

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
USAID/Zambia's Management of
Project Commodities

Audit Report No. 3-611-95-005
December 9, 1994





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 9, 1994

MEMORANDUM

*Regional
Inspector General
for Audit/Nairobi*

TO : Mission Director, USAID/Zambia, Joseph F. Stepanek

FROM : Acting RIG/A/Nairobi, David M. Conner

SUBJECT : Audit of USAID/Zambia's Management of Project Commodities

Attached are five copies of our report, "Audit of USAID/Zambia's Management of Project Commodities", Report No. 3-611-95-005. We reviewed your comments on a draft of this report and have included them as Appendix II.

The report contains three recommendations, all with multiple parts, addressed to you. Based on your comments to our draft report, all recommendations except Recommendation Nos. 1.3 and 2.2 are resolved. Those resolved recommendations will be closed upon our receipt of documentation showing planned actions have been implemented. Recommendation Nos. 1.3 and 2.2 are considered unresolved. Please advise me within 30 days of any actions planned or taken to implement the unresolved recommendations..

I wish to again express my appreciation for the cooperation and courtesies extended to the audit team during this audit.

EXECUTIVE SUMMARY

Background

USAID spends millions of dollars in commodity procurement every year to support project and non-project activities. As of April 11, 1994, USAID/Zambia's portfolio of active and recently completed projects consisted of \$84.1 million in total obligations and expenditures of \$54.9 million. USAID/Zambia had obligated about \$12.4 million for commodities and spent about \$7.3 million for items, such as computers, photocopiers, laboratory and agricultural equipment, motorcycles and motor vehicles (see page 1).

USAID/Zambia purchased its project commodities through technical assistance contractors and grantees and by direct USAID procurement both locally and internationally. The Mission followed the project procurement plans in purchasing commodities. International procurement was received through the sea ports in the Republic of South Africa and Tanzania, as well as, through the airport in Lusaka, Zambia (see page 2).

Audit Objectives

We audited USAID/Zambia's management of project commodities following generally accepted government auditing standards. The audit was part of an agency-wide audit of USAID's management of project-funded commodities directed by RIG/A/Dakar. Our field work was conducted from April 12 through June 10, 1994, to answer the following audit objectives:

1. Did USAID-financed commodities arrive on time to meet project procurement plans and implementation schedules?
2. Were the commodity procurements made in accordance with U.S. Government and USAID source, origin, and eligibility requirements, unless waived for good reason?
3. Did USAID/Zambia follow USAID policies and procedures to ensure that USAID-financed commodities were being used as intended?

Summary of Audit Findings and Recommendations

USAID-Financed Commodities Generally Arrived On Time

For four of six projects, USAID-financed commodities arrived on time. However, it was not possible to determine, because of inadequate information, whether commodities were received on time for the other two projects. In some cases, the commodities were received too far in advance of when they were needed. (See page 3.)

Commodity Procurement Generally Complied With Source and Eligibility Requirements

For four of six projects, USAID/Zambia made commodity procurements following source and eligibility requirements. There was not enough information to determine conclusively the origin or source of commodity purchases for the two other projects. However, USAID/Zambia did not have procedures in place to make sure commodity purchases met origin requirements. (See page 5.)

USAID/Zambia Should Improve Its Accounting for Project Commodities

USAID offices are required to account for the receipt, storage, and use of project commodities. However, USAID/Zambia did not ensure that project commodities were received in the quantities and condition for which payment was made nor that complete and accurate inventory records were maintained. We found that USAID/Zambia officials (1) were unclear about their responsibilities regarding the management of USAID-financed project commodities, (2) did not give commodity management a high priority, and (3) relied on grantee and contractor inventory systems which the Mission had not evaluated for effectiveness. As a result, USAID/Zambia could not reconcile \$1,820,386 in commodity purchases to its inventory records. Thus, we recommended USAID/Zambia (1) provide commodity management training to project officers and managers, and include specific requirements for commodity management in their work requirements and employee evaluation reports, as appropriate, (2) obtain from grantees and contractors current and accurate commodity listings, reconcile those listings with USAID/Zambia's accounting records and determine the allowability of the quantities and amounts that cannot be reconciled, and (3) train USAID warehouse staff on the importance of filing receiving and inspection reports in a timely manner. (See page 7.)

USAID/Zambia Should Ensure Project Commodities are Adequately Protected

Commodities purchased under USAID/Zambia's projects were not adequately safeguarded as required by USAID policies. This resulted in the theft, damage or loss of USAID-financed commodities valued at more than \$112,111. Also, USAID/Zambia had not determined if insurance compensation was received for stolen, damaged, or lost commodities and whether such compensation was used for authorized purposes. This occurred because USAID/Zambia officials did not give high priority to commodity management, and did not make sure contractors and grantees had programs to protect and care for commodities. We recommended USAID/Zambia (1) determine the amount of any insurance proceeds received for the stolen commodities and whether such proceeds were used following USAID policies and procedures, (2) repair or dispose of damaged commodities, and (3) evaluate and document commodity management systems from all technical assistance contractors. (See page 12.)

USAID/Zambia Should Ensure Project Commodities are Effectively Used

USAID missions are required to monitor the use of USAID-financed commodities. However, USAID/Zambia did not ensure commodities purchased for its projects were being used for their intended purposes or were otherwise disposed of if not needed. For example, USAID/Zambia did not require its contractors and grantees to submit reports on commodity use nor perform end-use checks on a regular basis. Therefore, project commodities valued at more than \$336,891 were not being used as intended. USAID/Zambia officials did not give commodity management a high priority and relied on unevaluated contractor and grantee inventory systems. We recommended USAID/Zambia (1) either deliver unused commodities stored at the USAID warehouse to project implementation sites for use, or dispose of them, (2) train technicians at the University Teaching Hospital of Zambia to maintain USAID-financed equipment, and (3) test all office equipment and household appliances in the USAID warehouse to make sure they are in good working condition when received. (See page 15.)

Management Comments and Our Evaluation

USAID/Zambia concurred with the findings and recommendations and had taken or planned various actions to resolve the audit recommendations.

