



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

CLOSE-OUT AUDIT OF THE USAID RESOURCES
MANAGED BY CTA – CONFEDERAÇÃO DAS
ASSOCIAÇÕES ECONÓMICAS DE MOÇAMBIQUE
UNDER THE MISSION'S SPECIAL OBJECTIVE,
IMPROVED ENABLING ENVIRONMENTAL FOR
PRIVATE SECTOR-LED GROWTH AND
DEVELOPMENT, COOPERATIVE AGREEMENT NO.
656-A-00-99-00022 FOR THE PERIOD JUNE 29, 1999
TO SEPTEMBER 30, 2004

AUDIT REPORT NO. 4-656-07-001-N
December 18, 2006

PRETORIA, SOUTH AFRICA

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



USAID
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Office of Inspector General

December 18, 2006

MEMORANDUM FOR MISSION DIRECTOR, USAID/Mozambique, Jay L. Knott

FROM: Acting Regional Inspector General/Pretoria, Matthew P. Rathgeber 

SUBJECT: Close-Out Audit of the USAID Resources Managed by CTA – Confederação das Associações Económicas de Moçambique under the Mission's Special Objective, Improved Enabling Environmental for Private Sector-led Growth and Development, Cooperative Agreement No. 656-A-00-99-00022 for the period June 29, 1999 to September 30, 2004 (Report No. 4-656-07-001-N)

This memorandum transmits the subject report prepared by Agency-Contracted auditor, Ernst and Young (Maputo, Mozambique).

The audit was performed in accordance with the U.S. Comptroller General's Government Auditing Standards. The audit had scope limitations in that Ernst & Young does not have continuing professional education and external quality control review programs that fully satisfy the requirements set forth in the U.S. Government Auditing Standards.

The Confederation of Business Associations of Mozambique (CTA), is the working group of the business associations of Mozambique. It was organized in 1996 to spearhead the private sector's push for the reduction of red tape in government institutions. In June 29, 1999 a Cooperative Agreement was signed between USAID and CTA under the Mission's special objective, Improved Enabling Environmental for Private Sector-led Growth and Development, Award Number 656-A-00-99-00022 for the periods June 29, 1999 to September 30, 2004 for \$2,802,286. The purpose of the agreement is to Improve Enabling Environment for Private Sector-led Growth and Development and stronger representative private business institutions in order to strengthen private sector's capacity to be a proactive voice for fundamental changes to laws, policies and practices.

The objective of this audit was to conduct a financial audit of the USAID resources managed by the recipient under the Improved enabling Environment for Private sector-led growth and Development, Cooperative Agreement No. 656-A-00-99-00022 for the period June 29, 1999 to September 30, 2004 in accordance with U.S. Government Auditing Standards and the USAID "Guidelines for Financial Audits Contracted by Foreign Recipients." The audit covered \$2,802,286 in expenditures of USAID funds. The specific objectives of the audit included:

- Expressing an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in

conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).

- Evaluating and obtaining a sufficient understanding of the recipient's internal controls related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions.
- Performing tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of non-compliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to required cost-sharing contributions, if applicable.
- Determining if the recipient has taken adequate corrective action on prior audit report recommendations, if any.

Due to the possible significant impact on the Fund Accountability Statement the auditors could not express an opinion on the Fund Accountability Statement. The audit disclosed the following:

- Total questioned costs of \$2,305,872 (\$245,440 ineligible due to costs that are unallowable by the agreement and cost principles and \$2,060,432 unsupported due to costs not being adequately supported).
- Total questioned cost-sharing contribution of \$586,000 as ineligible.
- Two internal control weaknesses:
 - 1) Inadequate contract management, no controls were put in place which led to noncompliance finding in respect of this USAID project.
 - 2) Lack of internal control to ensure compliance with cost-sharing requirements.
- Thirteen instances of material noncompliance:
 - 1) Unsupported personnel costs charged to the USAID.
 - 2) No approval for acquisition of assets.
 - 3) Procurement procedures were not fully adhered to.
 - 4) Closing fund balance not remitted to USAID.
 - 5) Payment of consultancy services not fully rendered.
 - 6) Unsupported travel and transportation costs, supplies and other direct costs.
 - 7) No prior approval by the contracting officer for overseas travel and transportation costs.
 - 8) Unallowable entertainment costs charges to the USAID contract.
 - 9) Training courses for CTA staff instead of member associates.
 - 10) Potentially ineligible costs not tested – due to 65% of 80% of all transactions tested being questioned it is likely that the untested 20% does not comply with the agreement terms.
 - 11) Ineligible cost-sharing contributions of \$586,000.
 - 12) Commingling of funds.
 - 13) Not all funding received from USAID was recorded by CTA.

Therefore, we are making the following recommendations:

Recommendation No. 1: We recommend that USAID/Mozambique determine the allowability of \$245,440 in questioned ineligible costs and \$2,060,432 in questioned unsupported costs detailed on page 19 of Ernst & Young's audit report, and recover from the CTA – Confederação das Associações Económicas de Moçambique any amount determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Mozambique determine the allowability of \$586,000 ineligible questioned cost-sharing contributions detailed on pages 57 – 58 of the Ernst & Young's audit report, and recover from the CTA - Confederação das Associações Económicas de Moçambique any amount determined to be unallowable.

Recommendation No. 3: We recommend that USAID/Mozambique ensure that the recipient corrects the two reportable internal control weaknesses detailed on pages 28 - 36 of the Ernst & Young report.

Recommendation No. 4: We recommend that USAID/Mozambique ensure that the recipient corrects the thirteen instances of material noncompliance detailed on pages 40 – 60 of the Ernst & Young report.

In accordance with USAID's Automated Directives System (ADS) 595.3.1.1.a and 595.3.1.5.a, an audit recommendation without management decision may be elevated three months after issuance. Contract, Grant, or Agreement Officers make management decisions on questioned costs and procedural audit recommendations resulting from Office of Inspector General (OIG) desk reviews of financial audits of contractors and grantees. Mission Directors make management decisions for audit recommendations pertaining to Strategic Objective Grant Agreements that he/she signs. Please have the responsible official provide RIG/Pretoria with written notice within 30 days on any information related to actions planned or taken to implement the recommendations in this report.

**CLOSE-OUT AUDIT OF THE USAID RESOURCES MANAGED BY
CTA - CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONÓMICAS
DE MOÇAMBIQUE
UNDER THE MISSION'S SPECIAL OBJECTIVE,
IMPROVED ENABLING ENVIRONMENTAL FOR
PRIVATE SECTOR-LED GROWTH AND DEVELOPMENT
COOPERATIVE AGREEMENT NO. 656-A-00-99-00022**

For the periods June 29, 1999 to September 30, 2004



**CLOSE-OUT AUDIT OF THE USAID RESOURCES MANAGED BY CTA - CONFEDERAÇÃO DAS ASSOCIAÇÕES
ECONÓMICAS DE MOÇAMBIQUE UNDER THE MISSION'S SPECIAL OBJECTIVE, IMPROVED ENABLING
ENVIRONMENTAL FOR PRIVATE SECTOR-LED GROWTH AND DEVELOPMENT - COOPERATIVE AGREEMENT NO.
656-A-00-99-00022**

FOR THE PERIODS JUNE 29, 1999 TO SEPTEMBER 30, 2004

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1. PROJECT DESCRIPTION AND SCOPE

1.1 TRANSMITTAL LETTER AND SUMMARY

The Controller

USAID/ Mozambique

JAT Complex

Rua 1231, Nr. 41, Bairro Central C

Maputo, Mozambique

Dear Sir

Closeout audit of the of the USAID Resources Managed by CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONÓMICAS DE MOÇAMBIQUE under the mission's special objective improved enabling environmental for private sector – led growth and development. Cooperative Agreement N°. 656-A-00-99-00022-00.

We have completed the audit of the above Project for the period June 29, 1999 to September 30, 2004 and report as follows:

1.2 BACKGROUND

The CTA – CONFEDERATION OF BUSINESS ASSOCIATIONS OF MOZAMBIQUE, is the working group of the business associations of Mozambique. It was organized in 1996 to spearhead the private sector's push for the reduction of red tape in government institutions. Over time, its role has grown to meet the changing demands of the private sector, the government and the international community. In response to its already documented successes, the member associations of CTA voted at the end of 1998 to turn the working group into a legal entity, a confederation of business associations. Now, in addition to continuing to address red-tape reform, the CTA has a mandate from its membership to pursue a broader range of activities. In general, CTA will work to increase the private sector's voice in policy changes affecting business.

The CTA has functioned since its inception as an informal organization, with financial assistance from USAID for one professional staff member. With the work of this staff member and that of its voluntary five-member Board of Directors elected from the association's membership, the CTA has already accomplished a good deal on red tape issues.

1. PROJECT DESCRIPTION AND SCOPE

In June 29, 1999 a cooperation agreement was signed between USAID and CTA. This agreement to support CTA is compatible with Government policies and priorities, as the government has shown a firm commitment to institutional reform and the improvement of the investment climate in the country.

CTA is the principal implementing partner for USAID support under the Mission's Special Objective: *Improved enabling environment for private sector-led growth and development*. The cooperation agreement will develop and implement an institution-building program with CTA to achieve, under the Special Objective Intermediate Result 1.2: *Stronger representative private business institutions* in order to strengthen the private sector's capacity to be a proactive voice for fundamental changes to laws, policies and practices.

In addition to the institutional support mentioned above, the CTA is involved in areas of policy debate that are directly linked to other Intermediate results in the Special Objective Framework. USAID will provide funding for technical assistance in these areas through CTA. These areas include, but are not limited to:

- implementation of the VAT system and related fiscal reform;
- trade policy analysis; and
- Creation of an ADR-Alternative Dispute Resolution Center.

Purpose of the agreement

The purpose of the agreement is to improve enabling environment for private sector-led growth and development and stronger representative private business institutions in order to strengthen private sector's capacity to be a proactive voice for fundamental changes to laws, policies and practices.

Duration and location

The cooperative agreement was signed on June 29, 1999 for a three-year period, with a review at the end of each year to assess progress and determine whether to continue funding over the next year.

1. PROJECT DESCRIPTION AND SCOPE

1.3 SCOPE AND METHODOLOGY

The objective of this engagement is to conduct a financial audit of the USAID resources managed by the recipient under the Improved Enabling Environment for Private Sector Led Growth and Development for the period June 29, 1999 to September 30, 2004 in accordance with U.S. Government Auditing Standards and the USAID "Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)."

The specific objectives of the audit are as follows;

- Express an opinion on whether the fund accountability statement for the USAID-funded programs presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the agreements and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of the recipient's internal controls related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions.
- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost sharing, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of non-compliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to required cost-sharing contributions, if applicable.
- Determine if the recipient has taken adequate corrective action on prior audit report recommendations, if any.

1. PROJECT DESCRIPTION AND SCOPE

Our methodology was as follows:

Audit of the Fund Accountability Statement

- Held an entrance conference with the recipient and USAID to explain the audit objectives and other related matters on July 21, 2005.
- Reviewed the direct costs billed to and reimbursed by USAID/Mozambique and costs incurred but pending reimbursement by USAID, identifying and quantifying questionable costs.
- All questionable costs resulting from instances of non-compliance with contract terms and applicable laws and regulations are included as findings.
- Reviewed general ledgers and project ledgers to determine whether costs incurred were properly recorded.
- Reviewed procurement procedures to determine that sound commercial practices including competition were used, reasonable prices were obtained, and there were adequate controls over the qualities and quantities received.
- Reviewed direct salary charges to determine whether salary rates are reasonable for that position, in accordance with those approved by USAID, and supported by appropriate timesheets. Unsupported salary charges were questioned and are also reported in the findings.
- Reviewed travel and transportation charges to determine whether they are adequately supported and approved.

Internal Control Structure

- Reviewed and evaluated the recipient's internal controls related to USAID programs to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been placed in operation.
- Prepared the report required by the USAID Guidelines, identifying any reportable conditions, which are significant deficiencies in the design or operation of the internal controls, and the reportable conditions considered to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of the specific internal control elements do 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 a timely period by management performing its normal functions. Reportable conditions, including material weaknesses, are set forth in the report as findings. Non-reportable conditions are included in a separate management letter to the recipient and referred to in the report on the internal controls.

