

Report of Audit

Concurrent Agency-contracted Audit of Payments for Road Rehabilitation made under USAID/Mozambique's Project Number 656-0251.00

Report No. 4-656-02-007-N
June 28, 2002



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



Regional Inspector General
Pretoria

June 28, 2002

MEMORANDUM FOR MISSION DIRECTOR, USAID/MOZAMBIQUE

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Concurrent Agency-contracted audit of payments for road rehabilitation made under USAID/Mozambique's Project Number 656-0251.00, Audit Report No. 4-656-02-007-N.

Attached is a report of the subject audit performed by Deloitte & Touche, Maputo, Mozambique.

On 18 August 2000, the U.S. Agency for International Development (USAID), mission to Mozambique, signed Amendment No. 2 for the Increased Rural Incomes Program (IRIP) Strategic Objective Agreement. This amendment obligated \$18.5 million of emergency supplemental funds to respond to the Government of Mozambique Post-Flood Emergency Program Appeal. On 29 September 2000, the Mission approved the Emergency Roads: Building and Support Effort, under USAID Project Number 656-0251.00, entitled IRIP Post Emergency Project.

The specific project components are:

- Inchope-Gorongosa Road design and construction of Limpopo Valley Roads design and construction; and
- Nova Mambone and Save Bridge rehabilitation.

CETA was selected to provide the construction services for the Limpopo Valley Road Construction project comprising the rehabilitation and construction of:

- the EN 205 road between Chokwe and Macarretane, and
- the EN 208 road between Guijá and Chibuto

A Host Country Contract for \$8,380,463 (USD) plus value added tax (VAT) was signed between *Administração Nacional de Estradas* (ANE) and CETA. It was agreed that USAID would pay \$7,877,635 (USD), equivalent to 94 percent of the contract value, excluding VAT. ANE will pay the remaining 6 percent of the value of the contract and

the total amount of VAT. The commencement date was June 26, 2001 and the expected duration is 14 months plus extensions due to rain.

USAID engaged Deloitte & Touche to review several vouchers and related support. Specifically, the objectives of the engagement were limited to:

- an audit of the payment process;
- an audit of the certificates submitted for payment to ensure that they were paid in accordance with the terms of the contract;
- an audit of the Mission's internal control over the payment process.

For the above, Deloitte & Touche reviewed 7 vouchers totaling US\$ 4,250,499. These were payments made through April 24, 2002.

The audit disclosed the following:

- The certificates submitted for payment are in accordance with the terms of the contract;
- Currently, there is no adequate control on payments of contracts. There is no adequate information at ANE, regarding amounts paid to CETA. However, there is an on-going consultancy for the implementation of new financial management system, which would definitely improve the payment process at ANE. There have been delays by ANE in certifying vouchers before submitting them to USAID for payment to be made to the contractor. There were no outstanding payments from USAID that are due to the contractor.
- Although up to now, there are no delays in the programmed activities, there are significant delays in payments of the 6 percent portion of the contract and 17 percent related to VAT. The responsibility of these payments is of ANE. According to the agreement between ANE and CETA, an interest is foreseen in the event of late payment. Up to now, no interest is claimed from CETA. However, late payments can result in delays in the programmed activities.

Therefore, given the concerns raised in the audit report about ANE's slow payments, delays in ANE's voucher certification and the possible resultant delays in programmed activities, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Mozambique, in cooperation with *Administração Nacional de Estradas*, develop a plan for *Administração Nacional de Estradas* to reduce delays in voucher processing and payments to CETA.