Office of the Inspector General
Office of the Inspector General
December 9, 1994

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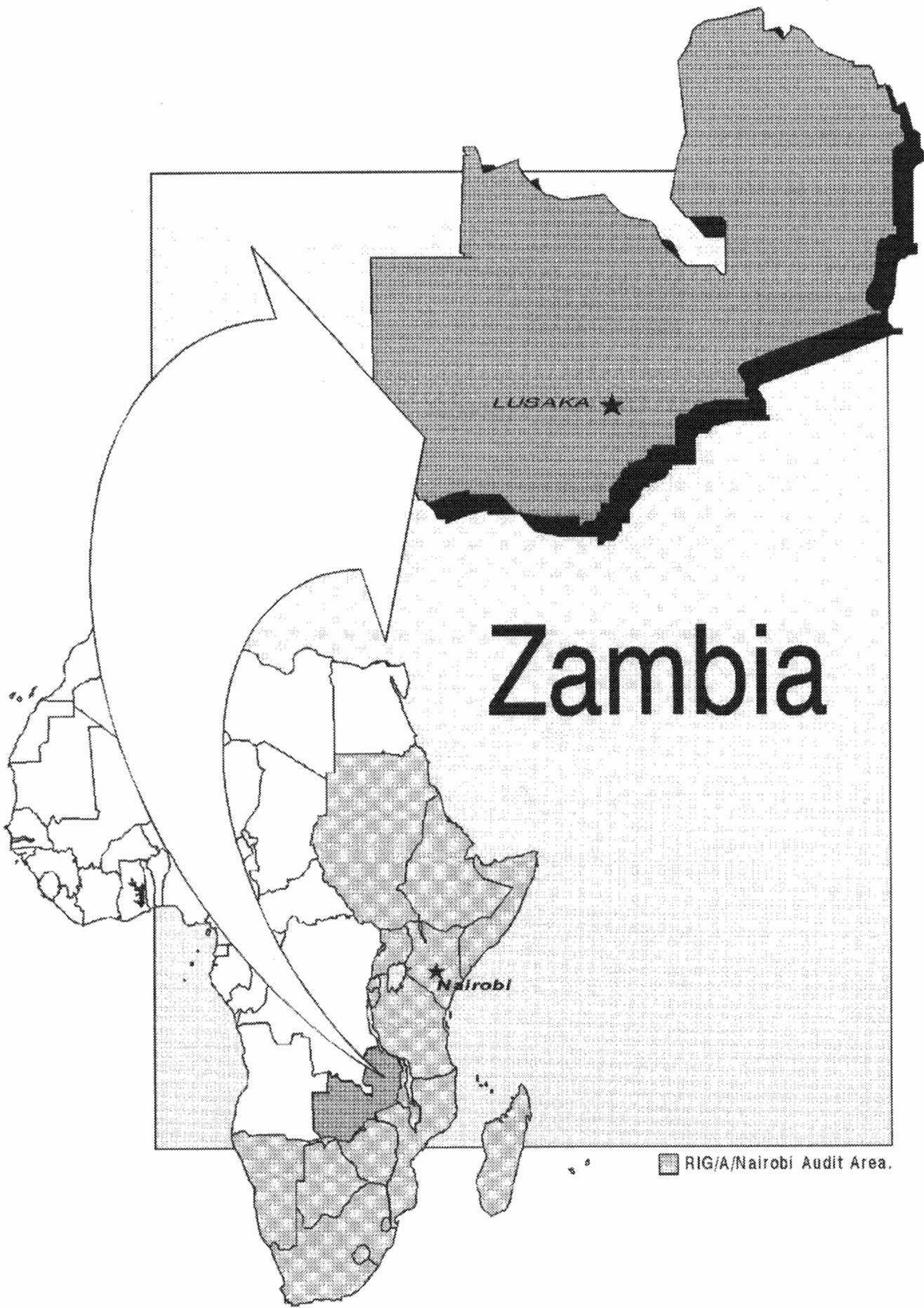
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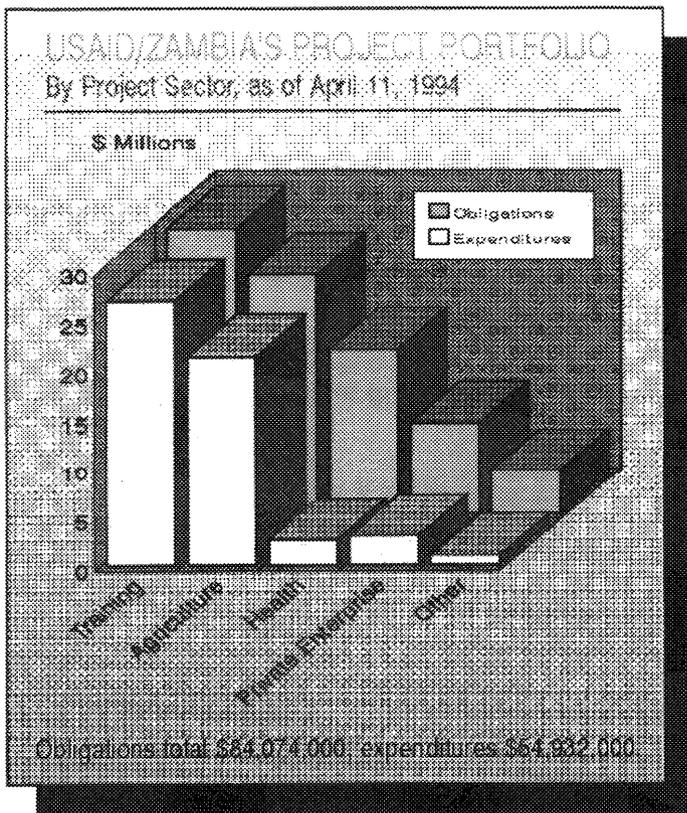
Zambia

■ RIG/A/Nairobi Audit Area.

INTRODUCTION

Background

USAID spends millions of dollars in commodity procurement every year to further the goals and objectives of its project and non-project activities. As of April 11, 1994, USAID/Zambia's portfolio consisted of 13 active and recently completed bilateral development assistance projects with obligations of \$84.1 million and expenditures of \$54.9 million¹.



SOURCE: USAID/Zambia Controller's Office

Eleven of the 13 bilateral projects involved the procurement of commodities, for which USAID/Zambia obligated \$12.4 million and spent \$7.3 million as of April 11, 1994. The commodities purchased for USAID/Zambia projects included primarily computer equipment and supplies, photocopiers, motorcycles, motor vehicles, agricultural equipment, hospital equipment and drugs, office furniture, and household furniture and appliances. Of the 11 projects, records from 6 were selected for audit. These projects had obligations of \$9.9 million and expenditures of \$5.6 million for commodities between December 31, 1986,

¹ USAID/Zambia's portfolio also included non-project activities with obligations of \$106.2 million and expenditures of \$95.8 million. However, the non-project activities were not included in this audit.

and April 11, 1994. Additionally, USAID/Zambia procured commodities under technical assistance components of the six projects totaling \$1.1 million, which was also audited. Appendix III provides a summary of the projects audited.

USAID/Zambia procured commodities through technical assistance contractors and grantees and by direct USAID procurement, which included both local and international procurement. Items procured internationally were received through seaports in the Republic of South Africa and Tanzania, as well as through the airport in Lusaka, Zambia. The commodities were cleared through customs and transported to project sites by USAID/Zambia, contractors, grantees, or by clearing agents.

Audit Objectives

The Office of the Regional Inspector General for Audit, Nairobi (RIG/A/Nairobi) audited USAID/Zambia's Management of Project Commodities to answer the following objectives²:

1. Did USAID-financed commodities arrive on time to meet project procurement plans and implementation schedules?
2. Were the commodity procurements made in accordance with U.S. Government and USAID source, origin, and eligibility requirements, unless waived for good reason?
3. Did USAID/Zambia follow USAID policies and procedures to ensure that USAID-financed commodities were being used as intended?

Appendix I contains a complete discussion of the scope and methodology for this audit.

² This audit is part of an agency-wide audit of USAID's management of project-funded commodities which is directed by RIG/A/Dakar. RIG/A/Dakar plans to prepare a summary report based on the audits performed at various USAID missions.

REPORT OF AUDIT FINDINGS

Did USAID-financed commodities arrive on time to meet project procurement plans and implementation schedules?

For four of six projects audited, USAID-financed commodities arrived on time to meet procurement plans and implementation schedules. It was not possible to determine conclusively whether commodities were received on time for the two other projects.

USAID Handbook 1, Supplement B, Chapter 24, Section A1, requires project assistance commodities to be delivered timely and to be appropriately used for the project purpose. Also, Handbook 3, Chapter 11(E)(3) requires the project officer (1) to monitor progress against contracting plans and delivery schedules to ensure timely delivery of all required goods, and (2) to ensure grantee arrangements for shipping control, customs clearance, receipt, and inland transportation are proceeding in accordance with plans.

Under four of six projects audited—the Privatization Support Project, the Democratic Governance Project, the HIV/AIDS Prevention Project, and the Zambia Pharmaceutical Project—USAID/Zambia purchased \$1,477,168 worth of commodities. The items purchased included motor vehicles, computers, photocopiers, office furniture and equipment, household furniture and appliances, and, in the case of the Zambia Pharmaceutical Project, medical equipment for the University Teaching Hospital of Zambia in Lusaka. For this audit, procurement records for 469 items, valued at \$1,089,687, were tested to determine the dates of purchase and receipt in Zambia. All items tested arrived in Zambia between February and December 1993, and within the first year of the start of each project.