1. PROJECT DESCRIPTION AND SCOPE

- Evaluated the control environment, the adequacy of the accounting systems, and control procedures. Emphasis was placed on the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the fund accountability statement. This emphasis included, but not be limited to, the control system for:
 - a. ensuring that charges to the program are proper and supported;
 - b. managing cash on hand and in bank accounts;
 - c. procuring goods and services;
 - d. managing inventory and receiving functions;
 - e. managing personnel functions such as timekeeping, salaries, and benefits;
 - f. managing and disposing of commodities (such as vehicles, equipment, and tools, as well as other commodities) purchased either by the company or directly by USAID; and
 - g. ensuring compliance with agreement terms and applicable laws and regulations that collectively have a material impact on the fund accountability statement.

Compliance with Agreement Terms and Applicable Laws and Regulations

In fulfilling the audit requirement to determine compliance with agreement terms and applicable laws and regulations related to USAID programs, we as the auditor followed, at a minimum, guidance contained in AICPA SAS No. 74 (AU801) entitled "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance." The auditor's report on compliance should set forth all material instances of non-compliance as findings. Nonmaterial instances of non-compliance should be included in a separate management letter to the recipient and referred to in the report on compliance.

The auditor's report includes all conclusions that an irregularity or illegal act either has occurred or is likely to have occurred. In reporting material irregularities, illegal acts, or other non-compliance, the auditors should place their findings in proper perspective. To give the reader a basis for judging the prevalence and consequences of these conditions, the instances identified should be related to the universe or the number of cases examined and be quantified in terms of US dollar value, if appropriate. In presenting material irregularities, illegal acts, or other non-compliance, auditors should follow the reporting standards contained in Chapter 5 of U.S. Government Auditing Standards. Auditors may provide less extensive disclosure of irregularities and illegal acts that are not material in either a

1. PROJECT DESCRIPTION AND SCOPE

quantitative or qualitative sense. Chapter 4 of U.S. Government Auditing Standards provides guidance on factors that may influence auditor's materiality judgments. If the auditor concludes that sufficient evidence of irregularities or illegal acts exists, they should contact the USAID RIG office and should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations and/or legal proceedings.

- a. Identified the agreement terms and pertinent laws and regulations and determine which of those, if not observed, could have a direct and material effect on the fund accountability statement.
- b. Determined if payments have been made in accordance with agreement terms and applicable laws and regulations.
- c. Determined if funds have been expended for purposes not authorized or not in accordance with, applicable agreements terms. If so, the auditor should identify these costs as questioned in the fund accountability statement.
- d. Identified any costs not considered appropriate, classifying and explaining why these costs are questioned.

Audit of Cost Sharing Schedule

In fulfilling requirement related to cost sharing schedule, we considered the fact that this was an agreement with a life-of-project budget for cost-sharing contributions hence it was not possible to determine whether the contributions have been made as required until the agreement ends. Nonetheless, USAID and the recipient need reliable information to monitor actual cost-sharing contributions throughout the life of the agreement.

We have audited the cost-sharing schedule to ascertain whether contributions were provided and accounted for by the recipient in accordance with the terms of the agreement and if the schedule is fairly presented in accordance with the basis of accounting used by the recipient to prepare the schedule. We have also reviewed the cost-sharing schedule to determine if cost-sharing contributions were provided by the recipient in accordance with the terms of the agreement.

We have also obtained confirmation from projects used to finance cost-sharing schedule prepared by CTA. Funds used as cost.-sharing contribution are not managed directly by CTA.

1. PROJECT DESCRIPTION AND SCOPE

Closeout procedures performed

As part of the closeout procedures we:

- Requested confirmations of funds received as cost-sharing contributions from PODE – Projecto de Desenvolvimento Empresarial and ASDI – Agência Suca de Desenvolvimento Internacional;
- Requested inventories of assets acquired with USAID funding for physical verification purposes;
- Required evidence of transfer to USAID of any remaining balances of the funding received after any settlement;
- Requested reconciliation of any un-liquidated advances to the recipient and pending reimbursements by USAID.

1. PROJECT DESCRIPTION AND SCOPE

1.4 SUMMARY OF AUDIT RESULTS

1.4.1 LIMITATIONS OF SCOPE

1. We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.45 of *U.S. Government Auditing Standards*. However, our current program provides for at least 160 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.
2. We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.52 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in Mozambique. We believe that the effects of this departure from *U.S. Government Auditing Standards* is not material because we participate in the *Ernst & Young Global* worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.
3. The Fund accountability statement presented for audit purposes was prepared based on General Ledger not on disbursement reports as required by the Guidelines. The recipient was not able to provide reconciliation between the Fund accountability statement presented and the disbursement reports produced.

1.4.2 FUND ACCOUNTABILITY STATEMENT

A disclaimer of opinion has been issued to the Fund accountability statement due to the material questioned costs described below.

1. PROJECT DESCRIPTION AND SCOPE

1.4.2.1 QUESTIONED COSTS – USD 2,305,872

1.4.2.1.1 UNSUPPORTED COSTS - Personnel – USD 1,332,447

Although individual contracts exist, employees timesheets/ clock cards were not recorded by CTA and ADR for control purposes; therefore we were not able to validate time costs charged to USAID as *personnel costs* to supporting documents amounting to USD 1,072,423 and USD 260,024 for CTA and ADR, respectively. The unsupported costs were identified as payments to personnel, for which there were no supporting timesheets for the unit days charged to the contract.

See Section 4.2: Finding No. 1

1.4.2.1.2 INELIGIBLE COSTS – Consultants – USD 20,213

We were not presented with evidence of procurement made for selection of a consultant for production of the business index for CTA.

See Section 4.2: Finding No. 3

1.4.2.1.3 UNSUPPORTED COSTS – Travel expenses & Transportation – USD 18,369

We were not supplied with supporting documents for payments made for travel and transportation costs.

See Section 4.2: Finding No. 6

1.4.2.1.4 UNSUPPORTED COSTS – Equipment – USD 120,906

Although requested, we were not presented with a detailed inventory/ listing of assets showing clearly assets procured with program funds titled to USA Government and others titled to other donors. Additionally, we were not supplied with supporting documents for payments for the acquisition of equipment amounting to USD 42,997. Furthermore, procurement procedures (at least three quotations for acquisitions above USD 500) were not adhered to for acquisitions of goods and services totaling USD 42,736.

We were not supplied with evidence of pre-approval for acquisition of a non-USA origin vehicle acquired locally for an amount of USD 23,950.

See Section 4.2: Finding No. 2

1. PROJECT DESCRIPTION AND SCOPE

1.4.2.1.5 INELIGIBLE COSTS – Other payments – USD 6,000

We were not supplied with details or with supporting documents for payments amounting to USD 6,000 made during the first year. Additionally no budget was available for these payments.

See Section 4.2: Finding No. 6

1.4.2.1.6 UNSUPPORTED COSTS – Others (Supplies and Other Direct Costs) – USD 10,256

We were not supplied with supporting documents for payment of various expenses charged to the contract. This includes an amount of USD 3,600 related to reimbursements made to management for vehicle usage, which were not supported by the LOG book and payments made without evidence of procurement made amounting to USD 4,612.

See Section 4.2: Finding No. 6

1.4.2.1.7 CLOSING FUND BALANCES TO USAID – USD 25,190 (UNSUPPORTED USD 9,678 and INELIGIBLE USD 15,512)

CTA management did not remit closing balance funds totaling USD 15,512 to USAID as required by the Guidelines. **See Section 4.2: Finding No. 4**

There is an excess not reconciled difference of USD 9,678 in the Fund Balance as per the Fund accountability statement compared to the bank balances reflected in the bank reconciliations.

See Section 4.2: Finding No. 12

Furthermore, the above referred closing balances reflected as per the fund accountability statement for CTA (USD 10,118) and ADR (USD 15,072) differ from the balances reflected in the bank ledgers and reconciliations for CTA (2,404) and ADR (USD 13,108) by the amounts of USD 7,714 and USD 1,964, respectively and no reconciliation of the differences were prepared. *(See note 2.2.4)*

1.4.2.1.8 INELIGIBLE - TRAVEL AND TRANSPORTATION TO ABROAD – USD 137,844

CTA incurred costs for overseas travel, for which we were not supplied with evidence of formal approval granted by the USAID/ Mozambique mission.

See Section 4.2: Finding No. 7

1. PROJECT DESCRIPTION AND SCOPE

1.4.2.1.9 INELIGIBLE - PAYMENT OF ENTERTAINMENT COSTS - USD 15,115

Project funds were used to pay for meals and entertainment during a seminar held in Maputo and payment for a venue held in September 2004 without evidence of procurement made.

See Section 4.2: Finding No. 8

1.4.2.1.10 INELIGIBLE - CONSULTANTS COSTS - USD 33,235

The consultants services rendered under a contract signed with KPMG for the accounting services provided for the first year of the agreement did not obtain its objective, the establishment of levels of internal controls within CTA which are acceptable and in compliance with USAID Standards and Regulations. The nature and scope of the actual service rendered, to perform financial record keeping for one year in accordance with statutory requirements, was not required in terms of the agreement.

See Section 4.2: Finding No. 6

1.4.2.1.11 INELIGIBLE - TRAINING FOR CTA STAFF - USD 17,521

Expenses related to training for CTA management staff was paid during the period. However, training as per the agreement terms should only be for CTA members associations.

See Section 4.2: Finding No. 9

1.4.2.1.12 UNSUPPORTED - SUB AGREEMENT PAYMENT - USD 7,200

We were not supplied with evidence of contract signed with to ACIZA - Associação Comercial da Zambézia for payment of a sub agreement made during the period.

See Section 4.2: Finding No. 6

1.4.2.1.13 UNSUPPORTED COSTS - OTHER NOT TESTED - USD 560,457

Our audit tests were made on a sample basis, which covered 80% of the transactions incurred by CTA. Due to the materiality and impact of the questioned cost, almost 65% of total payments, it is unlikely that the 20% transactions not tested will comply with the agreement terms and provisions.

See Section 4.2: Finding No. 10

1. PROJECT DESCRIPTION AND SCOPE

1.4.2.1.14 UNSUPPORTED - FUND CONFIRMATION FROM USAID – USD 1,119

The confirmation received from USAID for funds disbursed under the agreements (USD 2,827,441) differs from the amounts reflected as receipts in the Fund accountability statement (USD 2,826,322) by an amount of USD 1,119, which has not been reconciled and justified. As such, we are unable to validate the difference disbursed. (See note 2.2.2) See Section 4.2: Finding No. 13

1.4.2.1.15 RECOVERABILITY OF BANK BALANCES

CTA used Credicoop as its bank to receive funds from USAID and to make payments during the period ended 30 June 2002. Credicoop was not a commercial bank but a credit cooperative. In 2002, Credicoop declared bankruptcy and the liquidation process is still underway. In 2003, CTA managed to recover USD 10,000 out of the balance of USD 21,064 (USD 14,358 and 224,919,000 thousands of Meticais) paid by the head of Credicoop, who was also head of the CTA at the time. (See note 4.2.4)

1.4.3 MATERIAL CONTROL WEAKNESSES

There was no an adequate internal control structure over the agreement expenditures and CTA did not establish appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract. Among other factors, this was due to not having a responsible, senior person, with adequate accounting skills who is familiar with the compliance requirements of the agreement. Management lacked adequate financial management skills and knowledge of USAID agreement terms and provisions, which contributed to the weakness in internal control. As result the following situation occurred:

1. *Contract management:* the company's management did not ensure that staff was adequately trained to review, interpret and implement the clauses of the contract with USAID.
2. Material control weaknesses on handling the bank accounts, as project funds were used to deposit funds received from other donors. The bank reconciliations have not been approved and signed by the person preparing it. Furthermore, they include many open items dated 6 months and older and do not match with the Fund accountability statement.
3. No control over actual hours worked by staff has been kept through out the project life.
4. No adequate segregation of duties was implemented, as the financial department was composed by only one person without adequate supervision by management.

