accountability Statement due to lack supporting documentation and should be disallowed by USAID.

**Management Comment**

Suppliers invoice misfiled. They are probably in the AP files.

**4. Audit finding:**

Invoice # base 003 from Eteng Lda for \$ 3,000 was claimed twice from USAID. According to the contract with Eteng Lda the amount for rent was \$ 3,000 for the duration of the Design and Tender phase.

**Recommendation:**

Invoices from the subcontractors should be reconciled to the agreement to ensure that invoices are not paid twice and the agreement amount is not exceeded.

The \$3,000 for rent is ineligible and should be disallowed by USAID.

**Management Comment:**

The second invoice has been misplaced. Eteng Lda has now made available a copy of this invoice, which is available in our Maputo office.

## **5. Audit Findings:**

The indirect cost rate of the company was based on the overhead expenses of Black and Veatch International Company and not African Company's overhead, and the rate of the international company was adjusted from 142.152% to 82.61 and workings of the adjustment were not available.

### **Recommendation**

Overhead rates should be calculated on the Black & Veatch International Africa financial statement since it is receiving the funds from USAID.

The amount of \$76,430.58 relating to the indirect cost was questioned as unsupported in the fund accountability statement.

### **Management Comment:**

The contracted party is Black & Veatch International. Black & Veatch International asked its subsidiary, Black & Veatch Africa, 100% owned by Black & Veatch, to undertake the design assignment. Funds are received by Black & Veatch in the UK through the company's Global account, and not Black & Veatch Africa account.

It was explained to the auditors that BVI made a decision to reduce the indirect cost rate from 148% to 82.61% in order to submit a competitive bid. The 82.61% rate was arrived at by working backwards from the bid price, which BVI thought would be a winning price. Therefore the 82.61% is based on commercial considerations, which is why there is no back-up calculations.