- ♦ There was inadequate information to enable the auditors to determine conclusively whether commodities were received on time under the other two projects audited, i.e., the Zambia Agricultural Training Planning and Institutional Development project and the Zambia Agribusiness Management and Support project. For example, receiving and inspection

reports and purchase orders were not available for many purchases under these two projects because of poor record-keeping by the Mission.

Although U.S.-financed commodities for the Privatization Support, Democratic Governance, and HIV/AIDS Prevention projects arrived on time, in some cases they were received too far in advance of when they were needed, or were not needed at all. This problem is discussed under Audit Objective No. 3.

Because the items examined appeared to have arrived in time for use by the projects audited, we are not making a recommendation on this audit objective.

Were the commodity procurements made in accordance with U.S. Government and USAID source, origin, and eligibility requirements, unless waived for good reason?

For four of six projects audited, USAID/Zambia made commodity procurements in accordance with U.S. Government and USAID source and eligibility requirements. Purchase orders and invoices were missing on some commodities bought for the other two projects making it difficult to ascertain the source of those items. However, USAID/Zambia does not have procedures to ensure commodities meet the requirements for origin. As a result, the information contained in the Mission's Buy America reports may be inaccurate.

Section 604 (a) of the Foreign Assistance Act (FAA), as amended in October 1992, is the basic regulation for source, eligibility, and origin of USAID-financed commodities. Section 604(a) requires procurements outside the United States to be generally limited to commodities from the United States, the recipient country, and low-income developing countries. In addition, Section 636(i) of the FAA limits the eligibility of motor vehicles to those manufactured in the United States. USAID source, eligibility, and origin policies, as stated in USAID Handbook 1, Supplement B, Chapters 4 and 5, are consistent with sections 604(a) and 636(i) of the FAA. These policies allow for waivers in emergency situations and the unavailability of items from the United States.

USAID's source and origin policies required under Section 604 (a) of the FAA, do not apply when commodities are purchased with funds provided for Sub-Saharan Africa Development Assistance under the Foreign Operations, Export Financing, and Related Programs, Appropriations Act of 1989, or similar, later legislation.

For four of the six projects in the audit sample, commodities were obtained from authorized sources. Three of the four projects were funded by the Development Fund for Africa (DFA) and therefore purchases from countries other than the United States did not require waivers. USAID/Zambia purchased a majority of the motor vehicles for its projects from the United States. Other items, such as office furniture and equipment, and household furniture and appliances are mostly purchased from the Republic of South Africa and Zambia.

Under the Privatization Support, Democratic Governance, and HIV/AIDS Prevention projects, half of the commodities purchased came from U.S. sources. The other 50 percent came from South Africa and Zambia.

In the one case where a procurement waiver was necessary, it was appropriately prepared and approved by the Mission and the Africa Bureau. Medical sterilizers and other equipment valued at \$383,829 under the Pharmaceutical Project, which was not a DFA-

funded project, were purchased from UNICEF Denmark because they were urgently needed at the University Teaching Hospital of Zambia. Procurement from the U.S. would not have been done quickly enough to satisfy the project's perceived needs at the time the equipment was ordered. However, after the equipment arrived, the sterilizers were not installed until nine months later. This problem is discussed under Objective No. 3.

USAID/Zambia did not have enough information to determine conclusively the origin or source of commodities purchased under the Zambia Agricultural Training Planning and Institutional Development II project and Zambia Agribusiness Management and Support project. Purchase orders and invoices were unavailable for many purchases under these two projects. However, purchase orders and invoices that were available indicated the commodities were purchased from either the United States or other eligible countries.

But despite the Mission's apparent compliance, USAID/Zambia's annual Buy America reports still may be inaccurate, because the Mission considers the source of commodities synonymous with their origin, which is not always the case. For example, the Mission identified the origin for a Phillips Digital Telephone System as "Zambia" because it was bought in Lusaka when in fact it was manufactured elsewhere. Also, USAID/Zambia did not have procedures or documentation to ensure that commodities, such as computers, met the origin test.

Compounding the Mission's erroneous perception of commodity origin and source is USAID's guidance, which is unclear, at best. For example, guidance is lacking on how missions are to determine whether a commodity, such as a computer, meets the 50 percent rule. In a computer, the three main pieces, the CPU unit, keyboard, and monitor may all be made in different countries. But certain components within those pieces may have been manufactured in completely different countries than where they were assembled, before being sold to USAID by an American firm. Where is the origin?

As a result, the information provided by USAID/Zambia to USAID and Congress on the value of commodity procurements that are of U.S. origin may be understated or overstated on some commodities.

Since USAID is in the process of changing the Buy America reporting provisions to require reporting only the source of project commodities, we are not making a recommendation to USAID/Zambia on this audit objective.

Did USAID/Zambia follow USAID policies and procedures to ensure that USAID-financed Commodities were being used as intended?

USAID/Zambia did not follow USAID policies and procedures to ensure that USAID-financed commodities were used as intended.

For example, the Mission did not make sure that:

- receiving and inspection reports for project commodities were properly prepared in a timely manner;
- complete and accurate inventory records were maintained;
- periodic physical inventories were made by grantees and contractors; and
- the physical inventory reports were submitted to USAID/Zambia and reconciled to the Mission's accounting records.

Also, USAID/Zambia did not require contractors and grantees to establish a system to manage commodities which would properly safeguard them against theft, damage, and misuse. Without such close scrutiny, there was theft, damage, and loss of USAID-financed commodities. In addition, USAID/Zambia did not ensure project commodities were used in a timely manner for intended purposes.

USAID/Zambia Should Improve its Accounting for Project Commodities

USAID policy requires missions to account for the receipt, storage, use, and disposal of project commodities. However, USAID/Zambia did not properly account for project commodities to ensure commodities were received in the quantities and condition for which the payment was made, and it did not maintain complete and accurate inventory records of commodities. This was because USAID/Zambia officials (1) were unclear about their responsibilities regarding management of project commodities, (2) did not give commodity management a high priority, and (3) relied on grantee and contractor inventory systems which had not been evaluated for effectiveness. As a result, USAID/Zambia could not reconcile \$1,820,386 of commodity expenditures to its inventory records.

Recommendation No.1: We recommend that USAID/Zambia:

- 1.1 Provide commodity management training to project officers and managers on accounting for, safeguarding, and monitoring the use of project commodities;**

- 1.2 **Include the requirement for commodity management in the project officers' and managers' work requirements and employee evaluation reports, as appropriate;**
- 1.3 **Provide training to USAID/Zambia warehouse staff in the preparation and importance of receiving and inspection reports; and**
- 1.4 **Obtain from grantees and contractors current commodity listings for Project Numbers 611-0207, 611-0214, 611-0221, 611-0226 and 611-0230, reconcile those listings with USAID/Zambia accounting records, and determine the allowability of the quantities and amounts that cannot be reconciled.**

USAID Handbook 15, Chapter 10, states that USAID offices are responsible for making sure USAID-financed commodities are properly accounted for in their receipt, storage, and use. This includes inspecting commodities upon receipt, comparing items received with the items ordered, and noting whether items were received in good condition. Receiving and inspection reports are used by USAID missions to track these commodities, and USAID missions should require grantees/contractors to prepare inventory listings to reconcile commodities ordered for their projects with those items received.

Also, Section 752-245-70 of the USAID Acquisition Regulations requires contractors to submit annual reports on all non-expendable property financed by USAID based on annual inventories, and to attest that their detailed inventory records reflect the actual physical counts. Handbook 13, Chapter 4, Appendix 4C further states that property records should include commodity description, manufacturers serial numbers and/or model number, location, date received, acquisition costs, and item condition.

However, USAID/Zambia did not follow these procedures in accounting for project commodities.