1. PROJECT DESCRIPTION AND SCOPE

5. No timesheets were implemented to control external consultants unit days charged to the project.
6. Management did not maintain adequate accounting records to register USAID funding. As a result the confirmation received from USAID for funds disbursed under the agreements (USD 2,827,441) differs from the amounts reflected as receipts in the Fund accountability statement (USD 2,826,322) by an amount of USD 1,119, which has not been reconciled and justified.
7. Management did not maintain adequate controls to monitor and record cost sharing contributions
8. Procurement procedures were not adhered to for acquisitions of goods and services totaling USD 42,736.
9. Closing balance funds totaling USD 15,512 were not remitted to USAID.
10. Management did not maintain an adequate Fixed Assets Register/ Inventory listing showing all CTA's assets, source of finance and amount. As such, we were not able to verify whether USAID procured non expendable assets do exist. Additionally we were not supplied with evidence of formal approval obtained from USAID for the acquisition of capital expenditure (equipment and other).

1. PROJECT DESCRIPTION AND SCOPE

1.4.4 COMPLIANCE FINDINGS

1. Personnel costs were not supported by timesheets/ clock cards as required by USAID requirements. Additionally, payments of INSS – Social Security related to remuneration paid were not made timorously therefore representing a non-compliance with social security regulation regarding payment of INSS.
2. Relevant documents governing the contract were not made available by management to employees, especially documents related to allowable costs – OMB circular A-122 (clause 3.1 of the contract) and cost sharing – 22 CFR 226.23 (clause 3.21 of the contract) and other relevant Federal documents. As such, we are unable to conclude that the contract was implemented and managed in accordance with all agreed conventions;
3. Acquisition of general purpose equipment and vehicles without formal pre approval by the USAID/ Mozambique mission;
4. Lack of adequate listing/ inventory of assets acquired under the agreement;
5. Non adherence to procurement to procurement procedures;
6. Payments of expenses without adequate supporting documentation;
7. Travel and transportation costs overseas without pre approval by the USAID/ Mozambique mission;
8. Lack of supporting documents and details for payments made
9. Close out procedures were not complied with;
10. Payment of entertainment costs;
11. Payments of consultancy services not performed whose objectives were not achieved and
12. Payments of sub agreement without supporting contract.
13. The recipient did not maintain adequate controls over cost-sharing contributions. As such, we were not able verify supporting documentation in respect of cost-sharing contributions made. Additionally, although we have received a confirmation from PODE in respect of funds disbursed to CTA – Confederação das Associações Económicas de Moçambique, we were unable to determine if the cost sharing contribution was used for the program objectives and therefore allocable to the agreement. As such, cost sharing contributions are ineligible in terms of the Mandatory Standards Provision titled “Cost Sharing” C4.

1. PROJECT DESCRIPTION AND SCOPE

1.4.5 COST SHARING

We noted that during the period no regular control was kept by management over the cost sharing amounts received.

Additionally, although we have received a confirmation from PODE in respect of funds disbursed to CTA – Confederação das Associações Económicas de Moçambique, we were unable to determine if the cost sharing was used for the program objectives and therefore allocable to the agreement.

1.4.6 CORRECTIVE ACTION TAKEN ON PRIOR AUDIT REPORT RECOMMENDATIONS

There were no prior audit reports issued for this agreement.

1.4.7 CLOSEOUT PROCEDURES

The agreement No. 656-A-00-99-00022-00 expired on 30 September 2004. In terms of the closeout audit procedures, CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE did not provide adequate details of nonexpendable property (fixed assets) acquired under the agreement. Additionally CTA did not remit to USAID the remaining balance of USD 15,512.

1.4.8 CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE - MANAGEMENT COMMENTS

General Comments – O/S

1. Management noted with satisfaction that the auditor, in the TRANSMITTAL LETTER AND SUMMARY (pages 1 and 2), clearly stated that, starting with practically no staff (only one person) in June 1999, CTA was established and operational with an agenda set for policy reform and achieved a great deal of its purpose, becoming the only viable institution in Mozambique for economic policy reform. Other countries have reported that the establishment of similar institutions normally takes more time, and requires spending three to four times more than what was needed for CTA. Management of CTA, all 62 Member Associations, and the business community confirmed during the recently held 9th Annual Private Sector Conference the importance of the dialogue between the government and private sector, which was made possible by USAID support to CTA.

1. PROJECT DESCRIPTION AND SCOPE

2. The auditor left the impression that CTA has absolutely no administrative and financial controls in place. This is completely wrong. CTA has established a simple value-for-money system to allow management to have sufficient control of financial decisions and to be able to trace back all expenditures and to be able to issue financial reports as required by various interested parties in the CTA system. Management was able to prove this by offering the auditors the information required for their auditing functions. That said, due to sustainability concerns, Management took the strategic decision to minimize its administrative workload, by simplifying and minimizing administrative processes. Therefore management was able with minimal resources to achieve high results in its program targets. Management accepts the need to improve its system and has already identified and implemented a number of improvements. However, to implement significantly more sophisticated controls would have required increased funding. If CTA was able to obtain more resources at the level of about US\$300,000/year, additionally, it would have established a more sophisticated internal controls systems as discussed in this auditing process.
3. Therefore, USAID and CTA need to make a management decision on the acceptable level of controls vis-à-vis costs. In an annual budget of less than US\$600,000, the requirement to spend 50% in sophisticated financial and administrative control seems excessive, leaving minimal resources available for the objectives of the program.

The comments given by management are supported by documentation of which the vast majority was already provided to the auditors.

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.1 Independent Auditor's Report

CTA – Confederação das Associações Económicas de Moçambique
Rua do Castanheta, n° 120
Bairro de Sommerschild
Maputo, Mozambique

We have audited the Fund accountability statement of the USAID Resources Managed by CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONÓMICAS DE MOÇAMBIQUE for the period June 29, 1999 to September 30, 2004. The fund accountability statement is the responsibility of CTA – Confederação das Associações Económicas de Moçambique. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraphs, we 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.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.45 of *U.S. Government Auditing Standards*. However, our current program provides for at least 160 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.52 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in Mozambique.

We believe that the effects of this departure from *U.S. Government Auditing Standards* is not material because we participate in the *Ernst & Young Global* worldwide internal quality control review program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

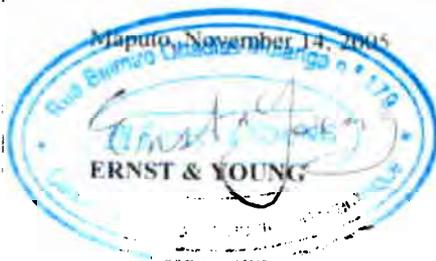
The Fund accountability statement presented for audit purposes was prepared based on General Ledger not on disbursement reports as required by the Guidelines. The recipient was not able to provide reconciliation between the Fund accountability statement presented and the disbursement reports produced.

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: \$ 2,060,432 (See note 2.2.3 and 2.2.2) in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations and \$ 245,440 in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreements (See note 2.2.3 and 2.2.4).

Due to the possible significant impact on the Fund Accountability Statement resulting from the effect of the paragraphs above we are not able to express and consequently do not express an independent opinion on the attached Fund Accountability Statement for the period June 29, 1999 to September 30, 2004 in accordance with the terms of the agreements and in conformity with the basis of accounting describe in note 2.2.1.

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated November 13, 2005, on our consideration of CTA - *Confederação das Associações Economicas de Moçambique*' internal control over financial reporting (Section 3) and our tests of its compliance with certain provisions of laws and regulations (Section 4). Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of CTA - CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE 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.



2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.2 FUND ACCOUNTABILITY STATEMENT

<u>CTA - CONFEDERATION OF BUSINESS ASSOCIATIONS OF MOZAMBIQUE</u>					
<u>FUND ACCOUNTABILITY STATEMENT</u>					
<u>JUNE 29, 1999 to SEPTEMBER 30, 2004</u>					
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u>		<u>NOTES</u>
	<u>USD</u>	<u>USD</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
			<u>USD</u>	<u>USD</u>	
Income	2,947,000	2,827,476			
Cooperative Agreement No. 656-A-00-99-00022-00		2,827,441		1,119	2.2.2
<i>Other funds</i>					
Interest income		35			
Costs	2,947,000	2,802,286			
Personnel	1,349,190	1,332,447	-	1,332,447	2.2.3.1
Consultants	473,836	494,643	53,448	-	2.2.3.2
Equipment	145,502	120,906	-	120,906	2.2.3.3
Supplies	36,687	105,609	15,115	8,212	2.2.3.4/5
Travel & Transportation	232,894	206,044	137,844	18,369	2.2.3.6/7
Training	73,100	17,521	17,521	-	2.2.3.8
Other Direct Costs	476,033	507,353	-	2,044	2.2.3.9
Other Payments	0	6,000	6,000	-	2.2.3.10
Sub Grant Association	159,758	11,763	-	7,200	2.2.3.11
<i>Expenses not reviewed (included above)</i>	-	-	-	560,457	2.2.3.12
Fund Balance		25,190	15,512	9,678	2.2.4
Total Questioned Costs			245,440	2,068,432	2.2.3
				2,305,872	

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2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

2.2.1 SIGNIFICANT ACCOUNTING POLICIES

a. *General*

The fund accountability statement was prepared on the cash basis. In accordance with this principal, receipts are only accounted for when received and expenses when paid for.

b. *Equipment and supplies*

Purchases of equipment are recorded as current expenditure in the fund accountability statement in the period in which they arise.

c. *Currency*

The fund accountability statement is presented in USD. All expenses in Meticaís were converted and registered in USD, at the exchange rate applicable on the transaction date. The foreign exchange gains and losses are reflected on the entity financial statements.

The exchange rates used by the recipient during the period were as follows:

Period	Average exchange rate
1999 - 2000	12,360.19
2000 - 2001	22,114.96
2001 - 2002	23,973.08
2002 - 2003	24,000.00
2003 - 2004	21,449.99

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.2.2 FUNDS RECEIVED FROM USAID

Represents total funding received from USAID during contract life.

	CTA	ADR	Total
Per Fund accountability statement	2,357,971	468,351	2,826,322
Per confirmation received (a)	2,550,813	276,628	2,827,441
Difference	(192,842)	191,723	1,119

See section 4.2 findings and recommendation, finding no. 13.

(a) Funds were received as follows:

Receipts from USAID (Credicoop – CTA)	1,047,282
Receipts from USAID (Standard Bank – CTA)	1,310,689
Receipts from USAID (Standard Bank – ADR)	468,351
Other funds not accounted by CTA	1,119
	2,827,441

2.2.3 QUESTIONED COSTS

2.2.3.1 PERSONNEL – UNSUPPORTED – USD 1,332,447

Unsupported costs of USD 1,332,447 comprises of personnel costs, for which timesheets/ clock cards to justify hours charged to the agreements were not maintained. (See note 4.2.1)

2.2.3.2 CONSULTANTS – INELIGIBLE – USD 53,448

Refers to Consultancy costs of USD 33,235 relating to KPMG for the accounting services provided for the first year of the agreement, as the contract did not obtain its objective, the establishment of internal controls within CTA which are acceptable and in compliance with USAID Standards and regulations. (See note 4.2.5)

Refers to Consultancy costs of USD 20,213 relating to KPMG for the production of business index for CTA, for which we were not supplied with evidence of procurement made, if any. (See note 4.2.3)

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.2.3.3 EQUIPMENT- UNSUPPORTED - USD 120,906

Refers to capital expenditure for general purpose equipment and vehicles, for which we were not:

- Presented with a detailed inventory/ listing of assets showing clearly assets procured with program funds titled to USA Government and others titled to other donors. (See note 4.2.2)
- Supplied with supporting documents for payments for the acquisition of equipment amounting to USD 42,997. (See note 4.2.2)
- Supplied with evidence of procurement procedures performed (at least three quotations for acquisitions above USD 500) for acquisitions of goods and services totaling USD 42,736. (See note 4.2.2)
- Supplied with evidence of pre-approval for acquisition of a non-USA origin vehicle acquired locally for an amount of USD 23,950. (See note 4.2.2) and;
- Supplied with evidence of pre-approval obtained for acquisition of general purpose equipment of USD 11,223. (See note 4.2.2)

2.2.3.4 SUPPLIES - INELIGIBLE - USD 15,115

Project funds of USD 15,115 were used to pay for meals and entertainment during seminars held in Maputo (catering services amounting to USD 5,155 (See note 4.2.8) on 30 September 2004, CCMUSA meals of USD 30 (See note 4.2.8) on 31 March 2004 and Chamber of Commerce Mozambique USA of USD 30 (See note 4.2.8) on 14 April 2004 and payments to Miramar, Lda of USD 9,900 (See note 4.2.3) on 30 September 2004 for a venue held, for which we were not supplied with evidence of procurement performed).

