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AUDIT OF USAID/KENYA'S
DROUGHT EMERGENCY FOOD PROGRAM

Audit Report No. 3-615-88-02-N
March 11, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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March 11, 1988

MEMORANDUM FOR DIRECTOR, USAID/Kenya, Mr. Steve W. Sindig
FROM: RIG/A/Nairobi, Richard C. Thabet 
SUBJECT: Audit Report No. 3-615-88-02-N, Non-Federal
Audit of USAID/Kenya's Drought Emergency Food Program

Attached is a copy of subject audit report. The report presents the results of a Non-Federal financial and compliance audit of Kenya's Drought Emergency Food Program. Kenya's Drought Emergency Food Program was designed to assist the Government of the Kenya to import an A.I.D. donation of 120,000 metric tons of corn valued at over U.S. \$28.5 million to alleviate food shortages caused by the 1984 drought conditions of Kenya. The Government of Kenya did not accept about 40,000 tons of corn and its unloading, handling, and storage became the subject of a dispute.

The audit was requested by USAID/Kenya and was made by the Certified Public Accounting firm of Deloitte Haskins and Sells under the supervision of the Regional Inspector General for Audit/Nairobi. The audit objectives were to: (a) determine whether the financial statements and costs claimed by the National Cereals and Produce Board in connection with the Drought Emergency Food Program presented fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs; and, (c) determine whether the National Cereals and Produce Board complied with the laws, regulations, and agreement provisions. In addition, the CPA firm analyzed the potential problems and disputed costs uncovered by the RIG/A/Nairobi limited survey and determined their cause and effect on program procedures and costs.

Deloitte Haskins and Sells audited claims amounting to Kenya Shillings (KS) 13,622,773 (about \$832,688) which had been submitted by the National Cereals and Produce Board to handle and manage the 40,000 metric tons of corn between May 1, 1985 and October 22, 1985. In the opinion of Deloitte Haskins and Sells, not all costs submitted by the National Cereals and Produce Board were fair or proper costs of the program.

Deloitte Haskins and Sells arrived at the following conclusions regarding the costs submitted by the National Cereals and Produce Board. A total of KS 7,222,165 (\$441,453) were proper program

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costs; a total of KS 212,630 (\$12,997) were questionable costs; and, the remaining, KS 6,187,978 (\$378,238), were not considered proper costs under the program.

Deloitte Haskins and Sells also found that the National Cereals and Produce Board had handled and paid for 458 trips to transport corn. However, it had not submitted a voucher to claim these valid program costs. The undercharged amount totalled KS 1,267,579 (\$77,480). According to USAID/Kenya, these costs were known services performed by the National Youth Service (NYS) that were not charged to the NCPB. Therefore, the NCPB did not seek reimbursement from USAID. The NYS services were either voluntary under the GOK Emergency Drought Relief Program or such services were provided for from the GOK National Famine Relief Fund. Accordingly, USAID/Kenya is not liable for these costs and we are not including a recommendation for these costs to be considered.

The National Cereals and Produce Board experienced serious internal control problems in this program. The Deloitte Haskins and Sells report makes a series of recommendations to improve management and internal control procedures for (a) ship cleaning, (b) transport rates, (c) transport capacity, (d) charges for transportation by other parties, (e) verification of transporter's invoices, (f) use of casual laborers, (g) handling and storage, (h) restacking charges, (i) overtime for casual laborers, and (j) control over bag stock. Because of the one-time nature of this program, we are not including a formal recommendation covering these weaknesses. However, we suggest that USAID/Kenya evaluate their seriousness, in relation to possible future similar programs, and require, as appropriate, the National Cereal and Produce Board to take the necessary corrective actions.

In light of the foregoing, we will be including the following recommendation in our tracking system:

Recommendation No. 1

We recommend that USAID/Kenya (a) resolve or recover, as appropriate, a total of KS 212,630 (\$12,997) costs which are questioned; and (b) disallow a total of KS 6,187,978 (\$378,238) in costs explained in the report which are not considered valid, proper, or reasonable under the program.

Please provide your written comments on this audit report within 30 days. The cooperation and courtesies extended to Deloitte Haskins and Sells--by you, your staff and the National Cereals and Produce Board-- are sincerely appreciated.

AUDIT OF CLAIMS MADE BY THE
NATIONAL CEREALS AND PRODUCE BOARD FOR THE A.I.D.
FINANCED DROUGHT EMERGENCY FOOD PROGRAM

Audit Report No.