Improvements Needed in Receiving and Inspection Reports

Receiving and inspection reports were not always prepared at the time commodities were received. For example, items purchased for the Privatization Support, Democratic Governance, and HIV/AIDS Prevention projects valued at \$211,235 were received as early as May 1993. However, receiving and inspection reports were not prepared until the items were moved into the residential houses, some as late as April 1994.

In another example, USAID/Zambia warehouse staff prepared receiving and inspection reports in January 1994 for computers delivered directly to a contractor. However, the

warehouse staff did not inspect the computers nor did they know exactly when they were received.

The warehouse staff also received many pieces of furniture for three projects that arrived unassembled, and were unable to determine if all the pieces ordered were received. Receiving and inspection reports were prepared based on the supplier's verbal assurance that they were.

The Mission did not require contractors and grantees to submit receiving and inspection reports on items purchased for their projects and was unable to ascertain whether all commodities bought for the projects were received in the quantities and condition for which payment was made.

Inventory Records Need To Be More Complete and Accurate

USAID/Zambia did not prepare, nor require contractors/grantees to prepare, listings of commodities ordered and received. Without these listings, USAID/Zambia could not determine whether the commodities were received in the quantities and condition for which payment had been made, nor account for all commodities procured under the projects. Because listings were unavailable, auditors were unable to select an appropriate sample for audit purposes.

USAID/Zambia responded to requests for commodity listings for projects audited with incomplete and/or inaccurate listings which did not include the required information, such as serial numbers, arrival dates, locations and unit costs. Moreover, the Mission could not determine the extent of the missing information because prior inventories had either not been provided to the Mission or had not been done at all.

The following examples, based on USAID/Zambia's Mission Accounting and Control System (MACS) report PO7A of April 11, 1994, demonstrate the problems with Mission's inventory records.

- **Zambia Agricultural Training Planning and Institutional Development II Project No. 611-0207:** USAID/Zambia did not provide a listing for \$344,516 worth of commodities reported in the MACS report. In addition, a January 1994 payment voucher from Nathan Associates Inc., the technical assistance contractor, indicated \$604,215 was spent on commodities for this project, but only provided a listing for commodities valued at \$120,200, leaving an unreconciled difference of \$484,015.
- **HIV/AIDS Prevention Project No. 611-0221:** According to the MACS report, USAID/Zambia paid \$372,385 for project commodities for use by two technical assistance contractors—Population Services International and Morehouse School of

Medicine. However, listings provided by the contractors included commodities valued at only \$284,112, leaving an unreconciled difference of \$88,273. Unit costs were not indicated for some items, and in other cases, they were expressed in Zambian Kwacha, not US dollars as required.

- **Democratic Governance Project No. 611-0226:** According to the MACS report, \$265,187 was spent on commodities under this project. However, the Mission supplied a May 1994 listing including commodities valued at \$207,840, which left an unreconciled difference of \$57,347. Also, \$8,435 of commodities were bought by the technical assistance contractor, Michigan State University, according to a January 31, 1994, payment voucher, but USAID/Zambia did not have a listing of commodities purchased with that money.

- **Privatization Support Project No. 611-0230:** The MACS report showed \$455,767 was spent on commodities for this project. However, a May 1994 listing provided by USAID/Zambia included items valued at only \$169,403, leaving an unreconciled difference of \$286,364. Also, the unit costs were not indicated for some items on the listing.

- **Zambia Agribusiness Management and Support Project No. 611-0214:** The MACS report showed \$981,685 was spent by USAID/Zambia on direct commodity procurement. However, \$757,601 was related to house leases, personal assistance contracts, and travel costs, and not for procurement of commodities, and thus should not have been included on the MACS report. The Mission did not have a listing for the remaining \$224,084 reportedly spent on commodities.

An April 30, 1994, statement of costs from RONCO Consulting Corp., a technical assistance contractor under the project, indicated \$182,481 was spent on project commodities. However, the listings provided by RONCO did not include unit costs, making it impossible to reconcile the items purchased to the \$182,481 paid RONCO.

October 1993 payment vouchers from another U.S. grantee, Volunteers in Technical Assistance (VITA), showed that \$58,194 was spent on commodities under a grant and a separate cooperative agreement. However, USAID/Zambia did not have a listing of what was purchased by VITA.

According to a December 31, 1993, statement of costs from Africare, a third U.S. grantee under this project, \$212,313 was spent on commodities. However, a March 1994 listing provided for this audit included commodities totaling only \$125,836, leaving an unreconciled difference of \$86,477.

The problems with accounting for project commodities occurred for several reasons. First, USAID/Zambia project managers did not know what their duties and responsibilities were

regarding project commodities. The Project Managers were unclear as to whom was responsible for maintaining complete listings and for monitoring commodities ordered, received, stored, used, and disposed. They said they had not been asked by Mission management to reconcile commodity listings with USAID/Zambia accounting records. Also, the responsibility for commodity management, as described in USAID Handbooks, was not included in the project managers' job requirements and employee evaluation reports. In addition, USAID/Zambia warehouse staff did not understand the importance of preparing the receiving and inspection reports for project commodities in a timely manner.

Second, USAID/Zambia officials did not consider commodity management to be a high priority. Project Managers said most of their time was taken up with other aspects of project management and did not have time to check inventory and end-use records. Apparently, the Project Managers, several of whom had less than two years' USAID experience, were not receiving sufficient supervision by the Mission's more experienced and knowledgeable U.S. direct-hire project officers.

Third, USAID/Zambia relied on grantee/contractor systems to track the receipt, storage, and use of USAID-financed commodities without evaluating and documenting the grantees commodity management systems as required by USAID Handbook 13, Chapter 4, Appendix 4C. Because the Mission did not evaluate and document those systems, USAID/Zambia was relying on systems whose effectiveness was unknown, and the quality of information unreliable.

Fourth, most project officers had not received training in commodity management, and USAID/Zambia did not have a commodity management specialist on staff.

As a result, USAID/Zambia could not account for all commodities procured under the projects and was not assured commodities totaling \$1,820,386 were received in the quantities and condition for which the payment was made. In cases where documentation did exist, the audit uncovered problems in several projects. For example, USAID/Zambia's accounting records for commodities—its MACS reports—did not reconcile with commodity listings provided the auditors by USAID/Zambia. In addition, the receiving and inspection reports for project commodities were deficient and, as such, could not provide proof commodities were received in the condition and quantities for which payment was made.

Based on the above, we are recommending USAID/Zambia provide commodity management training to project officers and managers on accounting for, safeguarding, and monitoring the use of project commodities. This requirement for commodity management should be included in the project officers' and managers' work requirements and employee evaluation reports, as appropriate. In addition, we are recommending that USAID/Zambia obtain from grantees and contractors current commodity listings, reconcile them with its

accounting records, and determine the allowability of the quantities and amounts that can not be reconciled.

**USAID/Zambia Should Ensure Project
Commodities are Adequately Protected**

USAID policies require missions to ensure project commodities are protected. However, commodities procured under USAID/Zambia's projects were not adequately safeguarded against theft, damage, and misuse. Also, USAID/Zambia had not determined if insurance compensation was received for stolen, damaged or lost commodities and whether such compensation, when received, was used for authorized purposes. This was because USAID/Zambia officials (1) were unclear about their responsibilities regarding the management of USAID-financed project commodities, (2) did not give commodity management a high priority, and (3) did not ensure contractors and grantees established programs to protect project commodities.

As a result, USAID-financed commodities valued at more than \$112,111 were stolen, damaged, or lost.