2.2.3.5 SUPPLIES - UNSUPPORTED - USD 8,212

Includes:

- Payment of USD 3,600 to the Executive Director of CTA for reimbursement of fuel costs without supporting documents (LOG book or any other sort of control), as specified in his employment contract to be entitled to this right. (See note 4.2.6)
- Payments without evidence of procurement performed (Caresoft - USD 2,229 - September 2001; Papelaria Académica and Photocopy solutions in June 2002 by the amounts of USD 641 and 935; and vehicle maintenance USD 807 in July 2004). (See note 4.2.6)

2.2.3.6 TRAVEL & TRANSPORTATION - INELIGIBLE - USD 137,844

Includes costs with overseas travels for which we were not supplied with evidence of formal approval obtained from the agreements officer. (See note 4.2.7)

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.2.3.7 TRAVEL & TRANSPORTATION – UNSUPPORTED – USD 18,369

Refers to unsupported travel expenses as follows:

Description	Month	Supplier	USD
Reimbursement for Taxi expenses	6-Dec-99	José Pedro de A. Barros	1,669
Travel Expenses	25-Jan-00	Egas Mussanhane	2,880
Travel Expenses	5-Nov-99	Augusto Mugaungui	2,550
Per diems	March/01	Augusto Mugaungui	3,604
Purchase of air tickets	December/00	Expresso Tours	246
Per Diems	August/03	Augusto Mugaungui	2,008
Per diems	August/03	Jafar	1,412
Per diems	August/03	Jafar	4,000
			18,369

(See note 4.2.6)

2.2.3.8 TRAINING – INELIGIBLE – USD 17,521

Refers to costs incurred with training of CTA and ADR staff when the training line in the budget relate to training of associates of CTA. (See note 4.2.9)

2.2.3.9 OTHER DIRECT COSTS – UNSUPPORTED – USD 2,044

Refers to payment of lodging costs at Salvor Hotels of USD 2,044 in February 2003 without supporting documentation. (See note 4.2.6)

2.2.3.10 OTHER PAYMENTS – INELIGIBLE – USD 6,000

Refers to expenses paid outside the approved budget and for which we were not presented with supporting document nor with details of payments made. As such, we were not able to allocate it to a specific budget line. (See note 4.2.6)

2.2.3.11 SUB GRANT ASSOCIATION – UNSUPPORTED – USD 7,200

Refers to payment of a sub grant to ACIZA – Associação Comercial da Zambézia, an associate of CTA, for which we were not supplied with the contract. (See note 4.2.6)

2.2.3.12 EXPENSES NOT REVIEWED – UNSUPPORTED – USD 560,457

Our audit tests were made on a sample basis, which covered 80% of the transactions incurred by CTA. Due to the materiality and impact of the questioned cost, almost 65% of total payments, it is unlikely that the 20% transactions not tested will comply with the agreement terms and provisions. These questioned costs related to actual expenses incurred in the Fund Accountability Statement for which we were not able to allocate to the different budget lines as they are result of a difference between the audit sample and the total population taken as a whole. (See note 4.2.10)

2. AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

2.2.4 FUND BALANCE

	CTA	ADR	Total
Per Fund accountability statement	10,118	15,072	25,190
Bank balance			
BSTM – USD	(8,529)	11,682	3,153
BSTM – MZM	(10,130)	1,426	(8,704)
Credicoop MZM (a)	14,867	-	14,867
Credicoop USD (a)	6,196	-	6,196
<i>See section 4.2.4</i>	<u>2,404</u>	<u>13,108</u>	<u>15,512</u>
Unreconciled difference	<u>7,714</u>	<u>1,964</u>	<u>9,678</u>
<i>See section 4.2 findings and recommendation, finding no. 12</i>			
Questioned costs are:			
Cash balance not remitted to USAID	(8,660)	13,108	4,448
Unrecoverable balance (a)	11,064	-	11,064
Unreconciled difference <i>See section 4.2.12</i>	7,714	1,964	9,678
	<u>10,118</u>	<u>15,072</u>	<u>25,190</u>

- (a) CTA used Credicoop as its bank to receive funds from USAID and to make payments during the period ended 30 June 2002. Credicoop was not a commercial bank but a credit cooperative. In 2002, Credicoop declared bankruptcy and the liquidation process is still underway. The balance at the time was USD 21,064 (USD 14,358 and 224,919,000 thousands of Meticais). In 2003, CTA managed to recover USD 10,000 paid by the head of Credicoop, who was also head at the CTA of the time. (*see section 4.2.4*)

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report on the Internal Control Structure

CTA – Confederação das Associações Económicas de Moçambique
Rua do Castanheta, n° 120
Bairro de Sommerschild
Maputo, Mozambique

We have audited the FUND ACCOUNTABILITY STATEMENT of CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE (section 2.2) as of and for the period June 29, 1999 to September 30, 2004, and have issued our report on it dated November 14, 2005.

Except for, not having a fully satisfactory continuing education program and not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement) and the fact that the Fund accountability statement presented for audit purposes was prepared based on General Ledger not on disbursement reports as required by the Guidelines due to the fact that the recipient was not able to provide reconciliation between the Fund accountability statement presented and the disbursement reports produced, 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.

The management of CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control 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 2.2.1 to the fund accountability statement. Because of inherent limitations in internal control, errors or fraud 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.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

In planning and performing our audit procedures of the fund accountability statement of the USAID Resources Managed by CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE for the period June 29, 1999 to September 30, 2004, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement and cost-sharing schedule.

See findings section 3.2:

1. There was no an adequate internal control structure over the agreement expenditures and CTA did not establish appropriate systems of internal control to deal with the stipulated requirements of this USAID Contract.
2. Management did not establish internal control to ensure compliance with cost sharing requirements in accordance with the cost principles contained in OMB circular A-122.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the fund accountability statement and the cost-sharing schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions stated above were also material weaknesses as defined above. Those conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the fund accountability statement of the USAID Resources Managed by CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE for the period June 29, 1999 to September 30, 2004.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

This report is intended for the information of CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE, Lda 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.

Maputo, November 14, 2005

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3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

3.2 FINDINGS & RECOMMENDATIONS

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the Organization's resources.

Our review of the internal control structure was directed towards those significant policies and procedures, which relate to the nature of project funding arrangements.

Finding No. 1 – Contract Management was inadequate, no controls were put in place which led to a compliance finding in respect of this USAID project

Criteria

In terms of GAO/AIMD-00-21.3.1 *Standards for Internal Control* provide an overall framework for establishing and maintaining internal control, as well as assessing and reporting on control. Management should ensure that ongoing monitoring occurs in the course of normal operations. It should be performed continually and ingrained in the recipient's operations. It should include regular management and supervisory activities.

Additionally, the Circular A – 122, attachment B (8.m support of salaries and wages) *Cost principles for non profit Organizations*, Compensation for personal services, states "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph".

The following supporting documents should be maintained:

Reports should be maintained, reflecting distribution of activity of each employee for all members (professional and non professionals), whose compensation is being charged directly to the contract. The reports (timesheets/ clock cards or any other) should be approved by a senior staff member or by the responsible supervisory person.

Furthermore, in terms of attachment 3 of the standard provisions of the agreement titled "3.2 Accounting, Auditing and records", CTA management should maintain financial records, supporting documents and other evidence relating to the AID-sponsored project or program in accordance with generally accepted accounting principles formally prescribed by the U.S.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

Condition

There was no an adequate internal control structure over the agreement expenditures and CTA did not establish appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract. Among other factors, this was due to not having a responsible, senior person, with adequate accounting skills who is familiar with the compliance requirements of the agreement, lack of adequate financial management skills and knowledge of USAID agreement terms and provisions, which contributed to the weakness in internal control and also to poor design and implementations of internal control and poor control environment.

Cause

Among other factors, this was due to not having a responsible, senior person, with adequate accounting skills who is familiar with the compliance requirements of the agreement, lack of adequate financial management skills and knowledge of USAID agreement terms and provisions, which contributed to the weakness in internal control and also to poor design and implementations of internal control and poor control environment.

Effect

As result the following situations occurred:

1. Poor control environment.
2. *Contract management:* the company's management did not ensure that staff was adequately trained to review, interpret and implement the clauses of the contract with USAID.
3. Material control weaknesses on handling the bank accounts, as project funds were used to deposit funds received from other donors. The bank reconciliations have not been approved and signed by the person preparing it. Furthermore, they include many open items dated 6 months and older and do not match with the Fund accountability statement.
4. No control over actual hours worked by staff has been kept through out the project life. This resulted in the fully category of personnel costs of USD 1,332,447 being questioned.
5. No adequate segregation of duties was implemented, as the financial department was composed by only one person without adequate supervision by management.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

6. Management did not maintain adequate accounting records to register USAID funding. As a result the confirmation received from USAID for funds disbursed under the agreements (USD 2,827,441) differs from the amounts reflected as receipts in the Fund accountability statement (USD 2,826,322) by an amount of USD 1,119, which has not been reconciled and justified. Furthermore, the recipient was unable to produce correct bank reconciliations. The bank reconciliation produced differs from the Fund accountability statement by the amounts of USD 16,591 for CTA and USD 1,964 for ADR, respectively.
7. Management did not keep regular control/ records over the cost sharing amounts. This information was prepared during and only for audit purposes.
8. Procurement procedures were not adhered to for acquisitions of goods and services totaling USD 42,736. This amount has been questioned as unsupported.
9. Closing balance funds totaling USD 15,512 were not remitted to USAID. This amount has been questioned as ineligible.
10. Management did not maintain an adequate Fixed Assets Register/ Inventory listing showing all CTA's assets, source of finance and amount. As such, we were not able to verify whether USAID procured non expendable assets do exist.
11. Contract clauses were not adhered to, especially regarding contract management or alternative approvals obtained in respect of acquisition of non USA origin vehicle amounting to USD 23,950.
12. Commingling of funds, as project accounts were used to deposit funds from different donors without adequate parallel controls to differentiate funding received from the different sources.

Recommendation No. 1

We recommend the following measures:

1. A project and risk management procedure needs to be implemented at the start of each project contracted for. This should involve the admin/finance/accounting manager(s) who should ensure that the recording and other mechanisms be put in place in order to comply with the requirements set out in the contract. This will ensure the eligibility of the charges made and the establishment of an adequate audit trail in respect of appropriate documentation.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

2. The company should prepare timesheets/ clock cards as a mechanism to control hours charged to the contract for each employee, per USAID Guidelines this is mandatory to justify the unit days charged to the contract. This recording should be instituted as a way of controlling productivity and chargeability on each employee costs to the contract.
3. Management should study the Guidelines and institute adequate procedures and controls to avoid using project's bank account to deposit other source's funding. Additionally, bank reconciliations should be approved by supervisory personnel and all pending should be investigated and cleared.
4. Management should study the Guidelines and institute adequate procedures for segregation of duties. Management should adhere to the mandatory standard provisions and also to agreement terms regarding handling of USAID funds.
5. Management should establish adequate controls to monitor and to account for cost-sharing contributions.
6. Management should prepare and submit an adequate Fixed Assets Register/ Inventory listing as per the Mandatory Standard Provisions titled "title to use of property (recipient title over \$50,000)".
7. USAID funding should be kept and managed separately.
8. Management should establish adequate sound accounting records to account for project funds.
9. Management should hire a senior staff with adequate financial managerial skills to deal with the sophisticated requirements for management of USAID funds. And
10. Procurement procedures should be adhered to.
11. Close out procedures should be followed by management at the close of the project. This includes all necessary steps as set out in the Guidelines.
12. Adequate fixed assets listing/ inventory should be maintained, which indicates identification of the asset, source of funding, date of acquisitions, amount, serial number, any other relevant identification element.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