January 1988

EXECUTIVE SUMMARY

This audit concerns a claim of KSh 13,622,773 made on A.I.D. by the Government of Kenya's (GOK) National Cereals and Produce Board (NCPB). Under the Drought Emergency Food Program, A.I.D. agreed to donate 120,000 metric tons of corn valued at \$28,535,000 to Kenya. The program was approved and implemented according to the provisions of Public Law 480, Title II, and was intended to alleviate shortages of food caused by the 1984 drought conditions in Kenya. The first 80,000 metric tons was delivered and freely distributed, without problems, to those in need. The final corn consignment of 40,000 metric tons was intended for sale by the GOK to cover the bagging and internal distribution costs associated with the relief program. The consignment was shipped aboard the Cove Trader and arrived in Mombasa in May 1985. The vessel exceeded the size constraints of the port and three smaller vessels were used to offload the corn at the docks.

On May 17, soon after off-loading had commenced, GOK stated that it was unable to accept the Cove Trader corn in the light of the condition of the corn and, on May 20, 1985, ordered that off-loading cease immediately. On June 27, 1985, GOK officially requested the United States Government (USG) to repossess all of the corn delivered by the Cove Trader. This request was not acceded to until July 17, 1985, at which point USG agreed to take again title to the corn, and it remained owner until October 22, 1985, when title passed, on sale, to Tarbert Trading Limited.

The objective of this financial and compliance audit was primarily to determine the propriety and reasonableness of the KSh 13,622,733 claims by NCPB for costs it had incurred when title for corn lay with A.I.D. The audit also was made to determine whether the NCPB complied with agreement provisions that may have had a material effect on cost claims.

The audit determined and recommended that A.I.D. should disallow KSh 6,187,978 and question KSh 212,630 of the total claim of KSh 13,622,773. The audit also found that there was no basis for determining whether the NCPB complied with agreement provisions as there was no formal agreement between A.I.D. and the NCPB.

This report determines that A.I.D. should bear costs claimed by NCPB of Kshs 7,222,165 (\$441,453). The report disallows and questions costs that are not proprietary or reasonable. This report disallows costs of Kshs 6,187,978 (\$378,238) claimed by the NCPB for the reasons that (a) the costs were not of a nature agreed to by A.I.D.; or (b) the rate of charge exceeded the rate generally applied at that time; or (c) the costs were not incurred by the Cove Trader's consignment of corn during the period of title by the United States Government (USG). Costs amounting to Kshs 212,630 (\$12,997) are questioned for the reason that the cost is of a nature expected, but no supporting documentation was available.

It is not possible to state whether NCPB complied with the agreement provisions as there was no formal agreement in force during, or subsequent to, the period when costs were incurred.

AUDIT OF CLAIMS MADE BY THE
NATIONAL CEREALS AND PRODUCE BOARD FOR THE A.I.D.
FINANCED DROUGHT EMERGENCY FOOD PROGRAM

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AUDIT OF CLAIMS MADE BY THE
NATIONAL CEREALS AND PRODUCE BOARD FOR THE A.I.D.
FINANCED DROUGHT EMERGENCY FOOD PROGRAM

PART I - INTRODUCTION

A. Background

This audit concerns a claim of \$832,688 made by the Government of Kenya's (GOK) National Cereals and Produce Board (NCPB) on A.I.D. Under the Drought Emergency Food Program A.I.D. agreed to donate 120,000 metric tons of corn valued at \$28,535,000 to Kenya. The program was approved and implemented according to the provisions of Public Law 480, Title II, and was intended to alleviate shortages of food caused by the 1984 drought conditions in Kenya. The first 80,000 metric tons was delivered and freely distributed, without problems, to those in need. The final corn consignment of 40,000 metric tons was intended for sale by the GOK to cover the bagging and internal distribution costs associated with the relief program. The consignment was shipped aboard the Cove Trader and arrived in Mombasa in May 1985. The vessel exceeded the size constraints of the port and three smaller vessels were used to off-load the corn at the docks.

On May 17, soon after off-loading had commenced, GOK stated that it was unable to accept the Cove Trader corn in the light of the condition of the corn and, on May 20, 1985, ordered that off-loading cease immediately. On June 27, 1985, GOK officially requested the United States Government (USG) to repossess all of the corn delivered by the Cove Trader. This request was not acceded to until July 17, 1985, at which point USG agreed to take again title to the corn, and it remained owner until October 22, 1985, when title passed, on sale, to Tarbert Trading Limited.