Recommendation No.2: We recommend that USAID/Zambia:

- 2.1 Determine the amount of insurance proceeds for two motor vehicles which were stolen while in the custody of Volunteers in Technical Assistance and whether the proceeds were used in accordance with USAID policies and procedures;**
- 2.2 Determine whether a damaged Toyota Cressida belonging to the Zambia Agricultural Training Planning and Institutional Development II Project No. 611-0207 was disposed of in accordance with USAID policies and procedures;**
- 2.3 Determine the amount of sales proceeds for a Volkswagen truck which was auctioned under the Zambia Agricultural Training Planning and Institutional Development II Project No. 611-0207 and whether the proceeds were used for authorized purposes;**
- 2.4 Determine if insurance proceeds were received for an Isuzu truck that was destroyed while in the custody of Volunteers in Technical Assistance and whether the proceeds were used for authorized purposes;**
- 2.5 Either repair the Toyota Cressida which was damaged in an**

accident while in the custody of RONCO Consulting Corporation of the Zambia Agricultural Management and Support Project No. 611-0214 or dispose of it in accordance with USAID policies and procedures; and

2.6 Evaluate and document the commodity management systems of all technical assistance contractors and grantees.

The Federal Managers' Financial Integrity Act (the Integrity Act) requires internal controls to provide reasonable assurance that U.S. funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. In response to the Integrity Act, USAID Handbook 1 Supplement B, Chapter 24, requires missions to ensure project commodities are properly maintained, protected, and cared for, and that recipients' commodity management systems are operating effectively. USAID offices are required to maintain a current description and evaluation of those systems, as well as, monitoring procedures established by the USAID office.

In addition, the USAID Acquisition Regulations (AIDAR) 752-245-71 and USAID Handbook 13, appendices 4C and 4D, require contractors and grantees to prepare and establish a program to be approved by the mission, for the receipt, use, maintenance, protection, custody, and care of USAID-financed commodities. Also, USAID Handbook 3, Appendix 11E, specifies that missions are to ensure commodities are properly stored by contractors, recipients, and grantees.

However, USAID/Zambia did not make sure commodities purchased under its projects were adequately safeguarded against theft, damage and misuse. USAID/Zambia did not ensure contractors and grantees established commodity management systems to protect project commodities, and that those systems were reviewed and approved by the Mission. In addition, USAID/Zambia did not obtain commodity inventory reports from its contractors and grantees, and there was no evidence contractors and grantees conducted periodic physical inventories.

Problems with not adequately safeguarding project commodities are illustrated in the following examples:

- **Zambia Agricultural Training Planning and Institutional Development II Project No. 611-0207:** Two project vehicles valued at \$41,088 were stolen, but had been insured only for third party risks. No insurance proceeds were received. In another case, a Toyota Cressida valued at \$11,956 was damaged, but there was no evidence it was repaired and put back into use, because the Mission was unable to



The Toyota Cressida belonging to the ZAMS/RONCO Project which was damaged in an accident and a year later still not repaired. RONCO headquarters, Lusaka, Zambia, May 1994.

locate the vehicle. A fourth vehicle, a Volkswagen truck valued at \$17,890, was auctioned, but there was no record as to why it was auctioned, for how much it was sold, or whether the proceeds were used for project activities.

● **Zambia Agribusiness Management and Support Project No. 611-0214:** Two motor vehicles—a Toyota Dyna and Toyota Hilux—valued at \$40,496 were stolen while in the custody of VITA, a U.S. grantee. According to documents available at USAID/Zambia, the Mission's General Development Officer authorized the insurance proceeds be used to repair other vehicles. However, it was not possible with available documents to determine the amount of insurance proceeds received.

Another vehicle, an Isuzu truck, whose value could not be determined, was destroyed, but there were no records to show if any insurance proceeds were received for this vehicle or how the proceeds were used.

Furthermore, a Toyota Cressida, whose value also could not be determined, was damaged in an accident on February 16, 1993. However, at a physical inspection on

May 30, 1994, the Cressida was located at the offices of RONCO and was still not repaired more than a year after the accident. The RONCO Chief of Party said he was waiting for USAID/Zambia to make a decision on whether to repair or dispose of this vehicle. USAID/Zambia officials said they were not aware the vehicle was not being used. The vehicle was being cannibalized for spare parts to repair other vehicles apparently without USAID/Zambia's knowledge and approval.

Also under the same project, the commodity listing, which was provided for the audit, indicated missing items such as dryers, freezers, refrigerators, washing machines, electric cookers, heaters, floor polishers, vacuum cleaners, bookcases, typewriters, filing cabinets, and lawn mowers. However, USAID/Zambia had not taken any action to ascertain responsibility or recover these items.

The causes of the Mission's problems with safeguarding project commodities are similar to its problems with accounting for project commodities. First, USAID/Zambia project managers did not know their duties and responsibilities for monitoring project commodities. Second, USAID/Zambia officials did not consider commodity management a high priority. Third, USAID/Zambia relied on the grantee/contractors' systems to safeguard USAID-financed commodities without evaluating and documenting their commodity management systems as required by USAID Handbook 13, Chapter 4, Appendix 4C. Fourth, most project officers had not been trained in commodity management, and the Mission did not have a commodity management specialist on staff.

As a result, USAID-financed commodities valued at more than \$112,111 were stolen, damaged, or could not be located.

The problems associated with protecting project commodities need to be addressed to preclude similar problems from recurring in the future. We are recommending USAID/Zambia evaluate and document the commodity management systems of all technical assistance contractors and grantees. We are also recommending USAID/Zambia determine the amount of insurance proceeds for vehicles which were stolen, damaged or destroyed and whether the proceeds were used according to USAID policies and procedures.

USAID/Zambia Should Ensure Project Commodities are Effectively Used

USAID missions are responsible for making sure commodities are being effectively used in the project or, if not, are transferred to other projects or otherwise disposed. However, USAID/Zambia did not ensure commodities purchased for its projects were used for their intended purposes. This happened because USAID/Zambia officials (1) were unclear about their responsibilities regarding commodity management, (2) did not give commodity management a high priority, and (3) sometimes relied on unevaluated grantee and

contractor inventory systems. As a result, commodities valued at more than \$336,891 were not being used as intended.

Recommendation No. 3: We recommend that USAID/Zambia:

- 3.1 Either deliver unused commodities stored at the USAID warehouse for use at the project implementation sites, justify delay in delivery to project sites, or dispose of them;**
- 3.2 Arrange to train technicians at the University Teaching Hospital of Zambia to maintain USAID-financed equipment;**
- 3.3 Repair two washing machines valued at \$1,550 under the Democratic Governance Project; and**
- 3.4 Make arrangements to test office equipment and household appliances at the USAID warehouse to ensure they are in working condition.**

USAID Handbook 1 Supplement B, Chapter 24, requires USAID-financed commodities reach the ultimate user on time, be in a usable condition, and be appropriately used. The Handbook states that timely arrival of project commodities means the delivery of the project commodities in line with the project purpose and implementation plans. The Handbook further states that USAID offices are responsible for making sure the recipients' commodity management systems are operating effectively. USAID offices are required to maintain a current description of those systems, and its evaluation of them, as well as the monitoring procedures established by the USAID office. In addition, Handbook 15, Chapter 10 states that project officers have ultimate responsibility for ensuring USAID-financed commodities are effectively used for project purposes. The Handbook requires project officers to continuously monitor their projects and give periodic end-use reports to the Mission Director.

USAID Handbook 15, Chapter 10, states that USAID missions are responsible for determining that commodities are effectively used in the project or, if not, are transferred to other projects or otherwise disposed. The handbook specifically requires USAID missions to:

- review project progress reports to verify that USAID-financed commodities are being effectively used in the project;
- monitor recipients' inventory systems on the use of commodities;
- require recipients to submit periodic reports which identify the utilization, cost/value of goods shipped, and/or any claims made; and

- perform periodic end-use checks to evaluate the continued effectiveness of the recipients' systems.