Management Comments No. 2

ICS - Effects number 1, 2, 5

1. The management did everything possible in the Mozambique environment given the level of qualification of local accountants to make sure that USAID / CTA procedures were fully understood and implemented by the staff.
2. For the size of the project (less USD\$600,000 annually), management believed that one accountant for CTA and one for ADR were sufficient to cover the work load. On the other hand, CTA assured that procurement was done by a different person and authorization for expenditure and payments were done by a minimum of two senior manager's signatures.
3. Before hiring a CTA internal accountant, CTA contracted KPMG, a well-known, international accounting and auditing firm, to select and train CTA accounting staff and to also prepare CTA procedures for procurement, accounting and personnel. KPMG supported CTA from 1999 to 2001. Most of the problems that have been identified in this audit result directly from the policies and procedures that were developed and implemented by KPMG and many of the questioned costs were incurred between 1999 and 2001. This confirms the management's opinion that the lack of qualified professionals in accounting and financing is a major issue in Mozambique. From 1999 - 2000 even an international firm such as KPMG was not able to provide CTA with appropriate advice and was not able to prepare a set of regulations and procedures acceptable to the auditors.
4. CTA has been working with a mixture of procedures :
 - a. Accounting procedures and rules issues by the Ministry of Plan and Finance, based on "Plano Geral de Contabilidade" and fiscal regulations;
 - b. OMB Circular A-122, "Cost Principles for Non-Profit Organizations"
 - c. USAID Mandatory Standard Provisions for Non-Profit Organizations;
 - d. Other internal rules introduced by management -- both written and not written.
5. Therefore, although management understands that there may have been issues of non-compliance as raised by the auditors, the auditor's assertion that "at CTA no controls were put in place" is not accepted by management, because of the following facts:
 - a. Payment of salaries were fully controlled by at least two authorized signatures based on a presence control done in Human resource files;
 - b. Bank reconciliation statements were frequently prepared and confirmed by management at the weekly staff meetings;
 - c. Procurement was made accordingly, using at least three quotations following an internal management circulars;
 - d. All accounting files and document can be found in one monthly file, allowing trace back of any expenditure made at CTA;;
 - e. Petty cash well controlled and calculated based on the Mozambican laws and procedures;
 - f. All trips were fully authorized by management and acknowledged by the USAID CTO;
6. CTA management ensured that all CTA long-term accounting and financial staff, were trained in USAID accounting rules and requirements on various occasions:
 - a. Mr. Ivan Machava (CTA accountant), Frederico Siteo (CTA financial manager) and Cristina Matavele (ADR accountant), were sent to USAID - APVO courses as follows: Lesotho in 2002; South Africa 2003; and Tanzania in 2005.
 - b. CTA management also ensured that they took advantage of all USAID local office training that was available: visits from USAID control office staff; specific supports arranged by the USAID project management team. For example, the USAID Financial Management Specialist provided

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

on-the-job training to CTA on financial reporting, advances and liquidations over a period of six months.

- c. Hortencia Nichols was hired by CTA to train CTA accountant Ivan Machava on Account Reconciliation and other USAID procedures
- d. In 2003, CTA hired Frederico Siteo as a Financial Manager. Mr. Siteo holds a University qualification in Financial Management. Mr. Siteo was hired using a competitive process with a job description which includes strengthening the administrative and financial capabilities of CTA. He was sent to USAID-specific training at USAID regional courses in Tanzania in 2005.

ICS – Effect 3

7. Management is not in agreement with the auditor on this point, because there is a permanent system of account reconciliation and verification. Deposits of other sources of funds into de USAID account were only made in a very limited occasion. Bank accounts reconciliation statements were always verified in the monthly board meetings. However the Banking system in Mozambique at that time, was not providing in timely facton bank statements, so delays in verifications of the reconciliations occurred. Presently we continue facing problems from time to time of delays in obtaining Bank account statements. To prove that the auditors were able to reconcile the accounts due to the available filed information at CTA.

ICS – Effects 4

8. CTA was following the Mozambique labor law (8/98) by which most CTA contracts are considered long-term contracts ("por tempo indeterminado") according to Article 9 of the Law. Article 7 of the law stipulates the obligation to establish a compensation modality. In CTA's case, a fixed-monthly salary is stipulated in the individual contracts. A fixed contract is defined under Mozambican law as an established or agreed monthly payment which is not related to the number of hours worked or directly with performance. The fixed salaries modality can only be reduced for three reasons: (a) the retention of tax (IRPS) payments; (b) worker failure to come to work without justification; or (c) applying a fine against the worker for disciplinary problems or for non-performance. However, any of these salary reduction options require a full documentation and a lengthy process of documenting and proving the decision. Therefore CTA filed in the individual files, proves of assiduity and used the two signature payment authorization to validate the salary payments. However after 2004 a timesheet system was implemented fully.
9. CTA management believed that the simplified method in use at CTA and ADR, to control staff based on a signed contract with clear job descriptions and mandates, a weekly staff meeting on performance, and monthly approval of payment by two (2) to three (3) senior staff members was sufficient to justify fixed salary contracts payments.
10. Additionally, Management kept a "processo individual "where all information about each employee was filed, which was not reviewed by the auditor as not being part of the accounting process.

ICS – Effect 6

11. CTA explained to the auditor that the difference was a result of the exchange rate when changing USD to MT. CTA accountant provided a correct reconciliation even though some bank statements were missing due to the bankruptcy of Credicoop.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

ICS - Effect number 7

12. It was at the request of the auditors that the CTA accountant performed a recalculation of external contributions. However, CTA kept the original reports on these contributions. It is therefore, quite inappropriate for the auditor to make the assertion that "the information was prepared during and only for audit purpose" Management showed the auditors the original reports on such contribution directed to the general assembly and other purposes. Management would like to make it clear that CTA does not manage the accounts of such contributions. CTA management explained this many, many, many times to the auditor and provided proof.

ICS- Effect 8

13. Management would like to receive detailed information on US\$42,736 of goods and services purchased which the auditor asserts did not comply with procurement procedures. Management believed that all procurement of goods and services was done based on sound procedures and with the best judgment of what was best for CTA.

ICS - Effect 9

14. It was explained that due to the signature of a new agreement between CTA and USAID, the balance was reported in the following month of the new agreement. However part of the referred to balance was reported as remaining at the Bank Credicoop due to failure of the bank as reported by the auditor in page 12 (1.4.2.1.15 RECOVERABILITY OF BANK BALANCES)

ICS - Effect 10

15. CTA keeps a permanent inventory of its assets and all assets are identified. Management does not understand the auditors opinion on this simple matter.

ICS - Effect 11

16. It is not accurate. CTA provided proof of authorization from USAID office.

ICS - effect 12

17. This happened in a very short periods and it was not a CTA policy to do so. It was proved that these deposits were made by mistake and that this mistake was corrected as soon as it was identified.
18. Management agreed that CTA could improve its resource control procedures and therefore had already implement, recommendation numbers : 2; 3; 4; 5; 6; 7; 8; 9; 10; 12.

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

Finding No. 2 – Lack of internal control to ensure compliance with cost-sharing requirements

Criteria

In terms of GAO/AIMD-00-21.3.1 *Standards for Internal Control* provide an overall framework for establishing and maintaining internal control, as well as assessing and reporting on control. Management should ensure that ongoing monitoring occurs in the course of normal operations. It should be performed continually and ingrained in the recipient's operations. It should include regular management and supervisory activities.

Furthermore, in terms of the "accounting, audit and records" provisions CTA management should maintain financial records, supporting documents and all other records pertinent to the award.

Condition

Management did not establish internal control to ensure compliance with cost-sharing requirements in accordance with the cost principles contained in OMB circular A-122.

Cause

Among other factors, this was due to not having a responsible, senior person, with adequate accounting skills who is familiar with the compliance requirements of the agreement, lack of adequate financial management skills and knowledge of USAID agreement terms and provisions, which contributed to the weakness in internal control and also to poor design and implementations of internal control and poor control environment.

Effect

As result we were unable to determine if the cost sharing was used for the program objectives and therefore allocable to the agreement. As such, cost sharing contributions are ineligible in terms of the Mandatory Standards Provision titled "Cost Sharing" CA. (See finding 1.4.3.7)

Recommendation No. 2

Management should set up adequate internal control structure to cope with the sophisticated requirements of the USAID funding.

Management Comments No. 2

19. Management is fully aware of the difficulties of reporting on funds managed by other institutions. However management reported cost-sharing accurately and, as stated previously, keeps records of the contributions of these institutions into CTA. The auditor was informed by the providers of CTA

3. AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

support (PODE and PAC) about the fact that their accounts are kept separately from CTA (CTA receives goods and services and NOT cash). Both PODE and PAC were subject to a final audit report. These reports are available for public consultation. A report of PODE and PAC contributions to CTA was issued and given to the auditors. Because the auditors required a specific format of the reports, they requested that the CTA accountant reorganize the information. Again, as stated previously, it is therefore highly inappropriate for the auditor to assert that the cost sharing reports were only prepared for the purpose of the CTA audit. CTA can provide any time the original documentation.

4 AUDITORS REPORT ON COMPLIANCE

4.1 Independent Auditor's Report on Compliance

CTA – Confederação das Associações Económicas de Moçambique

Rua do Castanheta, n° 120

Bairro de Sommerschild

Maputo, Mozambique

We have audited the **FUND ACCOUNTABILITY STATEMENT** of **CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE, LDA** (section 2.2) as of and for the period June 29, 1999 to September 30, 2004, and have issued our report on it dated November 14, 2005. We also reviewed the separate cost-sharing schedule.

Except for not having a fully satisfactory continuing education program and not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement) and the fact the Fund accountability statement presented for audit purposes was prepared based on General Ledger not on disbursement reports as required by the Guidelines due to the fact that the recipient was not able to provide reconciliation between the Fund accountability statement presented and the disbursement reports produced, 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 misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to **CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE**, is the responsibility of **CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE** management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of **CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE** compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of **CTA – CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE** compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost-sharing contributions.

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Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement and cost-sharing schedule.

The results of our compliance tests disclosed the following material instances of non-compliance, the effects of which are shown as questioned costs in the **FUND ACCOUNTABILITY STATEMENT - CTA - CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE** and Cost-Sharing Schedule.

See findings section 4.2 for details:

1. Personnel costs were not supported by timesheets/ clock cards as required by USAID requirements. Additionally, payments of INSS - Social Security related to remuneration paid were not made timorously therefore representing a non-compliance with social security regulation regarding payment of INSS.
2. Acquisition of general purpose equipment and vehicles without formal pre approval by the USAID/ Mozambique mission and lack of adequate listing/ inventory of assets acquired under the agreement;
3. Non adherence to procurement procedures;
4. Close out procedures were not complied with;
5. Payments of consultancy services performed whose objectives were not achieved;
6. Payments of expenses without adequate supporting documentation and payments of sub agreement without supporting contract;
7. Travel and transportation costs overseas without pre approval by the USAID/ Mozambique mission;
8. Payment of entertainment costs;
9. Project funds were used to pay for training courses for CTA staff;
10. Lack of appropriate internal control structure to cope with the sophisticated requirements of the award;
11. Lack of control over cost sharing contributions;
12. Co-mingling of funds; and
13. Not all funding received from USAID was recorded by CTA.

4 AUDITORS REPORT ON COMPLIANCE

We considered these material instances of non-compliance in forming our opinion on whether the **FUND ACCOUNTABILITY STATEMENT - CTA - CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE** is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2.2.1 to the Fund Accountability Statement, and this report does not affect our report on the fund accountability statement dated November 14, 2005.

This report is intended for the information of CTA - CONFEDERAÇÃO DAS ASSOCIAÇÕES ECONOMICAS DE MOÇAMBIQUE 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.

Maputo, November 14, 2005

Ernst & Young
ERNST & YOUNG

ERNST & YOUNG

4 AUDITORS REPORT ON COMPLIANCE

4.2 FINDINGS & RECOMMENDATIONS

Finding No. 1 – Unsupported personnel costs charged to USAID

Criteria

The OMB Circular A – 122 (*Cost principles for non profit Organizations*) attachment B, 8.m, Compensation for personal services, states “Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports”.

The following supporting documents should be maintained:

Reports reflecting distribution of activity of each employee for all members (professional and non professionals), whose compensation is being charged directly to the contract. The reports (timesheets/ clock cards or any other) should be approved by a senior staff member or by the responsible supervisory person.

Condition

No reports reflecting distribution of activities by employee (timesheets/ clock cards or any other) were used to control unit days charged to the USAID contract No. 656-A-00-99-00022-00 for the project employees. Additionally, payments of INSS – Social Security related to remuneration paid were not made timorously therefore representing a non-compliance with social security regulation regarding payment of INSS.

Cause

Although contracts do exist, management did not employ control management tools, such as timesheets/ clock cards or other to control actual hours worked by employees/ charged to the contract.