Throughout the period of the program, responsibility for costs incurred lay with the legal title of the corn, unless otherwise agreed. The following periods of apparent title to the corn were identified:

October 29, 1984 - June 26, 1985 : GOK
June 27, 1985 - July 16, 1985 : GOK
July 17, 1985 - October 21, 1985: A.I.D.
October 22, 1985 onwards: Tarbert Trading Limited

Following the suspension of off-loading, concern was expressed regarding the potential deterioration of the corn remaining in the lighter ships, the Taiwo (16,704 MT) and the King George (12,350 MT). On June 17, 1985, A.I.D. requested GOK to provide the assistance of the Kenya Ports Authority and NCPB so that cargo be discharged, bagged and stored and stating that USG would bear the associated costs. Off-loading of the corn recommenced on June 26, 1985.

Costs were provisionally stated by the National Cereals and Produce Board (NCPB) on June 27, 1985 at the rates shown in Table A, below:

Table A: Cost Rates advised by NCPB on handling corn
ex-Cove Trader

	<u>Ksh.</u>
Storage per ton per week	3.65
Transportation per trip	115.50
Bagging per ton	57.00
Cost of a new empty bag	16.89
Loading out per ton	18.90
Marking per bag	.45
Overtime	At cost
Weighing 10% of commodities at time of loading - per bag	.65

On August 11, 1986, NCPB presented to A.I.D. bills analysed as shown in Table B below:

Table B: NCPB claim on A.I.D. for costs ex-Cove Trader

	<u>Ksh.</u>	<u>\$</u>
Ship cleaning	103,200	6,308
Transport	1,541,116	94,200
Wharfage charges	629,970	38,507
Handling charges	668,851	40,883
Gate passes	1,275	78
Casual labourers	186,942	11,427
Customs charges	13,625	833
Miscellaneous	180,000	11,002
Fumigation charges	52,279	3,196
Gunnies	7,625,410	466,101
Handling & storage charges	2,580,815	157,752
Storage charges for 3,554 bags	39,290	2,401
	-----	-----
	13,622,773	832,688
	=====	=====

We were advised that the Office of the Regional Inspector General in Nairobi, (RIG/A/Nairobi) had carried out a review of the claim and revealed a number of potential problems such as:

- Claims relating to costs of a nature for which A.I.D. had not agreed to reimburse NCPB. Some of the categories in question related to the vessel and should be covered by the applicable charter party for shipment of the corn.
- Invoices relating to the period prior to June 27, 1985, during which time the GOK held unquestioned title to the corn.
- Invoices relating to the period June 27, 1985 to July 16, 1985, during which period title remained with the GOK, but responsibility for the costs was in doubt.
- Costs of a nature which were reimbursable by A.I.D., but which exceeded the approved and agreed standard rates.

B. Audit objectives and Scope

A.I.D., represented by RIG/A/Nairobi identified a need for a financial and compliance audit of claims made by the NCPB. The claims related to expenses incurred during the period May 1, 1985 to October 22, 1985 in respect of the Drought Emergency Food Program.

As a result of the review carried out by RIG/A/Nairobi, we were contracted under the terms of contract reference KEN-70237 dated June 21, 1987 to carry out a financial and compliance audit of the NCPB claim totalling Ksh 13,622,773, as submitted to A.I.D. for reimbursement. A valid claim would include any amounts payable by USG in respect of the relevant corn.

The objectives of the financial and compliance audit were to:

- determine whether the costs claimed by NCPB presented fairly costs arising from the Drought Emergency Food Program which should be borne by A.I.D.; ensure propriety and reasonableness of the costs incurred by A.I.D.;
- determine whether NCPB complied with agreement provisions which may have had a material effect on cost claims.

In addition, we were asked to report on significant weaknesses in procedures and controls of NCPB and include recommendations for corrective action.

In order to carry out our work, we have examined all the documentation available to us from NCPB relating to the off-loading and storage of corn and have compared the costs to the charges billed to A.I.D.. We have also interviewed key NCPB personnel.

From our fieldwork, we are able to analyse in the tables of Exhibits 1, 2 and 3 the costs as presented by NCPB of Ksh 13,622,733, (\$832,688), as questioned, disallowed and accepted and to the categories noted in Exhibit 4. We support our allocation by notes as referenced.

In the allocation of charges we have, as appropriate:

- verified the basis of charge;
- verified the dates on which the charges were incurred;
- compared the rates used with those normally applied by NCPB;
- agreed the charges incurred to the tonnage of corn; and
- examined the relevant internal control procedures of NCPB.

Our audit examination, has been carried out in accordance with "Standards for Audit of Governmental Organisations, Programs, Activities and Functions (1981 Revision)". We examined 100 percent of the costs making up the Kshs 13,622,733 (\$832,688) claim.