To achieve the objectives of these USAID policies and procedures, the arrival and availability of project commodities should be coordinated with other project activities, such as technical assistance and facilities.

However, USAID/Zambia did not make sure commodities purchased for its projects were being used for their intended purposes. For example, USAID/Zambia did not require its contractors and grantees to submit progress reports on the use of project commodities, nor did the Mission perform end-use checks on a regular basis to see if commodities were being used as intended. Furthermore, USAID/Zambia did not make sure the arrival and availability of project commodities was coordinated with other project activities so that they could be used in a timely manner.

For example, three clothes dryers, whose values could not be determined, were still in the original shipping boxes at the USAID/Zambia warehouse during an audit visit on May 27, 1994, although they had been received in December 1991. Warehouse staff said the machines were not needed for the Agricultural Training Planning and Institutional Development project, which has a September 1994 completion date.

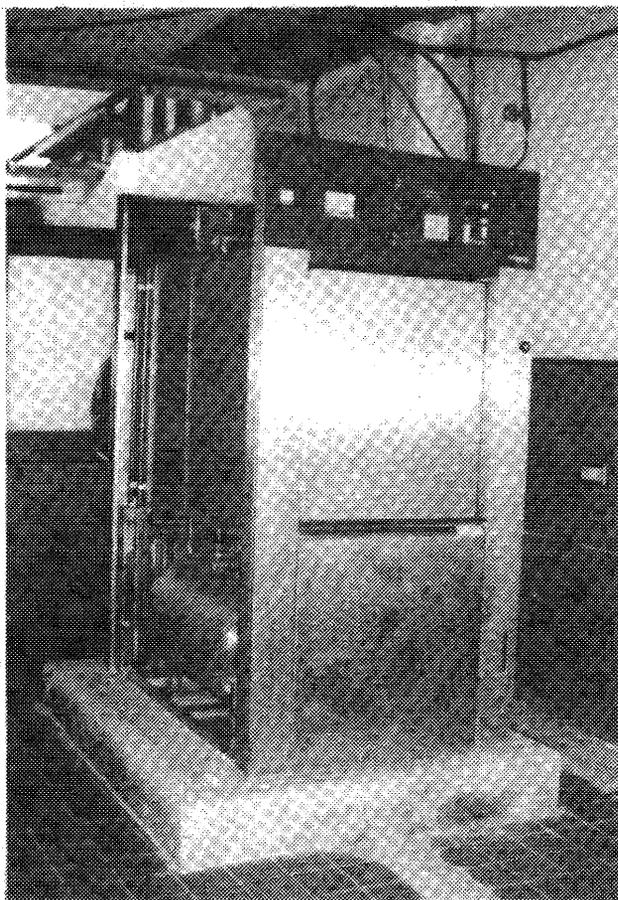
Other items purchased for four of the projects, valued at about \$188,350, were being stored in the warehouse at the time of the audit field work because some were excess to the projects' needs and others because of delays with project implementation. Also, other commodities valued at more than \$39,000 were not being used, and/or needed repairs, and were being stored at the various project sites.

Also, commodities valued at \$12,555 purchased under the Democratic Governance Project, and two 'Matachana' medical sterilizers for the University Teaching Hospital of Zambia under the Zambia Pharmaceutical Project, which were valued at \$219,081, were not moved to the project sites and used until eight months after they arrived in country.

In addition, two washing machines stored at the warehouse during the audit and valued at \$1,550 were received June 2, 1993, but were not tested to see if they were in good working condition. When the washing machines were finally moved to the contractor's staff houses in April 1994, it was discovered that they did not work and were returned to the warehouse. USAID/Zambia did not know how many similar items were nonoperational because the Mission did not test items as they were received at the warehouse.

In separate, but related issues regarding the University Teaching Hospital, hospital officials said the University did not have the technical capability to maintain the medical sterilizers given by USAID. They requested training for their maintenance personnel on the equipment. Also, the grant agreement for the Pharmaceutical Project required the hospital to have an audit performed six to eight months after the arrival of the project commodities. The first commodities were received in May 1993, but, as of June 1994, no audit had not been done.

The causes of these problems of commodity use are the same as the problems with accounting and safeguarding of project commodities. First, USAID/Zambia project managers did not have specific knowledge of their duties and responsibilities regarding project commodities. Second, USAID/Zambia officials gave other areas priority and did not consider commodity management a high priority. Third, USAID/Zambia relied on the



Matachana sterilizer at the University Teaching Hospital of Zambia in Lusaka, valued at \$109,541, which was installed in May 1994 -- eight months after it was received by USAID/Zambia. May 1994.

grantee and contractor inventory systems to safeguard USAID-financed commodities without evaluating and documenting the systems as required by USAID Handbook 1B, Chapter 24. Fourth, most of the project officers had not received training in commodity management, and USAID/Zambia did not have a commodity management specialist.

As a result, project commodities valued at more than \$336,891 were not being used for their intended purposes. This included a motor vehicle, which was damaged a year before the audit and had not been repaired, five motor cycles valued at \$12,490, and a computer valued at \$1,000. Under four of the six projects audited, project commodities valued at least \$188,350 were still located at the USAID warehouse at the time of the audit, some for more than one year. Also, under the Pharmaceutical Project, water pumps and a sterilizer valued at \$121,241 were not being used.

Based on the above, we are recommending USAID/Zambia either

deliver unused commodities stored at the USAID warehouse for use at the project implementation sites, justify the delay in delivering them to project sites, or dispose of them. We are also recommending the Mission make arrangements to test office equipment and household appliances at the USAID warehouse and repair those needing repairs. In addition, we are recommending USAID/Zambia arrange to train technicians at the University Teaching Hospital of Zambia to maintain USAID-financed equipment valued at \$383,829.

MANAGEMENT COMMENTS AND OUR EVALUATION

In responding to the draft report, USAID/Zambia concurred with the findings and recommendations. The Mission outlined various actions it had taken and/or planned to address the audit recommendations. Based on USAID/Zambia comments, all recommendations are resolved, except for Recommendation Nos. 1.3 and 2.2 which are unresolved.

To close the resolved audit recommendations, RIG/A/Nairobi needs **documentary evidence** that:

- Recommendation No. 1.1 - USAID/Zambia has provided commodity management training to its project officers/managers;
- Recommendation No.1.2 - The requirements for commodity management are included in the appropriate employee evaluation reports;
- Recommendation No. 1.3 - The Mission warehouse staff have been trained on the preparation and importance of the receiving and inspection reports;
- Recommendation No. 2.1 - Zambia State Insurance Company paid Kwacha 4.3 million for the two vehicles which were stolen while in the custody of VITA and the proceeds were used *with Mission concurrence* to rehabilitate other project vehicles;
- Recommendation No. 2.3 - A Volkswagen truck under the ZATPID II Project was sold for Kwacha 2,380,000 and the money was deposited into USDO account No. 200004019;
- Recommendation No. 2.4 - Zambia State Insurance Company paid Kwacha 1.4 million for a truck that was in the custody of VITA and the money was used *with Mission concurrence* to rehabilitate other Project vehicles;
- Recommendation No. 2.5 - USAID/Zambia has authorized RONCO International Consulting Corporation to sell at auction a Toyota Cressida which was damaged in an accident;

- Recommendation No. 2.6 - The Mission has received and approved commodity management systems from its grantees and contractors;
- Recommendation No. 3.1 - Commodities stored at the USAID warehouse have been delivered to projects' implementation sites and a justification for the delay in delivering any commodities still at the warehouse;
- Recommendation No. 3.3 - A volunteer has been assigned to the Teaching Hospital to train technicians to service and maintain the USAID-financed sterilizers and other medical equipment; and
- Recommendation No. 3.4 - All office equipment and household appliances at the USAID warehouse have been tested to ensure they are in working condition.