The company did not comply with the requirements set out under the Social Security regulation regarding payment of INSS.

Effect

This resulted in the full category of personnel costs totaling USD 1,332,447 charged to USAID has been questioned as unsupported. We were able to perform procedures to verify the salaries paid to staff but not the control of time spent on the project. CTA could be subject to penalties and other sanctions due to late payment of INSS.

Recommendation No. 1

The Agreements Officer should consider allow ability of personnel costs totaling USD 1,332,447.

Management Comments No. 1

1. CTA was following the Mozambique labor law (8/98) by which most CTA contracts are considered long-term contracts ("por tempo indeterminado") according to Article 9 of the Law, Article 7 of the law stipulates the obligation to establish a compensation modality. In CTA's case, a fixed-monthly salary is stipulated in the individual contracts. A fixed contract is defined under Mozambican law as an established or agreed monthly payment which is not related to the number of hours worked or directly with performance. The fixed salaries modality can only be reduced for three reasons: (a) the renunciation of tax (IRPS) payments; (b) worker failure to come to work without justification; or (c) applying a fine against the worker for disciplinary problems or for non-performance. However, any of these salary reduction options require a full documentation and a lengthy process of documenting and proving the decision.

2. CTA management believed that the simplified method in use at CTA and ADR to control staff based on a signed contract with clear job descriptions and mandates, a weekly staff meeting on performance, and monthly approval of payment by two (2) to three (3) senior staff members was sufficient to justify fixed salary contracts payments.

3. These methods of staff control were also based on our interpretation of two key U.S. Government documents: OMB Circular A-122, Cost Principles for Non-Profit Organizations and USAID's Mandatory Standard Provisions for Non-U.S., Non-Governmental Recipients. Specifically, CTA believes that it has met the requirements of both of these guiding documents, as described below:

4. OMB Circular A-122 states that, "Reports reflecting the distribution of activity of each employee is charged, in whole or in part, directly to awards." It then goes on to state the specific benchmarks that must be met by an NGO. Below please find the benchmarks (in italics) along with a discussion of how CTA management believes the existing system met these requirements:

a. The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. CTA used a system of fixed contracts for its core staff with clear terms of reference. Each staff member at CTA has a clear job description. In order for payment to be made, CTA management approved - after the fact - the work product/performance of each employee per the terms of his/her contract.

4 AUDITORS REPORT ON COMPLIANCE

- b. *Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.* CTA used a system of fixed contracts for its core staff with clear terms of reference. Each staff member at CTA has a clear job description. In order for payment to be made, CTA management approved -- after the fact -- the work product/performance of each employee per the terms of his/her contract.
 - c. *The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.* CTA's system requires that both the employee and at least two management officers sign all payments for all work that is completed.
 - d. *The reports must be prepared at least monthly and must coincide with one or more pay periods.* CTA held weekly performance meetings with staff. Monthly payment reports were made and were processed as described above.
5. The Mandatory Standard Provisions for Non-U.S., Non-Governmental Recipients sets forth the following requirement: The recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award in accordance with generally accepted accounting principles formally prescribed by the U.S., the cooperating country, or the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) to sufficiently substantiate charges to this award. CTA contracted for personnel according to cooperating country (Mozambican) regulations and documented payments under these fixed contracts according to local requirements, in addition to meeting the requirements of OMB Circular A-122 as described above.
6. The following additional information is provided to further substantiate why timesheets were not the method utilized for permanent personnel management at CTA:
- a. CTA started at the beginning of the contract as a very small organization with only 2-3 staff. The nature of work was, and is, mostly out of office work in meetings and contacting clients such as government officials and private business.
 - b. As there were so few staff members, it was possible to exercise control on staff presence and work product using the weekly staff meeting where each staff reported on his work during the week. There are records of the minutes of this meeting.
 - c. Presently, with a growing number of staff, the management has temporarily introduced a system which utilizes timesheets. However, under local labor law, there are a number of legal issues related to the use of an hourly compensation system vis-à-vis a fixed contract system (which does not generally utilize timesheets). CTA will make a final determination on this issue once its legal counsel provides an opinion.
 - d. During the past five years, the issue of timesheets was raised by the internal auditors. However, along the discussions with auditors and with USAID controllers, there was misleading information as to the nature of this requirement as it related to a Non-U.S., Non-Governmental Organization such as CTA. CTA management understood that it could introduce any other method which assured the management of the work performance and work period of the staff and more than one CTA manager authorized the payment of fixed contract either by signing the authorization or signing a check.

4 **AUDITORS REPORT ON COMPLIANCE**

Finding No. 2 – Non approval for acquisition of assets

Criteria

In terms of the Circular A – 122 attachments B titled *Cost Principles for Non-Profit Organizations*, number 15 b. 1 “Capital Expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency”. Additionally, in terms of the mandatory Standard Provision titled “USAID eligibility rules for goods and services” no. 3. II the recipient must obtain prior approval of the Agreement Officer for the procurement of motor vehicles and general purpose equipment.

General purpose equipment includes assets like air conditioners, office equipment and furnishings, computers, automatic data processing equipment, etc.

Furthermore, in terms of paragraph 4.51 of the Guidelines, recipients should maintain an inventory listing of assets acquired under the agreement.

Condition

General purpose equipment and a non USA origin vehicle were acquired without prior approval.

Additionally CTA was unable to provide us with listing of assets.

CTA did not provide us with an adequate inventory listing for assets acquired under the agreement.

Cause

The company did not institute adequate internal control to ensure responsible staff were aware of the requirements of the Contract.

Lack of financial managerial skills for USAID financed programs

4 AUDITORS REPORT ON COMPLIANCE

Effect

As result the whole category of equipment of USD 120, 906 have been questioned as unsupported. This includes the amount of USD 23,950 used for acquisition of a non USA origin vehicle, the amount of USD 42,736 for acquisition of general purpose equipment without evidence of procurement performed, USD 42,997 paid without supporting documentation and acquisition of general purpose equipment without pre-approval by USAID of USD 11,223.

Recommendation No. 2

The USAID/ Mozambique mission should make a determination regarding the allow ability of the USD 120,906 being questioned as unsupported and recover from CTA any amount determined to be unallowable.

Management Comments No. 2

7. Management was not able to identify fully of the basis of the US\$120,906 referred to by the auditor as being in non compliance. However the following explains that the documentation was provided to the auditors:
 - a. The CTO provided a copy of the written approval to purchase the vehicles for the amount of US\$23,950;
 - b. A full inventory and identification of assets is available at CTA and was given to the auditors;

8. The equipment referred by the auditor of USD 42,736, as presented below, was fully authorized by USAID, and the USAID CTO even participated in the evaluation of bids to select the supplier:

Description	Month	Doc #	Beneficiary	USD
Payment of Invoice	October/99	33	Elfin Export	21,762
Stationery	September/00	USD013	Elfin Export	6,452
Brochures	September/01	MZM008	Tipografia Litografia Globo, Lda.	2,904
Office Stationery	June/02	MZM006	Papelaria Académica	641
Purchase of office Stationery	June/02	MZM015	Photocopy Solutions	946
Payment of invoices	September/01	USD018	Caresoft	2,226
Payment of invoices	May/02	USD011	Zerif	1,747
Payment of INVOICES	June/02	USD016	Zerif	1,748
Payment of invoices	September/03	USD014	Zerif	566
Purchase of Furniture	November/03	USD010	Divitec	1,099
Payment of invoices	January/04	MZM011	Sográfica	2,645
				42,736

9. Management is verifying the amount of US\$42,997 and US\$11,223 referred to in the report as equipment purchased without CTO approval, however as per above, management believed that the auditor did not carefully verify the documentation provided.

4 **AUDITORS REPORT ON COMPLIANCE**

Finding No. 3 – Procurement procedures were not fully adhered to

Criteria

In terms of mandatory standard no. 5 *Procurement of Goods and Services* paragraph 3 “All recipient shall establish written procurement procedures. Additionally the mandatory standard provision titled “*Procurement of goods and services*” set forth standards for use by management in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services.

Procurement procedures set out by management require that at least three quotations be obtained for acquisitions of goods and services above USD 500.

Condition

Procurement procedures were not followed for the production of the business index for CTA. This was produced by KPMG without any evidence of procurement procedures performed to select the consultant.

A venue was held at Miramar, Lda for which we were not supplied with evidence of procurement procedures performed to select the supplier of the services.

Cause

Breach of procurement requirements set out by CTA and also required in terms of the agreement provisions.

Effect

Expenses amounting to USD 20,213 were paid without complying with project requirements in terms of procurement. Therefore this amount has been questioned as ineligible in the Fund accountability statement.

Cost for hiring of the venue of USD 9,900 has been questioned as ineligible.

Recommendation No. 3

The USAID/ Mozambique mission should assess validity of such payments taking into consideration the fact that the project may not have benefited from the best prices and services available in the market. Based on such consideration should consider issuing bills of collection for the questioned amounts of USD 20,213 and USD 9,900.

4 **AUDITORS REPORT ON COMPLIANCE**

Management Comments No. 3

11. "Índice do Ambiente de Negócio or Business Index" is a perception report of the business environment recorded each six months (started by being quarterly basis) based on company surveys. KPMG initiated this survey and developed the concept for Mozambique. The auditor was informed and Ernst & Young managers know that the "Business Index" concept was an initiative of KPMG in Mozambique. KPMG developed the concept and offered to partner with CTA to develop the index. Therefore, because of the importance of the index to the policy work that CTA performed with USAID funding, CTA accepted to co-finance the undertaking with KPMG and the South Africa Mozambique Chamber of Commerce, as per agreement provided to the auditors. USAID CTO acknowledged this agreement:
12. Management would like more time to verify US\$9,900 cost for hiring venue at Miramar.
13. Management will provide to USAID, if so required, the agreement between the owner of the concept (KPMG), Mozambique / South Africa Chamber of commerce and CTA which was already provided to the auditor.

4 **AUDITORS REPORT ON COMPLIANCE**

Finding No. 4 – Closing fund balance

Criteria

In terms of Circular A-122, attachment B, principle no. 5 *Cost Principles for Non Profit Organizations* states that *Bad debts*, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.

Additionally, in terms of the Guidelines, paragraph 4.5.1 which state “ensure that the recipient returned any excess cash to USAID”

Condition

Project fund balance of USD 15,512 was not returned to USAID. Part of the fund balance totaling USD 11,064 is considered lost due to bankruptcy of the financial institution (Credicoop) were they had been deposited and the remaining USD 4,448 was not remitted to USAID.

Effect

Of the total fund balance of USD 15,512, questioned as ineligible, an amount of USD 11,064 deposited at Credicoop is considered lost and the remaining USD 4,448 was not remitted to USAID.

Cause

CTA management decided to use Credicoop as its bank to receive funds from USAID and to make payments during the period ended 30 June 2002. Credicoop was not a commercial bank but a credit cooperative managed by the head of CTA, who was also head of the Credicoop at the time.

Recommendation No. 4

The USAID/ Mozambique mission should make a determination regarding the allow ability of the USD 15,512 being questioned as ineligible and recover from CTA any amount determined to be unallowable.

Management Comments No. 4

14. CTA filed a legal opinion on this matter and discussed it extensively with the USAID CTO and Controller. Management requested a decision from USAID to finalize the issue in order to transfer the balance due at the end of the period.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 5 – Payment of consultancy services not fully rendered

Criteria

In terms of the OMB circular A -122, attachment B, principle 37.b.1 in determining the allow ability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, amongst other factors, the nature and scope of the service rendered in relation to the service required is relevant.

Condition

The consultants services rendered under a contract signed with KPMG for the accounting services provided for the first year of the agreement did not obtain its objective, the establishment of levels of internal controls within CTA which are acceptable and in compliance with USAID Standards and Regulations. The nature and scope of the actual service rendered, to perform financial record keeping for one year in accordance with statutory requirements, was not required in terms of the agreement.

Cause

The CPA firm was not fully familiar with the sophisticated requirements of internal controls by USAID.

Effect

The amount of USD 33,235 paid to KPMG is ineligible in terms of the USAID requirements.

Recommendation No. 5

The USAID/ Mozambique mission should make a determination regarding the allow ability of the USD 33,235 being questioned as unsupported and recover from CTA any amount determined to be unallowable.