AUDIT OF CLAIMS MADE BY THE
NATIONAL CEREALS AND PRODUCE BOARD FOR THE A.I.D.
FINANCED DROUGHT EMERGENCY FOOD PROGRAM

PART II - RESULTS OF AUDIT

This report determined that A.I.D. should bear costs claimed by the National Cereals and Produce Board (NCPB) of Kshs 7,222,165 (\$441,453). The report disallows and questions costs that are not proprietary or reasonable. This report disallows costs of Kshs 6,187,978 (\$378,238) claimed by NCPB for the reasons that (a) the costs were not of a nature agreed to by A.I.D.; or (b) the rate of charge exceeded the rate generally applied at that time; or (c) the costs were not incurred by the Cove Trader's consignment of corn during the period of title by the United States Government (USG). Costs amounting to Kshs 212,630 (\$12,997) are questioned for the reason that the cost is of a nature expected, but no supporting documentation was available.

It is not possible to state whether NCPB complied with the agreement provisions as there was no formal agreement in force during, or subsequent to, the period when costs were incurred.

A. Finding and Recommendation

Costs Were Disallowed and Questioned for Various Reasons

At different times reasonable costs were to be borne by GOK, USG and Tarbet Trading Limited. Costs claimed by NCPB for reimbursement by A.I.D. included costs that 1) should be borne by other parties and 2) were unreasonable. The causes of the above condition were 1) Lack of criteria for the special situation that arose (i.e that USG reacquired title to the corn); 2) Some of NCPB's costs were unreasonable based on prevailing supplier costs; 3) Certain costs were not properly allocable to USG.

As a result of the above A.I.D. should disallow Kshs 6,187,978 (\$378,238) and question Kshs 212,630 (\$12,997) of the NCPB claim.

Recommendation

We recommend that the Director USAID/Kenya:

- accept costs of Kshs 7,222,165 (\$441,453);
- disallow Kshs 6,187,978 (\$378,238) from claimed; and
- resolve costs questioned amounting to Kshs 212,630 (\$12,997).

Discussion

According to the terms of the Transfer Authorisation A.I.D. No. 615 - XXX-000-5618 and its Amendment No 1, GOK was responsible for all port charges, handling fees at the port, all inland transport charges from the port to the points of distribution and all storage and other distribution costs. Due to lack of independent legal interpretation, it is not clear to us whether the above costs were transferable when the title to the corn reverted from GOK to USG.

For the purposes of this report we have assumed that all costs incurred before resumption of title by USG at July 17, 1985 and without specific A.I.D. authority were not transferable.

On May 20, 1985 GOK ordered the cessation of discharging from the lighter ships. At this point, an estimated 10945 MT had been off-loaded from the Selmar Enterprise and the Taiwo.

GOK, through its letter of June 27, 1985, asked USG to repossess all the grain ex-Cove Trader. A.I.D. acceded to this request through its letter dated July 17, 1985. Due to lack of independent legal interpretation we are not able to determine whether title passed from GOK to USG on June 27, or July 17, 1985.

For the purposes of this report we have assumed that title passed when USG acceded to the request of GOK on July 17, 1985.

A.I.D., through its letter of June 17, 1985, asked GOK, through the Kenya Ports Authority and NCPB, to give assistance in discharging the grain which was still in the Taiwo and the King George and stated that USG would meet all the relevant costs, transportation from the port to warehouses, provision of gunnies, bagging and storage. The letter asks for assistance in having the corn discharged, including access to berths. We have assumed that the latter relevant costs should be borne by the charter party or its agents.

The request for assistance was implicitly granted on June 18, 1985.

We have assumed that all costs incurred in handling and storage of the corn on board the two vessels on June 17, 1985 were the responsibility of A.I.D., irrespective of who held the title to the corn. We note that off-loading of this corn from the vessels did not commence until June 26, 1985.

After A.I.D. had requested and been granted permission to discharge the corn from the Taiwo and the King George, NCPB advised A.I.D. in its letter dated June 27, 1985 (Appendix), of the provisional cost rates applicable to that exercise. The rates are noted in Table A of Part I of this report.

Our review of the correspondence, discussion with officials and examination of invoices revealed some of these rates to be lacking in definition. For example, the cost of transport per trip was quoted as Ksh 115.50, without indication of the tonnage per trip.

We have included our comments on this problem, where necessary.

From our review of the charter party agreement we noted that the ship owners were responsible for all discharging expenses. Therefore, we have assumed that all port expenses should have been met by the ship owners or agents.

We reviewed letters from A.I.D. to NCPB dated July 2, 1985, August 20, 1985 and April 4, 1986. These letters relate to charges to be made by NCPB to A.I.D.. We note, however, that the latter letter refers to a letter from A.I.D. to NCPB dated September 12, 1985. A copy of this letter has not been produced to us and we assume that its contents do not contradict any of the other evidence.

We understand that title to the corn passed to Tarbert Trading Limited on October 22, 1985, although we have seen no third party evidence to this effect.