As for the remaining unresolved recommendations:

- Recommendation No. 1.3 can be resolved/closed upon receipt of documentary evidence that USAID/Zambia has obtained from grantees and contractors current commodity listings and reconciled those listings with its accounting records. For those quantities and amounts that cannot be reconciled, the Mission should (1) make a formal written determination that the costs are allowable and/or (2) issue a bill for collection for the amount determined not to be allowable; and
- Recommendation No. 2.2 can be resolved/closed upon receipt of documentary evidence that the Toyota Cressida damaged under the Zambia Agribusiness Management and Support Project (ZAMS) was disposed of following USAID policies and procedures. If not, show that the Mission has issued a bill for collection for the amount of the vehicle determined not to be allowable.

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APPENDICES

<p style="text-align: center;">SCOPE AND METHODOLOGY</p>

Scope

We audited USAID/Zambia's management of project commodities in accordance with generally accepted government auditing standards. We performed the audit from April 12 to June 10, 1994, at the offices of USAID/Zambia.

In performing our audit, we obtained documentary and testimonial evidence from the offices of USAID/Zambia, technical assistance contractors, grantees, and Government of Zambia institutions. This is discussed in more detail under the methodology for each audit objective. The audit covered the systems and procedures relating to (1) timely arrival of commodities, (2) source, origin, and eligibility of project commodities, and (3) use of project commodities as intended.

According to USAID/Zambia's Mission Accounting and Control System (MACS) report PO7A as of April 11, 1994, total obligations for the Mission's portfolio of 13 projects amounted to \$84.1 million. Our audit sample of 6 projects had total obligations of \$52.7 million which represented 63 percent of the obligations for the 13 projects. The audit covered project commodity obligations and disbursements of \$9.9 million and \$5.6 million, respectively. However, the auditors found that of the \$5.6 million included in MACS Report PO7A, \$2.3 million was for a Commodity Import Program, another \$0.9 million was for expendables, such as drugs, and another \$0.7 million was for non-commodity expenditures, such as leases and personal services contracts. In addition, the auditors found expenditures for medical equipment totaling \$383,829 were not included in the MACS Report PO7A as of April 11, 1994. Furthermore, \$1.1 million was spent on commodities by technical assistance contractors and grantees. Thus, the auditable universe was \$3.2 million.

Our audit did not include commodities under non-project activities such as Commodity Import Programs and PL 480 for which USAID/Zambia had obligated \$106.2 million and spent \$95.8 million. Also, we did not examine operating expense-funded commodities that

were purchased by USAID/Zambia. Furthermore, we excluded from our sample recently-started projects, as well as those projects whose project assistance completion date had expired.

As part of this audit, we reviewed USAID/Zambia's internal control assessment for 1993. We also reviewed five prior RIG/A/N audit reports: Audit Report Nos. 3-615-93-01 (Audit of USAID/Kenya's Management of Commodities), 3-645-92-09 (Audit of USAID/Swaziland Management of Commodities), 3-611-91-04 (Audit of Zambia Agricultural Training, Planning and Institutional Development (ZATPID II), 3-690-89-17 (Audit of Kafue-Chirundu Road Rehabilitation Project). In addition, we reviewed six prior audit reports on commodities prepared by other USAID offices of the Inspector General.

In addition to the methodology described in the following section, we obtained a written representation letter from USAID/Zambia management confirming information that we considered essential for answering our audit objectives and for assessing internal controls and compliance.

Methodology

In general, we reviewed internal controls relating to the three audit objectives using the criteria established in:

- USAID Handbook 1, Supplement B, Chapter 24;
- USAID Handbook 15, Chapter 10;
- USAID Handbook 13, Chapter 4, Appendices 4C and 4D;
- USAID Acquisition Regulations, Sections 752-245.70 and 752-245.71;
- USAID Handbook 3, Appendix 11E;
- Section 604(a) of the Foreign Assistance Act, as amended in 1992.

Also, we interviewed USAID/Zambia officials and officials representing contractors/grantees and the Government of Zambia.

In addition, the specific methodology for each objective follows.

Audit Objective One

For this objective, we had to determine whether USAID/Zambia had established

procedures to ensure USAID-financed commodities arrived on time to meet project procurement plans and implementation schedules.

To accomplish this, we reviewed project papers and grant agreements to see if they contained project implementation plans and dates, as well as, descriptions of commodities to be purchased. Also, we reviewed procurement plans included in the project papers and grant agreements for the commodities, and determined the dates when the commodities should have arrived and compared that with the dates the commodities actually arrived. We then tested commodity purchases valued at \$1.1 million which were included in USAID/Zambia's portfolio as of April 11, 1994, to see if they were received in a timely manner.

Audit Objective Two

For this objective, we had to determine whether USAID/Zambia had established procedures to ensure commodity procurements met source, origin, and eligibility requirements.

To do this, we reviewed the Agency guidance relating to the origin of commodities to determine whether the guidance was clear. We then tested commodities valued at \$1.1 million which were included in USAID/Zambia's portfolio as of April 11, 1994. We also determined whether internal control systems were in place for ensuring commodities were procured in accordance with U.S. Government and USAID source, origin, and eligibility requirements. In addition, we examined available documents and reports on project-financed commodities from USAID/Zambia, contractors and grantees.

Audit Objective Three

For this objective, we had to determine whether USAID/Zambia had followed USAID policies and procedures to ensure:

- that commodities were received in the quantities and condition for which payments were made;
- that contractors and grantees established commodity management systems;
- that commodities listings were maintained, and that USAID/Zambia reconciled these with the amounts disbursed for commodities;
- that commodities were safeguarded against theft, damage, and loss; and
- that commodities were used as intended.

To make the above determinations, we tested project commodities valued at \$0.9 million which were included in USAID/Zambia's portfolio as of April 11, 1994. We examined available documents and reports on USAID-financed commodities from USAID/Zambia, contractors, grantees, and the Government to establish whether internal controls were in place to monitor receipt, storage, and use of USAID-financed commodities. Also, we conducted site visits to physically inspect the commodities, test the accuracy of inventory records, and interview USAID/Zambia warehouse officials, contractors, grantees, and Government officials. The physical inspections included visits to: the USAID/Zambia warehouse; the Zambia Privatization Agency; Government of the Republic of Zambia Cabinet offices; the Offices of the Constitutional Review Commission; the University Teaching Hospital of Zambia; and the Lusaka offices of RONCO Consulting Inc., Africare, Morehouse School of Medicine, and Population Services International, all contractors or grantees under the projects audited.



U.S.A.I.D / ZAMBIA
memorandum

DATE: 25 October 1994

REPLY TO: Joseph Stepanek, Director, USAID/Zambia

ATTN OF:

SUBJECT: Audit of USAID/Zambia Management of Project Commodities Report No. AR-611-94-xxx

TO: Everett B. Orr, RIG/A/Nairobi

REF: Draft report dated September 15, 1994

We have reviewed the draft report prepared by your office and generally, concur with the recommendations noted. The Mission is in the process of resolving/addressing the issues raised in the above report.

Enclosed is a status report on the plan or action taken to address the recommendations. Based on the attached, please advise us which audit recommendation(s) can be closed.

Regards.

Drafter: CONT/FA: MHE: dlr/25

Clearances:

CONT:MMG: dlr/25

EXO:CAB: dlr/25

GDO/APM:SG dlr/25

GDO/VRM dlr/25

PRM:JW dlr/25

ADIR:RT dlr/25

DOC: 15 WFN BACA/WP/COM/AUDIT/99

UNITED STATES A.I.D. MISSION TO ZAMBIA

AUDIT OF USAID/ZAMBIA MANAGEMENT OF PROJECT COMMODITIES

DID USAID/ZAMBIA FOLLOW USAID POLICIES AND PROCEDURES TO ENSURE THAT USAID FINANCED WERE BEING USED AS INTENDED?