Management Comments No. 5

16. Management agrees with the auditor opinion that KPMG did not fully accomplish its work. However this contract was performed during a very difficult period in Mozambique, in terms of capacity and adequate regulatory environment and banking system. On the other hand, CTA was very weak and not staffed, so CTA was not in a position to make accurate judgment of the quality of work at that time. Management requests USAID to consider that the consultant did its work and provided CTA with basic rules (which CTA is using presently).

4 **AUDITORS REPORT ON COMPLIANCE**

Finding No. 6 – Unsupported travel and transportation costs, Supplies and other direct costs

Criteria

In terms of the Mandatory Standard Provision of the agreement, the recipient shall maintain financial records, supporting documents, statistical records and all other records pertinent to the award. As such, all payments made should be supported by adequate documentation to justify the payment made and allow ability in terms of the agreement's provisions.

Furthermore, the OMB Circular A-122, attachment B, principle 19 states that the cost of goods or services for personal use of the organization's employees is unallowable.

Condition

We were not supplied with supporting documents for payments of per diems for local travel and transportation costs and other direct costs, including reimbursement of expenses related to own vehicle usage made to the executive manager of CTA, which lacked LOG book or any other control to prove the entitlement to that reimbursement.

An amount of USD 7,200 was paid to ACIZA – Associação Provincial da Zambesia under sub agreements budget line without any contract.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

An amount of USD 18,369 used for local travel and transportation has been questioned as unsupported. An amount of reimbursement USD 3,600 reimbursement to the Executive Manager of CTA for own vehicle usage was questioned as unsupported.

Various expenses related to other costs of USD 6,656 have been questioned as unsupported due to lack of supporting documents as described below:

- Payment to Caresoft of USD 2,229 dated September 2001;
- Payment to Papelaria Académica of USD 641 dated June 2002;
- Payment to Photocopy Solutions of USD 935 date June 2002;
- Payment of expenses related to vehicle maintenance of USD 807 dated July 2004; and
- Payment to Salvor Hotels of USD 2,044 dated February 2003.

4 AUDITORS REPORT ON COMPLIANCE

An amount of USD 7,200 paid to ACIZA - Associação Provincial da Zambézia under sub agreements has been questioned as unsupported.

An amount of USD 6,000 spent by CTA exceeded the approved budget and for which we were not supplied with neither supporting documentation nor details has been questioned as ineligible.

Recommendation No. 6

The USAID/ Mozambique mission should make a determination regarding the allow ability of the following amounts: USD 18,369, USD 3,600, USD 6,656 and USD 7,200 being questioned as unsupported and USD 6,000 being questioned as ineligible and recover from CTA any amount determined to be unallowable.

Management Comments No. 6

18. The management did not have sufficient information from the auditor to identify fully the amounts referred to in this finding number 6, on COMPLIANCE REPORT, however the manager will elaborate on each of the expenses referred to below.

19. USD18,369 (or US\$13,352) expended in local travels and related expenses, questioned as unsupported, by the audits, management find that the expenses are well supported and appropriately filed as per below tables:

Item	Explanation
Meals & Incidental Expenses related to March 2001 General Assembly	A total amount of US\$4,012 was paid to eleven delegates to the CTA General Assembly held in Maputo from March 21-22, 2006. The agreement with the participants was that CTA would pay for meals and incidental expenses and the participants would pay for accommodation themselves. Reports of this General Assembly, including attendance, are available in the files. Due to transportation constrains CTA paid in different dates for each delegate at daily allowances of US\$68/day. This amount did not require collection of receipts. Because they did not use CTA accommodation allowance they were not required to supply CTA with Hotel bill. The management did not understand the opinion of the auditor that these expenditures are unsupported.
Meals & Incidental Expenses related to January 2001 General Council	A total amount of US\$2,516 was paid to eight participants to the General Council held in Maputo from January 30-31, 2001. Reports of this General Council, including attendance, are available in the files. The same procedure as described above was followed. The management did not understand the opinion of the auditor that these expenditures are unsupported.
Meals & Incidental Expenses related to October 2000 General Council	An amount of US\$2,584 was also paid to eight people who came to participate in the General Council held in Maputo from October 17-18, 2000. Reports of this General Council, including attendance, are available in the files. The same procedure as described above was followed. The management did not understand the opinion of the auditor that these expenditures are unsupported.

4 AUDITORS REPORT ON COMPLIANCE

CTA staff Hotel expenses	<p>The amount of \$9,240 was for CTA staff member hotel expenses. As the travellers did not provide receipts, CTA has issues invoices to the travellers in the following amounts:</p> <ul style="list-style-type: none"> a. Egas Mussanhane to pay CTA, the amount of US\$4,618; b. Paulo de Sousa to pay CTA the amount of US\$828 c. Otilia Pacule to pay CTA the amount of US\$2,642 d. Carlos Costa to pay CTA the amount of US\$576 e. Mahomad Ejaz to pay CTA the amount of US\$576 <p>CTA will continue to diligently follow-up on these outstanding amounts.</p>
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19. The agreement with ACIZA was discussed extensively with CTO- USAID and agreed as a pilot. Management signed a contract or exchanged letter on the arrangement due to low monthly values involved. Management need time to collect the evidences that this subcontract was done appropriately.
20. The amount of MZM 15,245,000.00 equivalent to US\$641 was paid to Academica to supply stationary in May 2002 (paid in June 2002) .Our records show that four quotations were received and Académica was awarded those items which were better priced. This information was provided to the auditors.
21. An amount equivalent to MZM 22,493,250.00MT or US\$946.41 (US\$935? From the auditors), was paid to the firm Photocopy Solutions for maintenance of CTA's photocopy machines in June 2002. Photocopy Solutions were the sole authorized agent in Mozambique for the brand of photocopiers that CTA was using. Therefore, CTA was required to utilize Photocopy Solutions for repairs and maintenance or the warranty on the machines would be nullified. This information was provided to the auditors.
22. The amount of US\$2,225.58 (2,229 from the auditor?) was paid to Caresoft, in September 2001. This amount was paid for different purposes: US\$491 for supply of an internet hub spare; US\$64.58 for the supply network card; and US\$1,670 for a seven-month technical support contract. CTA and Caresoft (one of the few internet related company at that time) signed a general contract for Caresoft to provide technical assistance for maintenance and trouble shooting functions with the internet at CTA. The contract stated a fixed amount of US\$215 US per month. During the process of regular maintenance, Caresoft provided CTA with spare parts required, therefore management thought that there was no need to do procurement on such small supplies. This contract was supposed to be covered by PODE (the World Bank project) and later by PAC (a Swedish Project). However, there was a delay in payment to Caresoft by these two organizations. CTA management took the decision to pay using USAID funds, as these were costs that were allowable under the USAID agreements. Once again the auditor did not took the time to understand the transactions involved and end up mixing different expenses in one only effect analysis.

4 AUDITORS REPORT ON COMPLIANCE

23. The vehicle was maintained in July 2004 US\$807, with the local agent, which management considers no requirement for quotation. However management will verify this expenditure in order to understand the auditor's opinion.
24. Management would also require time to file the Salvor Hotel expenditure of US\$2044 in February 2003 which the auditors considered unsupported due to lack of supporting documents.
25. US\$3600 was paid to Sergio Chitara Executive Manager for reimbursement costs for using his vehicle to go from home to CTA and from CTA to various parts of the town for meetings with high frequency. Management accepted this arrangement to avoid o provide a car for CTA manager, which was part of the negotiation package of his contract. The paid amount was an accumulated amount for more than one year, corresponding to about US\$300/month and about US\$13.63 /day including fuel. Market price for a management car hiring would cost US\$40-70/day. Statistics of about three month use of the car were filed and used as the base to calculate average kilometers used and a value per km was used. Management would like to verify this issue and bring and qualify the strength of the documentation provided to the auditor.
26. Management did not understand the finding of the auditor in relation to expenditure of US\$6000 over the approved budget. Management request the auditor to provide more details of this unjustified payment.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 7 – Travel and transportation costs to overseas

Criteria

In terms of the OMB Circular A – 122, attachment B, Principle 51.e and the Mandatory Standard Provision titled “International air travel and transportation” all overseas travel requires prior approval from the USAID/ Mozambique mission unless authorized in the agreement.

Condition

The recipient incurred in costs with overseas travel and related costs, for which we were not provided with evidence of formal approval obtained from the agreements officer.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

- An amount of USD 137,844 has been questioned as ineligible under the agreement.

Recommendation No. 7

The USAID/ Mozambique mission should make a determination regarding the allow ability of the amount of USD 137,844 being questioned as ineligible and recover from CTA any amount determined to be unallowable.

Management Comments No. 7

There was never any travel abroad initiated without acknowledgement of the USAID CTO. Most of the communication and authorization were been provided by e mail. Management would like to receive from the auditors a comprehensive list of corresponding trips abroad without authorization so that an appropriate comment can be provided.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 8 – Entertainment costs

Criteria

In terms of the circular OMB A – 122 Attachment B, Principle 14 relating to entertainment expenditure states *Entertainment costs*. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable”.

Condition

Project funds were used to pay for meals during a seminar held in Maputo at Miramar, Lda.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

An amount of USD 5,215 paid on September 30, 2004 has been questioned as ineligible under the agreement.

Recommendation No. 8

The USAID/ Mozambique mission should make a determination regarding the allow ability of the amount of USD 5,215 being questioned as ineligible and recover from CTA any amount determined to be unallowable.

Management Comments No. 8

Management believed that such payment may occur during private sector conference or general Assembly gathering. Management would like to verify the reasoning of having taken a decision to allow such payment.

4 **AUDITORS REPORT ON COMPLIANCE**

Finding No. 9 - Training courses for CTA staff

Criteria

In terms of the agreement signed between CTA and USAID (Project N°. 656-A-00-99-00022-00) training should be made to CTA member associates to capacitate them, as stated under point 4 of the attachment 2, program description, second paragraph line 5, which reads "*private sector development and training*".

Additionally, in terms of the circular OMB A-122, attachment a, 4.a.1, costs incurred should be allocable to the specific objectives of the award.

Condition

Project funds were used to pay for training courses for CTA staff.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

An amount of USD 17,521 used to pay for training courses for CTA staff has been questioned as ineligible under the cooperative agreement.

Recommendation No. 9

The USAID/ Mozambique mission should make a determination regarding the allow ability of the amount of USD 17,521 being questioned as ineligible and recover from CTA any amount determined to be unallowable.

Management Comments No. 9

Management would like to request the auditors to specify which training is being questioned. However this issue is an interpretation matter. The management understanding of the agreement is that the agreement does not forbid CTA to train its own staff.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 10 – Ineligible costs – Other not tested

Criteria

In terms of the Mandatory Standard Provision titled “Accounting, Auditing and Records” the recipient is required to maintain, among other items, financial records pertinent to the award. This implies that for all other costs, we were unable to test and as such cannot confirm that those costs complied with the cost principles and agreement terms.

Condition

Our audit tests were made on a sample basis, which covered 80% of the total transactions incurred by CTA. Due to the materiality and impact of the questioned costs, almost 65% of total payments, it is unlikely that the remaining 20% of the transactions not tested will comply with the agreement terms and provisions because of the lack of internal control relating to compliance.

Furthermore, CTA did not establish adequate internal control structure to cope with the sophisticated requirements of the award.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

As result an amount of USD 560,457 of costs not tested has been questioned as unsupported under the agreement.

Recommendation No. 10

The USAID/ Mozambique mission should make a determination regarding the allow ability of the amount of USD 560,457 being questioned as ineligible and recover from CTA any amount determined to be unallowable.

Management Comments No. 10

As presented throughout our Management Comments, management does not agree with the auditor that in 80% sample 65% of total payment were questioned. Management can prove that the majority of questioned costs are in fact allowable.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 11 – Cost sharing

Criteria

In terms of the Mandatory Standard Provision titled “cost sharing “c.4, contributions should be the types of charges that would be allowed under the applicable Federal Cost principles, which is the case of OMB Circular A - 122.

Condition

Although we have received a confirmation from PODE in respect of funds disbursed to CTA – Confederação das Associações Económicas de Moçambique, we were unable to determine if the cost sharing contribution was used for the program objectives and therefore allocable to the agreement.

Furthermore, we noted that during the period no regular control was kept by management over the cost sharing amounts contribution.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

CTA did not comply with the agreements provision in respect of cost sharing contributions. As result the cost-sharing amount of USD 586,000 as been questioned as ineligible.