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

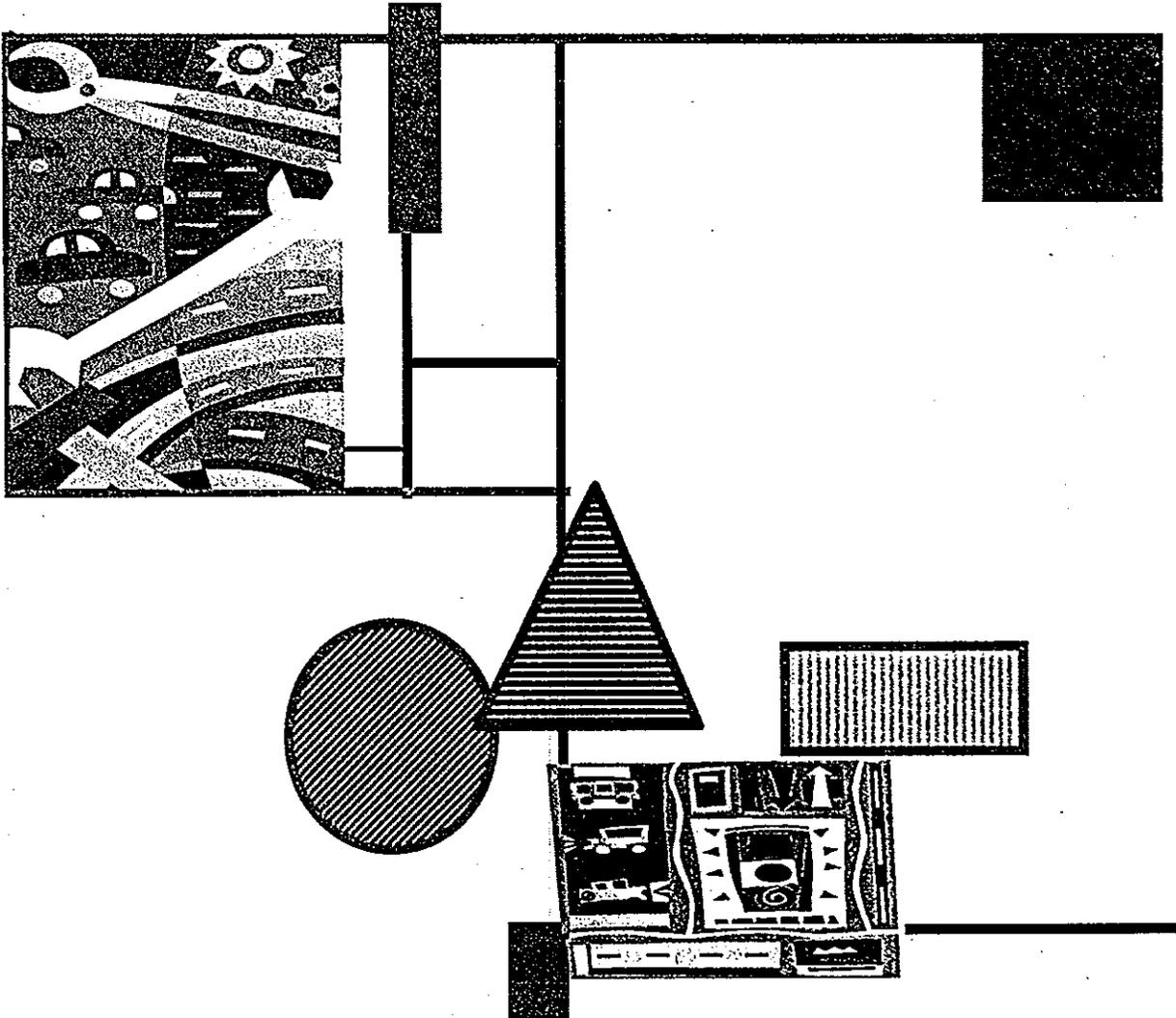
Attachments: a/s

Deloitte & Touche

*The United States of America Agency for International
Development (Usaid)*

*Evaluation of the Administrative and Financial Procedures for
the Payment Process under Project Number 656-0251.00*

June 2002



**THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
(USAID)**

*Evaluation of the Administrative and Financial Procedures for the Payment Process under
Project Number 656-0251.00*

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Attachments

- 1 – Summary of Certificates/ USAID' contribution
- 2 – Summary of Certificates/ ANE contribution

Maputo, 24 June 2002

Gail Warshaw
Regional Contracting Officer
United States Agency for International Development
Maputo
Moçambique

Evaluation of the administrative and financial procedures for the payment process under project number 656-0251.00

1. Introduction

The United States of America Agency for International Development -USAID has requested Deloitte & Touche (Moçambique), Lda. to undertake an evaluation of the administrative and financial procedures for the payment process under project number 656-0251.00.

This report contains our findings, recommendations and conclusions.