Exhibits 1, 2 and 3 tables provide details of the disallowed and questioned costs. These show the following categories of disallowed and questioned costs:

- The cost of ship cleaning (Kshs 103,200; \$6308) was disallowed because ship cleaning forms part of the discharge costs, which should have been borne by the charter party.
- Transport costs (Ksh 869,530; \$53,150) were disallowed because 269 trips did not relate to the Cove Trader corn, and the rate per trip applied did correlate to the prevailing supplier rates.
- The cost of wharfage (Kshs 629,970; \$38,507) was disallowed as this cost was to be borne by the receiver, GOK, and there was no subsequent authorization to transfer the charge.
- The cost of handling (Ksh 668,851; \$40,883) was disallowed as it should be borne by other parties.
- The cost of gate passes (Kshs 1275; \$78) was disallowed as the form part of discharge costs to be borne by the charter party.
- Casual labour (Ksh 186,942; \$ 11,427) was disallowed as the cost forms part of discharge costs to be borne by the charter party.
- Customs charges (Ksh 13,625; \$833) were questioned as there was no supporting documentation available.
- Miscellaneous costs (Kshs 180,000; \$11,002) were disallowed as NCPB advised us that there was no supporting documentation.

- Fumigation costs were disallowed (Ksh 40,571; \$2,480) because the internal rate charged by NCPB exceeded the prevailing rates, and also there was no proof as to the quantity fumigated. Costs were questioned (Ksh 2,489; \$152) because of uncertainty as to which corn was fumigated.
- Cost of gunnies (Ksh 2,383,987; \$145,720) were disallowed as the charge did not relate to corn bagged during A.I.D.'s title to the corn.
- Handling and storage costs were disallowed (Kshs 1,100,546; \$67,271) as the charge related to periods when the corn was not under title to USG. Part of the cost was questioned (kshs 196,516; \$12,012) as there was no supporting documentation.
- Storage of 3554 bags was disallowed (Ksh 23,106; \$1,412) because the charge related to periods when title to the corn did not rest with USG.

B. Compliance and Internal Control

Compliance

There were no compliance issues not already discussed in Section A of the report.

Internal Control

In our verification of the existing internal and accounting controls of NCPB, we concentrated mainly on the purchasing and payment procedures as relating to (a) transport from the port to the warehouses; (b) warehousing; (c) gunnies; and (d) casual labour. In doing this, we held discussions with NCPB staff and carried out walk through tests to corroborate the documented procedures.

In our opinion, staff of an appropriate nature and seniority were employed by NCPB in the related areas. We found no evidence of fraud, abuse or illegal expenditures or acts by NCPB in relation to the transactions examined by us.

In our opinion, adequate systems were in force to protect the Cove Trader corn stored against loss.

We found the internal and accounting controls of NCPB relative to the types of transactions listed above satisfactory except in the areas set out below.

Ship Cleaning

Ship cleaning charges were authorised by NCPB per note 1 of Exhibit 5. NCPB should either not have authorised the cleaning or, if it should have done so, a charge should immediately have been raised either by Kenya Ports Authority or NCPB on the ship owners (or agents).

Recommendation

If NCPB authorises ship cleaning charges, it must check the terms of the charter party agreement and ensure that the charges are borne by the correct party.

Transport Rates

We were advised that the transport rate is fixed by a committee chaired by the Managing Director of NCPB. The rates are then conveyed in writing to all the transporters.

We note that:

- no minutes of the committee were available;
- in our review of transporters' files, we only found one letter written to M.O.M. Alamin dated September 13, 1984 advising a transport rate of Ksh 115.50 per trip of 5 tonnes;
- if the rate of Ksh 115.50 per trip of 5 tonnes was generally applicable, this conflicts with the rate paid in respect of the Cove Trader maize note 2 of Exhibit 5 and NCPB was overcharged in respect of transport.

Recommendations

- Committee meetings which fix the transport rates should be minuted and retained.
- All transporters should be advised of the applicable transport rates for both bulk and bagged cargo from the port to the warehouses. A copy of this advice should be filed in the transporters' files.
- Steps should be taken to ensure that payments made to transporters (or other suppliers) are in accordance with proper authority.

Transport Capacity

During our visit to the port, we found low sided three tonne Canter trucks loading corn. We were assured by the Import Coordinator that they can carry three tonnes. However, we understand that, in fact, the low sided Canter trucks hold slightly less than 3 tonnes, and that this could account for a difference of 3.9 percent in weights noted by us in reconciling the Cove Trader discharges.

Recommendation

We recommend that checking as to the capacity of the low sided Canter trucks be carried out by NCPB to determine whether further action is required.