Recommendation No. 11

USAID should consider further actions to be taken under the circumstances and should also determine the allowability of the amount of USD 586,000 in questioned ineligible cost-sharing contributions, and recover any amount determined to be unallowable.

Management Comments No. 11

27. Management explained at length to the auditors that CTA Cost Sharing is comprised of:

- a. Member contributions;
- b. Payment of fees by participants in CTA events;
- c. Value of non-reimbursed time spent by Members of the Board and private individuals in meetings and preparing papers for overall discussions on policies; and
- d. Other projects, such as PODE and PAC, contributions.

4 AUDITORS REPORT ON COMPLIANCE

28. In relation to other donor contribution into CTA activities, CTA cannot present the accounting files of these other donor contributions as funds are not transferred to CTA. Instead, the payments for goods and services required by CTA and approved by the other donors are made directly to suppliers by the donor organizations. CTA can only present the attached reports of in-kind contributions and estimation of cost.
29. The contribution of \$2 million referred to in the audit report was based on a misunderstanding by the auditor of information obtained from ASDI- the Swedish International Cooperation Agency. This amount is not allocated to CTA but instead corresponds to the entire budget allocated by ASDI for private sector development activities in Mozambique. CTA can apply for small amounts of funding from ASDI, but does not have anything to do with the \$2,000,000 and never included this in any report of discussion of our cost-sharing commitment. Additionally CTA can provide a final audit report of these accounts.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 12 – Co-mingling of funds

Criteria

In terms of the Mandatory Standard Provision titled "payment advance" the recipient is required to maintain, among other items, financial records, supporting documents, statistical records and all other records pertinent to the award. It requires that USAID funds shall not be co-mingled with other recipient owned or controlled funds and shall be deposited in a separate bank account.

Additionally, in terms of the mandatory standard provisions titled "*accounting, audit and records*" recipients are required to maintain financial records pertinent to the award and all funding received from USAID must be appropriately recorded and those records must be periodically reconciled with information provided by USAID.

Condition

Material control weaknesses on handling the bank accounts, as project bank accounts were used to deposit funds received from other donors and from membership contributions. As result, Fund balance as per the Fund Accountability Statement differs from the actual existing cash in bank and no reconciliation has been prepared to justify the difference of USD 9,678.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

CTA did not comply with the USAID requirements in respect of handling of US funds. Furthermore, there is an unjustified and not reconciled difference of USD 9,678 between the fund balance and the actual cash in bank.

Recommendation No. 12

Management should consider further actions to be taken under the circumstances and the USAID/Mozambique mission should make a determination regarding the allow ability of the USD 9,678 being questioned as unsupported and recover from CTA any amount determined to be unallowable.

Management Comments No. 12

30. CTA would like to verify in more detail this finding. However, management explained to the auditors that in a very limited occasion CTA did deposit contributions from other sources into a USAID account. This is not a CTA policy it happened by mistake or wrong management decision from the accountant which was promptly rectified by management.

4 AUDITORS REPORT ON COMPLIANCE

Finding No. 13 – Not all funding received from USAID was recorded by CTA

Criteria

In terms of the Mandatory Standard Provision titled "payment advance" the recipient is required to maintain, among other items, financial records, supporting documents, statistical records and all other records pertinent to the award.

Additionally, in terms of the mandatory standard provisions titled "*accounting, audit and records*" recipients are required to maintain financial records pertinent to the award and all funding received from USAID must be appropriately recorded and those records must be periodically reconciled with information provided by USAID.

Condition

The confirmation received from USAID for funds advanced to CTA (USD 2,827,441) differ from the amount recorded in CTA's books (USD 2,826,322) and no reconciliation was prepared to explain the difference of USD 1,119.

Cause

Management has not established appropriate systems of internal control to deal with the sophistication of requirements of this USAID Contract.

Effect

The difference amounting to USD 1,119 has been questioned as unsupported under the agreement.

Recommendation No. 13

The USAID/ Mozambique mission should make a determination regarding the allowability of the questioned USD 1,119 and issue a bill of collection, if necessary.

Management Comments No. 13

31. Management understood that the difference was due to exchange rate losses or gains. However Management will verify in detail the origin of such differences.

4 AUDITORS REPORT ON COMPLIANCE

5.1 Independent Auditor's Review Report on Cost-Sharing Schedule

CTA – Confederação das Associações Económicas de Moçambique

Rua do Castanheta, n° 120

Bairro de Sommerschild

Maputo, Mozambique

We have reviewed the accompanying schedule of counterpart contributions of CTA – Confederação das Associações Económicas de Moçambique for the period June 29, 1999 to September 30, 2004. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The purpose of our review was to determine if the cost-sharing schedule is fairly presented in accordance with the basis of accounting described in note 5.2.1 to the cost-sharing schedule and to determine if cost-sharing contributions were provided in accordance with the terms of the agreements. We also considered internal control related to the provision of and accounting for cost-sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is to express an opinion on the cost-sharing schedule. Accordingly, we do not express such an opinion.

The results of our review disclosed the following material questioned costs as detailed in the cost-sharing schedule:

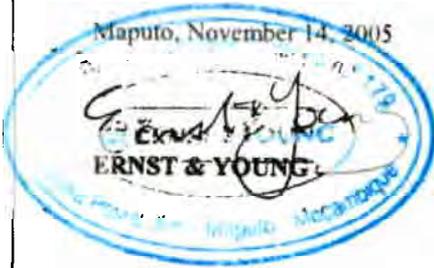
- 5.1.1 We noted that during the period no regular control was kept by management over the cost sharing amounts received. (See finding 1.4.5; 3.2.2; 4.2.11 and 5.3.3)
- 5.1.2 Additionally, although we have received a confirmation from PODE in respect of funds disbursed to CTA – Confederação das Associações Económicas de Moçambique, we were unable to determine if the cost sharing was used for the program objectives and therefore allocable to the agreement. As such, cost sharing contributions are ineligible in terms of the Mandatory Standards Provision titled "Cost Sharing" C4. (See finding 1.4.5; 3.2.2; 4.2.11 and 5.3.3)

Based on our review, as noted above, CTA – Confederação das Associações Económicas de Moçambique did not provide and account for cost-sharing contributions, in all material aspects, in accordance with the basis of accounting used to prepare the cost-sharing schedule and the terms of the agreement.

4 AUDITORS REPORT ON COMPLIANCE

This report is intended for the information of CTA - Confederação das Associações Económicas de Moçambique 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.

Maputo, November 14, 2005



5. AUDITORS REPORT ON COST SHARING SCHEDULE

5.2 Cost sharing schedule

From June 29, 1999 to September 30, 2004

	BUDGET	ACTUAL	SHORTFALL	QUESTIONED COSTS		NOTES
				INELIGIBLE	UNSUPPORTED	
CASH						
PODE	586,000	586,000	-	586,000	-	5.3.3
IN-KIND	-	-	-	-	-	-
	586,000	586,000	-	586,000	-	-

PODE – Projecto de Desenvolvimento Empresarial

5. AUDITORS REPORT ON COST SHARING SCHEDULE

5.3 NOTES TO THE COST-SHARING SCHEDULE

5.3.1 SIGNIFICANT ACCOUNTING POLICIES

a. General

The Cost - Sharing Schedule was prepared on the cash basis. In accordance with this principal, receipts are only accounted for when received and expenses when paid for.

b. Equipment and supplies

Purchases of equipment are recorded as current expenditure in the Cost - Sharing Schedule in the period in which they arise.

5.3.2 SUMMARY OF PROCEDURES PERFORMED

The procedures performed to review the cost-sharing schedule can be summarized as follows:

- Confirmation of funds received as cost-sharing schedule;
- Verification whether those funds were allocated to the agreement; and
- Verification whether cost-sharing charges would be allowable under the applicable Federal cost principles.

5.3.3 COST-SHARING CONTRIBUTION

During the period under review management did not maintain regular control over the cost sharing amounts received as required by the agreement. Additionally, although we have received a confirmation from PODE in respect of funds disbursed to CTA - Confederação das Associações Económicas de Moçambique, we were unable to determine if the cost sharing was used for the program objectives and therefore allocable to the agreement. (See finding 1.4.5; 3.2.2; 4.2.11 and 5.3.3)

APPENDIX A DETAILED FUND ACCOUNTABILITY STATEMENT BUDGET INCL. REVISIONS AND ACTUALS - PER ANNUM

FUND ACCOUNTABILITY STATEMENT
USAID FUNDS MANAGED BY CTA
Cooperative Agreement No. 656-A-00-99-00022-00

	BUDGET			ACTUAL					
	ORIGINAL	AMEND 1	AMEND 2	July'99-Jan'00	July'00-June'01	July'01-Sept'02	Oct'02-Sept'03	Oct'03-Sept'04	Total
Receipts from USAID (Creditline)									1,047,282
Receipts from USAID (Standard Bank)									1,310,689
Inter-Bank Transfers from ADR to CTA (Standard Bank)									62,228
Inter-Bank Transfers from CTA to ADR (Standard Bank)									(40,542)
Reimbursement received from Creditline									10,000
Interest Income									-
TOTAL INCOME									<u>2,389,658</u>
EXPENSES									
Salaries	425,773	850,191	992,100	102,690	192,927	212,311	197,669	366,825	1,072,423
Consultants	180,000	460,000	445,236	23,558	92,228	93,014	175,204	110,640	494,643
Equipment	68,002	78,002	101,002	43,383	3,087	7,444	13,045	19,894	86,852
Supplies	7,450	18,430	20,487	2,338	17,897	20,166	9,658	32,664	82,722
Travel & Transportation	182,269	208,519	215,269	43,089	62,942	25,367	29,516	30,640	191,556
Training	-	20,000	20,000	-	1,770	1,357	6,857	3,944	13,927
Other Direct Costs	141,748	317,001	359,365	48,364	60,435	79,717	99,534	122,723	410,773
Other Payments	-	-	-	6,000	-	-	-	-	6,000
Sub Grant to Association	69,758	194,758	159,758	-	10,698	-	1,000	65	11,763
TOTAL EXPENSES	<u>1,075,000</u>	<u>2,146,901</u>	<u>2,313,217</u>	<u>269,422</u>	<u>441,984</u>	<u>439,376</u>	<u>532,483</u>	<u>687,394</u>	<u>2,370,659</u>
Outstanding Fund Balance -INCOME									<u>18,999</u>

APPENDIX A DETAILED FUND ACCOUNTABILITY STATEMENT BUDGET INCL. REVISIONS AND ACTUALS - PER ANNUM

FUND ACCOUNTABILITY STATEMENT
USAID FUNDS MANAGED BY CTA -ADR
Cooperative Agreement No. 656-A-00-99-00022-00

	BUDGET			ACTUAL				Total
	ORIGINAL	AMEND 1	AMEND 2	Oct'00-May'01	July'01-Sept'02	Oct'02-Sept'03	Oct'03-Sept'04	
Receipts from USAID (Standard Bank)								468,351
Inter-Bank Transfers from ADR to CTA (Standard Bank)								(62,228)
Inter-Bank Transfers from CTA to ADR (Standard Bank)								40,542
Interest Income								34
TOTAL INCOME								446,698
EXPENSES								
Salaries	103,100	357,093	357,090	-	44,529	104,931	110,564	260,024
Consultants	14,600	32,100	28,600	-	0	0	0	0
Equipment	8,000	60,625	44,500	-	3,752	28,714	1,588	34,054
Supplies	1,200	18,700	16,2--	-	3,731	8,706	10,451	22,887
Travel & Transportation	4,500	17,625	17,625	-	-	9,534	4,954	14,488
Training	18,100	61,850	53,1--	-	0	2,542	1,052	3,594
Other Direct Costs	25,500	155,106	116,668	-	15,539	40,888	40,153	96,580
TOTAL EXPENSES	175,000	703,099	633,783	-	67,55-	195,315	168,762	431,627
TOTAL RECEIPTS FROM USAID				-	82,659	222,789	162,903	468,351
TOTAL RECEIPTS FROM CTA				-	25,542	15,000	-	40,542
FUNDS TRANSFER TO CTA				-	(31,359)	(30,869)	-	(62,228)
INTEREST INCOME				-	-	12	22	34
TOTAL INCOME				-	76,842	206,931	162,925	446,698
Outstanding Fund Balance -INCOME								15,071

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