2. Background

On 18 August 2000, the U.S. Agency for International Development (USAID), mission to Mozambique, signed Amendment No.2 for the Increased Rural Incomes Program (IRIP) Strategic Objective Agreement (SOAG). This amendment obligated \$ 18.5 million of emergency supplemental IDA funds to respond to the Government of Mozambique Post-Flood Emergency Program Appeal. On 29 September 2000, the Mission approved the Emergency Roads: Building and Support Effort (ER:BASE), under USAID Project Number 656-0251.00, entitled IRIP Post Emergency Project. The principal budget items are as follows:

Task	Amount US\$
Design and Construction Management Services	3,572,108
Repair and Reconstruction Services	30,917,892
Project Management Services	510,000
Total	35,000,000

The specific project components are:

- Inchope-Gorongosa Road design and construction of Limpopo Valley Roads design and construction; and
- Nova Mambone and Save Bridge rehabilitation.

CETA was selected to provide the construction services for the Limpopo Valley Road Construction project comprising the rehabilitation and construction of:

- the EN 205 road between Chokwe and Macarretane, and
- the EN 208 road between Guijá and Chibuto

A Host Country Contract for USD 8,380,463 plus VAT was signed between Administração Nacional de Estradas (ANE) and CETA. It was agreed that USAID would pay USD 7,877,635, equivalent to 94% of the contract value, excluding VAT. ANE will pay the remaining 6% of the value of the contract and the total amount of VAT. The commencement date was June 26, 2001 and the expected duration is 14 months plus extensions due to rain.

According to the contract USAID will act as the Donor, ANE as the employer, CETA as the contractor and the engineer is Black&Veatch International. The following was agreed:

- The contract is a Unit Price (Fixed Price Contract). This implies that the rate per defined item is fixed, inclusive of all cost elements and the quantities may vary. The currency of the contract is US\$.
- The engineer – Black and Veatch is responsible for issuing variations orders. However written approval is requested by the employer and USAID for each variation order, which value exceeds US\$ 20,000.
- All subcontracts higher than 100,000, shall also be approved by USAID and employer.
- Payments shall be made in US\$ and Mozambique MT in accordance with the Bill of quantities and the contract document.
- Within 28 days after the confirmation that the letter of commitment has been established, the contractor shall submit a proposed payment schedule, indicating the estimated payments throughout the life of the contract. This schedule shall be satisfactory to the engineer and according to the general construction schedule.
- The contractor may, at its option receive a mobilization payment under the L/C not exceeding 15% of the total contract amount, excluding VAT, after 63 days USAID receives the signed L/C from the Contractor.
- The contractor shall use the mobilization payment only to pay for equipment, plant, material and mobilization expenses, specifically required for the contract. The Contractor shall demonstrate that the mobilization payment has been used in this way, supplying copies of invoices or other documents to the Engineer.
- The Contractor shall submit to the engineer for review an interim statement in a form acceptable by the employer, filled out and signed by the Contractor, covering the cumulative amount and value of work carried out as of the date of the statement and accompanied by such statements and schedules.
- The Engineers shall within 21 days after each receipt of interim statements, either indicate in writing its certification of payment due and present the statement to the employer, or return the statement to the Contractor indicating reasons for refusing such certification. In this case the Contractor should make the corrections and present a new statement.

- Within 28 days of receipt of the Engineers certification of the Interim statement, the employer shall act by 1.approving payment and presenting the certified statement to USAID for payment. 2. Informing the contractor through the engineer of any objections to the statement.
- Within 28 days of receipt of the Engineer's certification of the Interim payment by USAID from the Employer, USAID shall pay to the contractor the amount due, minus the retention amount stated.
- In the event of late payment the contractor shall be paid interest on the late payment in the next payment.
- Each interim statement, must be accompanied by the following:
 - The public voucher for purchases and services;
 - a certificate signed and dated by the Employer, certifying that the borrower certifies that the services for witch payment is requested have been satisfactorily performed and payment is requested in accordance with the contract.
 - The contractor's invoice;
- Retentions – the employer shall deduct and retain an amount equal to 10% of the total amount certified by the Engineer on each interim statement.

3. Objectives and detailed scope of work and methodology

The objective of this engagement was limited to:

- An audit of the payment process;
- An audit of the certificates submitted for payment to ensure that they were paid in accordance with the terms of the contract;
- An audit of the Mission's internal control over the payment process.

For the above, we reviewed 7 vouchers totalling US\$ 4,250,499 amount which were the payments made ending April 24, 2002, as described in the attachment 1.