	RECOMMENDATION	DUE DATE	ACTION OFFICER	DATE ACTION TAKEN	COMMENTS
1.	Provide commodity management training to project officers and managers on accounting for, safeguarding, and monitoring the use of project commodities;				Mission is scheduling a training for project managers/officers and other Mission officials. This will be an in-house training to be conducted by a commodity management specialist. The EIO is in the process of contacting a commodity management specialist in REDSO or AID/W and set a training date.
2.	Include the requirement for commodity management in the project officers' and managers' work requirements and employee evaluation reports, as appropriate;				The Assistant Director will amend the project officers work plan requirement to include explicit language on project officers responsibility in commodity management.
3.	Provide training to USAID/Zambia warehouse staff in the preparation and importance of receiving and inspection reports; and				On-going. The Executive Officer has been closely monitoring the work carried out by the warehouse staff, giving particular attention in the completion of receiving reports (RR). The EIO had several meetings with the staff and has given them guidance in this area. The EIO will issue a memo containing these instructions and guidance.
4.	Obtain from grantees and contractors current commodity listings for Project Nos: 611-0207, 611-0214, 611-0221, 611-0226 and 611-0230, reconcile those listings with USAID/Zambia accounting records, and determine the allowability of the quantities and amounts that cannot be reconciled.				Commodity listings have been received from the following projects: 611-0221, 611-0226 and 611-0230. The listings have been reconciled with the MACH reports for projects 611-0221 and 611-0226. For 611-0230, only the household inventories need to be reconciled. Mission will advise RIG when this is completed.

AUDIT OF USAID/ZAMBIA MANAGEMENT OF PROJECT COMMODITIES

DID USAID/ZAMBIA FOLLOW USAID POLICIES AND PROCEDURES TO ENSURE THAT USAID FINANCED WERE BEING USED AS INTENDED?

USAID/Zambia Should Ensure that Project Commodities are Adequately Protected

	RECOMMENDATION	DEE DATE	ACTION OFFICER	DATE ACTION TAKEN	COMMENTS
1.	Determine the amount of insurance proceeds for two motor vehicles which were stolen while in the custody of Volunteers in Technical Assistance and whether the proceeds were used in accordance with the USAID policies and procedures;				The Zambia State Insurance Company (ZSIC) paid VIS K1.5 million for the Toyota Hilux and K2.8 million for the Toyota Dyna Truck which were stolen. These proceeds were used by VIS to rehabilitate two trucks and a combi for use in the program, with Mission's concurrence.
2.	Determine whether a damaged Toyota Cressida belonging to the Zambia Agricultural Training Planning and Institutional Development II Project No. 811-0207 was disposed of in accordance with USAID policies and procedures;				The Toyota Cressida was damaged beyond repair and was only insured for third party risk. As a result, no insurance proceed was collected. This information was obtained from one of the former ZAYPID II drivers who is now working in one of our new project. No further information was obtained due to lack of official knowledgeable about the incident.
3.	Determine the amount of sales proceeds for a Volkswagen truck which was auctioned under the Zambia Agricultural Training Planning and Institutional Development II Project 811-0207 and whether the proceeds were used for authorized purposes;				The truck was sold for K 2,980,000.00. This amount was deposited into the USDO account No. 200004 019.
4.	Determine if insurance proceeds were received for an Isuzu Truck that was destroyed while in the custody of Volunteers in Technical Assistance and whether the proceeds were used for authorized purposes;				The Zambia State Insurance Company (ZSIC) paid the Village Industry Service (VIS), who were the actual users of the vehicle, an amount of K1.4 million in February 1993. VIS, with Mission concurrence, used the proceeds to rehabilitate two trucks and a combi for use in the program.
5.	Either repair the Toyota Cressida which was damaged in an accident while in the custody of RONCS Consulting				USAID/Zambia has given authority to RONCS to dispose the vehicle through auction. The vehicle is currently with the

AUDIT OF USAID/ZAMBIA MANAGEMENT OF PROJECT COMMODITIES

DID USAID/ZAMBIA FOLLOW USAID POLICIES AND PROCEDURES TO ENSURE THAT USAID FINANCED WERE BEING USED AS INTENDED?

6.	Corporation of the Zambia Agricultural Management and Support Project No. 611-0214 or dispose of it in accordance with USAID policies and procedures; and Evaluate and document the commodity management systems of all technical assistance contractors and grantees				auctioneer. Project managers/officers have requested their grantees/contractors to document their systems and pass these to USAID for approval. To date, only CFED (project 611-0230 contractor) submitted their policy and procedures on commodity management for USAID approval.
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AUDIT OF USAID/ZAMBIA MANAGEMENT OF PROJECT COMMODITIES

DID USAID/ZAMBIA FOLLOW USAID POLICIES AND PROCEDURES TO ENSURE THAT USAID FINANCED WERE BEING USED AS INTENDED?

USAID/Zambia Should Ensure that Project Commodities are Effectively Used

	RECOMMENDATION	DUE DATE	ACTION OFFICER	DATE ACTION TAKEN	COMMENTS
1.	Either deliver unused commodities stored at the USAID warehouse for use at the project implementation sites, justify delay in delivery to project sites, or dispose of them;				Approximately 85% of the commodities have been delivered to the project sites. The delay in the delivery of the goods to the project sites was mainly due to the late arrival of institutional contractors. There was a delay in finalizing the contracts, cooperative agreements, etc.
2.	Arrange to train technicians at the University Teaching Hospitals of Zambia to maintain USAID-financed equipment;				A volunteer from IESC (International Executive Service Corporation) has been assigned to the UTH to train technicians in the service and maintenance of the USAID financed equipment.
3.	Repair two washing machines valued at \$1,550 under the Democratic Government Project; and				The two washing machines have been repaired.
4.	Make arrangements to test office equipment and household appliances at the USAID warehouse to ensure they are in working condition.				Computers and accessories are being tested by the systems manager. Mission is still in the process of working out a system for the other office equipment and household appliances. Verbal instructions have been given by the EXO to the warehouse staff to unpack the containers and check if all the commodities are in good condition. These instructions are still to be put in writing.

Summary of Commodity Obligations and Expenditures for Projects Audited at USAID/Zambia			
Project Number	Project Description	Commodity Obligations	Commodity Expenditures³
1. 611-0207	Zambia Agricultural Training Planning & Institutional Develop.	\$ 612,052	\$ 344,516
2. 611-0214	Zambia Agribusiness Management and Support	3,645,469	3,253,167
3. 611-0221	HIV/AIDS Prevention	2,190,000	372,383
4. 611-0226	Democratic Governance	624,897	265,187
5. 611-0227	Zambia Pharmaceutical	2,000,000	915,193
6. 611-0230	Privatization Support	840,000	455,767
	TOTAL	\$ 9,912,418	\$ 5,606,213

SOURCE: USAID/Zambia Mission Accounting Control System report PO7A, dated April 11, 1994.

³ As discussed under the scope section, \$3.9 million was for non-commodity activities, \$0.4 million expended on commodities was not reflected in MACS report PO7A as of April 11, 1994. In addition, \$1.1 million was spent on commodities by the technical assistance contractors. Thus, the auditable universe was \$3.2 million in commodity expenditures.

APPENDIX IV
Report Distribution

American Ambassador to Zambia	1
Director, USAID/Zambia	5
AA/AFR	1
AFR/SA/MBZ	1
AFR/CONT	1
LPA/PA/PR	1
LPA	1
GC	1
AA/M	1
AA/PPC	1
M/FM	1
AA/G	1
PPC/CDIE/DI	1
M/MPI	1
M/FM/FS	2
M/FM/PPC	1
FA/OP	1
FA/PPC	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
AIG/A	1
D/AIG/A	4
IG/LC	1
IG/RM	12
AIG/I&S	1
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