Charges to be Raised on A.I.D.

NCPB did not include in their claim to A.I.D. the accrued liability for transport provided by the National Youth Service.

Recommendation

We recommend that controls be instituted by NCPB to ensure that liabilities for services rendered are accrued and appropriately charged.

Verification of Transporters' Invoices

The NCPB payments clerk sometimes uses the port tally sheet controls that record movement in and out of the port, to verify transporters' invoices instead of the warehouse tally sheet controls. This results in the possibility of paying a transporter for cargo that left the port, but may not have arrived at the warehouses.

Recommendation

Transporters' invoices should be verified with warehouse tally sheet controls.

Casual Labourers

We were advised that the decision to hire casual labourers was taken at meetings attended by the Depot Manager, Import Co-ordinator, Cashier, Area Accountant, Area Auditor and the Port Control Officer (note 4 of Exhibit 5). In our review, we were unable to see any proper justification of the variations in employment of casuals. No minutes of the meetings were available to corroborate the hiring of the casuals.

Recommendation

Minutes of such meetings, indicating the number of casuals to be hired, should be maintained at the depot for independent verification.

Handling and Storage

Over and undercharges for handling and storage by other warehouses were not known to NCPB, due to failure to reconcile grain stock records or stock records of gunnies used with storage charges levied on NCPB.

Recommendation

We recommend that warehousing charges raised by other warehouses be checked monthly for over and understatement by reference to grain stock records.

Restacking Charges

As noted in note 9(b), of Exhibit 5, restacking charges were paid by NCPB to Mbaraki Warehouse. We believe that these charges should not have been borne by NCPB.

Recommendation

We recommend that greater attention be paid to the authorisation of expenditure of this nature by NCPB.

Employment of Casuals and Overtime Working at Third Party Warehouses

In our review of employment of casuals at the warehouses and overtime working (see note 9(a) of Exhibit 5), we were advised that overtime is contracted and paid solely at the discretion of the warehouse managers. The overtime bill for work by the casuals is passed to NCPB for payment. In our verification of costs, we noted that NCPB officials do not have any method of verifying such bills.

Recommendation

NCPB should discuss with the warehouse officials a tighter system of control of hiring warehouse casuals and their overtime working, as borne by NCPB.

Control Over Bag Stocks

After bulk corn is delivered to the warehouses, the casuals employed at the warehouses bag the corn and weigh and stitch the bags. After weighing, every bag is marked on a pre-numbered tally sheet. Every day this tally sheet is used for preparation of daily bag purchase advices. These bag purchase advices should be used by the depot to update their daily bag stock records. In our review, we came across late purchase advices which meant that the above procedure was not being properly followed (up to 3 months late).

Recommendation

Proper control of the recording of bagging, the daily preparation of bag purchase advices and agreement of stock records should be instituted at the warehouses.

C. Other Pertinent Matters

Lack of Agreement Between A.I.D. and NCPB

There was no written agreement, formal or otherwise, between A.I.D. and NCPB as to the rates chargeable in respect of costs relating to the grain off-loaded by NCPB on behalf of A.I.D., as authorized by GOK.

By its letter of June 27, 1985 NCPB advised A.I.D. of rates applicable for the handling of grain. This letter included a statement that NCPB would, on the return of the Finance Manager, verify that the charges quoted were the only charges applicable during the handling of grain. No such confirmation followed.

A.I.D. replied on July 2, 1985 referring to a meeting between representatives of NCPB and A.I.D. on June 26, and accepting the rates quoted in the letter of June 27, being at the same time as appeared during the exchange of previous A.I.D. relief shipments. A.I.D. requested that a copy of the letter be countersigned by NCPB as agreement to rates quoted previously. A.I.D. followed up their request on September 12, 1985 (we understand) and also on April 4, 1986 with letters requesting confirmation of the rates chargeable.

As far as we are aware, NCPB did not confirm the rates or respond to the A.I.D. letters on the subject.

USAID/Kenya should ensure that rates of charge are formally agreed, preferably before the costs are incurred, though we appreciate that this may not always be possible. A.I.D. also should ensure that rates or terms quoted by third parties are adequately defined. For example, NCPB quoted KShs 115.50 for transportation per trip. This rate was the then current rate for a five tonne load, and in the eventuality A.I.D. grain was transported mainly by 3 tonne trucks.

Undercharges

We note below known charges which have not yet been raised on NCPB and would, presumably, be chargeable to A.I.D. in the event of charge to NCPB.

	Ksh	\$
Transport by NYS - 458 trips at Ksh 115.50	52,899	3,233
Handling - 28589.58 MT at KShs 57 per MT = Ksh	1,629,606	
Less: charge accepted	414,926	

	1,214,680	74,247
	-----	-----
	1,267,579	77,480
	=====	=====

There may also be a small additional charge in respect of storage.