In performing our review, we met and spoke with the following people:

USAID	Mr. Eduardo Kok Eng. Luis Santos Eng. Fransisco Lopes Pereira
CETA	Mr. Luis A. Soeiro Mr. Eugénio Abú-Bacar
ANE	Mr. Michael Lear

The procedures followed by our team, together with the Administrative Court officials, can be summarised as follows:

- An Entrance conference involving all the participants of the program was held in order to provide us with enough knowledge of the program and areas of special interest. Also, during this entrance conference, the scope was limited to the above mentioned objectives;
- A Review of the applicable documents considered necessary to perform the audit was performed, as follows:
 1. The Agreement between ANE and CETA, dated 19 July, 2001, amounting US\$ 8,211,278.82, excluding VAT;
 2. The Agreement between USAID and Black & Veatch, the supervising engineer;
 3. Federal Acquisition Regulations (FAR), which include cost principles and procedures for contracts issued after April 1984.
 4. USAID Acquisition Regulations (AIDAR), which include some procedures not discussed in FAR.
 5. All project financial and progress reports; charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary to successfully complete the required work.
 6. Review and evaluate CETA's internal control structure related to USAID programs and projects to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been in operation.
 7. Review of the summary of certificates presented by CETA;

4. Findings and recommendations

1. From the analysis of the above mentioned documentation, we can conclude that:
 - The certificates submitted for payment are in accordance with the terms of the contract;
 - Currently, there is no adequate control on payments of contracts. There is no adequate information at ANE, regarding amounts paid to CETA. However, there is an on-going consultancy for the implementation of new financial management system, which would definitely improve the payment process at ANE. There have been delays by ANE in certifying vouchers before submitting them to USAID for payment to be made to the contractor. There were no outstanding payments from USAID that are due to the contractor.

2. Although up to now, there are no delays in the programmed activities, there are significant delays in payments of the 6% portion of the contract and 17% related to IVA. The responsibility of these payments is of ANE. According to the agreement between ANE and CETA, an interest is foreseen in the event of late payment. Up to now, no interest is claimed from CETA. However, late payments can result in delays in the programmed activities. *(Information on payment dates of the certificates in attachment 1 and 2);*

Should you require any further information please do not hesitate to contact us.

Yours faithfully

Deloitte & Touche

Deloitte & Touche

USAID
 ESTRADA CHÓKWÈ-MACARRETANE (EN205) E GULJÁ-CHIBUTO (EN208)

Inv. Ceta	CERT. NR.	Month	Black&Vet ch	Inv. +IVA	Inv. Without IVA	94% USAID portion	Date of Payment	Ousting USAID
A	B		D	J	K	L	M	Y
589	AD	30-Jun-01	17/Jul/01	1,470,771	1,257,069	1,181,645	21-Sep-01	0
758	1	31-Aug-01	31/Aug/01	297,741	254,479	239,211	21-Nov-01	0
757	1	31-Aug-01	31/Aug/01	466,814	398,986	375,047	21-Nov-01	0
						614,257		
761	2	30-Sep-01	30/Sep/01	307,023	262,413	246,668	21-Nov-01	0
762	2	30-Sep-01	30/Sep/01	246,280	210,496	197,866	21-Nov-01	0
						444,533.61		
772	3	31-Oct-01	19/Nov/01	342,020	292,325	274,785	13-Dec-01	0
773	3	31-Oct-01	19/Nov/01	333,655	285,175	268,065	13-Dec-01	0
						542,850		
776	4	30-Nov-01	30-Nov-01	161,765	138,260	129,965	30-Jan-02	0
778	4	30-Nov-01	30-Nov-01	10,343	8,840	8,310	30-Jan-02	0
777	4	30-Nov-01	30-Nov-01	189,559	162,016	152,295	30-Jan-02	0
						290,570		
787	5	31-Dec-01	31-Dec-01	98,583	84,259	79,204	6-Mar-02	0
790	TM	31-Dec-01	31-Dec-01	10,920	9,334	8,774	6-Mar-02	0
786	5	31-Dec-01	31-Dec-01	148,653	127,054	119,431	6-Mar-02	0
						207,408		
1552	6	31-Jan-02	28-Feb-02	224,760	192,102	180,576	28-Mar-02	0
795	6	31-Jan-02	28-Feb-02	171,255	146,371	137,589	28-Mar-02	0
						318,165		
1556	7	28-Feb-02	28-Feb-02	337,067	288,091	270,806	24-Apr-02	0
1557	TM	28-Feb-02	28-Feb-02	35,460	30,308	28,489	24-Apr-02	0
1558	7	28-Feb-02	28-Feb-02	243,185	207,850	195,379	24-Apr-02	0
1559	TM	28-Feb-02	28-Feb-02	194,661	166,377	156,394	24-Apr-02	0
						651,069		
Total						4,250,499		0