We conclude that NCPB should raise a charge on A.I.D. for Ksh 1,267,579 (\$ 77480) if they have paid the charges.

AUDIT OF CLAIMS MADE BY THE
NATIONAL CEREALS AND PRODUCE BOARD FOR THE A.I.D.
FINANCED DROUGHT EMERGENCY FOOD PROGRAM

PART III - EXHIBITS AND APPENDIX

EXHIBIT 1.

COSTS CLAIMED, QUESTIONED, DISALLOWED AND ACCEPTED

<u>Cost Component</u>	<u>Note Reference Exhibit 5</u>	<u>Costs Claimed Ksh</u>	<u>Costs Questioned Ksh</u>	<u>Costs Disallowed Ksh</u>	<u>Costs Accepted Ksh</u>
Ship cleaning	1	103,200	-	103,200	-
Transport	2	1,541,116	-	869,530	671,586
Wharfage	3	629,970	-	629,970	-
Handling	3	668,851	-	668,851	-
Gate passes	4	1,275	-	1,275	-
Casual labourers	4	186,942	-	186,942	-
Customs charges	5	13,625	13,625	-	-
Miscellaneous	6	180,000	-	180,000	-
Fumigation	7	52,279	2,489	40,571	9,219
Gunnies	8	7,625,410	-	2,383,987	5,241,423
Handling and storage	9	2,580,815	196,516	1,100,546	1,283,753
Storage charge for 3,554 bags	10	39,290	-	23,106	16,184
Total Cost in Kenya Shilling		13,622,773	212,630	6,187,978	7,222,165
U.S. Dollar equivalents		\$832,688	\$12,997	\$378,238	\$441,453

1. Costs claimed are the amounts claimed by NCPB for reimbursement by A.I.D.
2. Costs questioned are costs of a nature expected but no supporting documentation was available.
3. Costs disallowed are costs which were not of a nature agreed to by A.I.D. or the rate of charge exceeded the prevailing rate; or the costs did not relate to the Cove Trader corn.

4. Costs accepted are costs which are proprietary and reasonable and should be borne by A.I.D.
5. The exchange rate applied is 1 U.S. dollar = 16.36 Kenya Shillings, which is a mid rate between June 1985 and October 1985.

ANALYSIS OF ORIGINAL CLAIM - DOLLARS

<u>Type of Charge</u>	<u>Amount of NCPB Claim</u> \$	<u>Note Reference</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Category 4</u>	<u>Category 5</u>	<u>Category 6</u>
			\$	\$	\$	\$	\$	\$
Ship cleaning	6,308	1	-	-	-	-	-	6,308
Transport	94,200	2	14,330	-	41,050	-	-	38,820
Wharfage	38,507	3	38,507	-	-	-	-	-
Handling	40,883	3	26,893	-	-	-	-	13,990
Gate passes	78	4	-	-	-	-	-	78
Casual labourers	11,427	4	-	-	-	-	-	11,427
Customs charges	833	5	-	-	-	-	-	833
Miscellaneous	11,002	6	-	-	-	-	-	11,002
Fumigation	3,196	7	-	-	-	564	-	2,632
Gunnies	466,101	8	145,720	-	320,381	-	-	-
Handling and storage	157,752	9	52,866	6,075	36,022	42,447	-	20,341
Storage charge for 3,554 bags	2,401	10	489	210	-	989	713	-
Total	832,688		278,805	6,286	397,453	44,000	713	105,431

ANALYSIS OF ORIGINAL CLAIM - KENYA SHILLINGS

Type of charge	Amount of	Note	Category 1	Category 2	Category 3	Category 4	Category 5	Category 6
	NCPB claim	Reference						
Ship cleaning	103,200	1						103,200
Transport	1,541,116	2	234,442		671,586			635,088
Wharfage	629,970	3	629,970					
Handling	668,851	3	439,978					228,873
Gate passes	1,275	4						1,275
Casual labourers	186,942	4						186,942
Customs charges	13,625	5						13,625
Miscellaneous	180,000	6						180,000
Fumigation	52,279	7				9,219		43,060
Gunnies	7,625,410	8	2,383,987		5,241,423			
Handling and storage	2,580,815	9	864,893	99,395	589,321	694,432		332,774
Storage charge for 3,554 bags	39,290	10	8,002	3,429		16,184	11,675	
Total	13,622,773		4,561,272	102,824	6,502,330	719,835	11,675	1,724,837