USAID
ESTRADA CHÓKWÈ-MACARRETANE (EN205) E GUIJÁ-CHIBUTO (EN208)

Inv. Ceta	CEA T NR.	Month	Black&Vet h	Inv. +IVA	Inv. Without IVA	USD 6% ANE	Exchange Rate	000'MTS 6% ANE	Date of Payment	IVA USD	CAMBIO	IVA 000'MTS	Date of Payment	Oustanding ANE / 6%	Oustanding IVA
A	B		D	J	K	O	P			S	T		U	Z	
589	AD	30-Jun-01	17/Jul/01	1,470,771	1,257,069	75,424	21,978	1,657,645		213,702	21,578	4,611,343	31-Jan-02	1,657,645	0
758	1	31-Aug-01	31/Aug/01	297,741	254,479	15,269	22,530	344,005	21-Dec-01	43,261	22,530	974,682	25-Mar-02	0	
757	1	31-Aug-01	31/Aug/01	466,814	398,986	23,939	22,530	539,349	21-Dec-01	67,828	22,530	1,528,156	25-Mar-02	0	
						39,208		883,354		111,089		2,502,837			
761	2	30-Sep-01	30/Sep/01	307,023	262,413	15,745	21,865	344,259	21-Dec-01	44,610	21,865	975,400	25-Mar-02	0	
762	2	30-Sep-01	30/Sep/01	246,280	210,496	12,630	21,865	276,149	21-Dec-01	35,784	21,865	782,423	25-Mar-02	0	
						28,374		620,409		80,394		1,757,823			
772	3	31-Oct-01	19/Nov/01	342,020	292,325	17,539	22,498	394,603	28-Mar-02	49,695	22,498	1,118,043	25-Mar-02	0	
773	3	31-Oct-01	19/Nov/01	333,655	285,175	17,111	22,498	384,952	28-Mar-02	48,480	22,498	1,090,698	25-Mar-02	0	
						34,650		779,555		98,175		2,208,741			
776	4	30-Nov-01	30-Nov-01	161,765	138,260	8,296	22,908	190,036	3-May-02	23,504	22,908	538,436	25-Mar-02	0	
778	4	30-Nov-01	30-Nov-01	10,343	8,840	530	22,908	12,151	3-May-02	1,503	22,908	34,428	25-Mar-02	0	
777	4	30-Nov-01	30-Nov-01	189,559	162,016	9,721	22,908	222,688	3-May-02	27,543	22,908	630,950	25-Mar-02	0	
						18,547		424,875		52,550		1,203,814			
787	5	31-Dec-01	31-Dec-01	98,583	84,259	5,056	23,816	120,401		14,324	23,816	341,142		120,401	341,142
790	TM	31-Dec-01	31-Dec-01	10,920	9,334	560	23,816	13,337		1,587	23,816	37,789		13,337	37,789
786	5	31-Dec-01	31-Dec-01	148,653	127,054	7,623	23,816	181,552		21,599	23,816	514,406		181,552	514,406
						13,239		315,290		37,510		893,338		315,290	893,338
1552	6	31-Jan-02	28-Feb-02	224,760	192,102	11,526	26,170	401,196		32,657	26,170	854,644			854,644
795	6	31-Jan-02	28-Feb-02	171,255	146,371	8,782	26,170	231,697		24,883	26,170	651,192			651,192
						20,308		531,509		57,541		1,505,836		531,509	1,505,836
1556	7	28-Feb-02	28-Feb-02	337,067	288,091	17,285	23,210	401,196		48,976	23,210	1,136,722		401,196	1,136,722
1557	TM	28-Feb-02	28-Feb-02	35,460	30,308	1,818	23,210	42,207		5,152	23,210	119,585		42,207	119,585
1558	7	28-Feb-02	28-Feb-02	243,185	207,850	12,471	23,210	289,452		35,335	23,210	820,115		289,452	820,115
1559	TM	28-Feb-02	28-Feb-02	194,661	166,377	9,983	23,210	231,697		28,284	23,210	656,474		231,697	656,474
Total						41,558		964,552		117,746		2,732,895		964,552	2,732,895
						271,308		6,177,189		768,707		17,416,627		3,468,996	5,132,069

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