ASSUMPTIONS AND CATEGORIES OF COST ALLOCATION

Based on the assumptions and interpretations noted in the finding , we therefore re-defined the relevant cost categories or periods as follows:

- Category 1, - Appropriate costs relating to the consignment disallowed incurred between October 29, 1984 and June 26, 1985. GOK is assumed to be responsible for these costs.
- Category 2, - Appropriate costs relating to the corn disallowed off-loaded from the Selmar Enterprise and the Taiwo, (total estimated 10945 MT) prior to the cessation of off-loading by GOK, incurred between June 27, 1985 and July 16, 1985 inclusive. GOK is assumed to be responsible for these costs.
- Category 3, - Appropriate costs relating to the corn on board accepted the Taiwo (16507 MT) and the King George (12350 MT) as at June 17, 1985, incurred between June 26, 1985 (date of recommencement of off-loading) and July 16, 1985 inclusive. A.I.D. is assumed to be responsible for these costs.
- Category 4, - Appropriate costs related to the total accepted consignment between July 17, 1985 and October 21, 1985 inclusive. A.I.D. is assumed to be responsible for the costs.
- Category 5, - Appropriate costs incurred from October 22, 1985 disallowed when Tarbert Trading Limited held title to the corn. Tarbert Trading Limited is assumed to be responsible for these costs.
- Category 6, - Costs incurred in categories 1 - 5 which were disallowed or questioned not necessary, should have been met by the ship owners/agents or did not relate to the Cove Trader corn. We believe that A.I.D. is not responsible for these costs.

The above assumptions are based on our interpretation of the documents examined and our various discussions. Following advice by A.I.D., we have not sought independent legal advice on the matters. If review of the issues by a legal expert rendered any of these assumptions invalid, then the findings contained in this report would require amendment.

Throughout this report, we have used an exchange rate of 1 US dollar = 16.36 Kenya shillings, which is a mid rate between June 1985 and October 1955.

Notes on Exhibit 1, 2 and 3

1. Ship cleaning - Ksh 103,200 (\$ 6,308)

The work by Hunters Shipchandlers and General Contractors, to clean the three lighters servicing the Cove Trader, was authorised by the Import Co-ordinator, NCPB on May 6, 1985.

We were informed by the Import Co-ordinator that ship cleaning is necessary to minimise corn loss during discharge.

Clause 21 of the Charter Party Agreement states that discharge costs were to be the responsibility of the owners, Cove Trading Inc. This cost has been disallowed in Exhibit 1 and allocated to category 6 in Exhibits 2 and 3.

NCPB agreed the disallowance of this cost to category 6 in a meeting held on January 15, 1988.

2. Transport - Ksh 1,541,116 (\$ 94,200)

We examined relevant correspondence, transport invoices paid by NCPB, port tally sheets and grain monitoring records prepared by us in 1985 and comment:

- (a) The rate of Ksh 115.50 per trip quoted by NCPB to A.I.D. in their letter of June 27, 1985 was the then current rate for a 5 tonne load.
- (b) The port tally sheets, showing the number of trips per day and tonnage transported on each day, indicate that each trip averaged 3.07 tonnes. For example, on July 2, 1985, there were 1029 trips which moved 3203 metric tonnes.
- (c) NCPB paid for 13343 trips at Ksh 115.50 per trip (total = Ksh 1,541,116). These payments excluded 465 trips by the National Youth Service (NYS). NYS does not appear to have submitted invoices to NCPB in respect of these trips. NYS trips were 5 tonne trips.

The port tally sheets relating to the Cove Trader disclose:-

	Number of trips
May 9, 1985 to May 20, 1985	3390
Less NYS trips	(7)

	3383

June 26, 1985 to July 13, 1985	10149
Less NYS trips	(458)

	9691

Total trips	13074
	=====
Total trips paid for per (c)	13343
	=====
Difference	269
	=====

Therefore, NCPB paid for 269 trips which did not relate to the Cove Trader. We were unable to determine the vessels to which the 269 trips related, as the relevant transporters' invoices were not supported and reconciled by NCPB to the tally sheets.

Based on a 3 tonne trip costing Ksh 69.30 (assumed interpolation from a 5 tonne trip costing Kshs 115.50), the charges should have been:

Disallowed (May 9, 1985 to May 20, 1985)
per 3383 trips @ Ksh 69.30 = Ksh 234,442
category 1 (\$14,330)

Accepted (June 26, 1985 to July 13, 1985)
per 9691 trips @ Ksh 69.30 = Ksh 671,586
category 3 (\$41,050)

However, if NYS raises charges on NCPB, these would be passed on to GOK and A.I.D.

NCPB should bear the cost of the following charges as disallowed:

- 269 trips @ Ksh 115.50 which we cannot identify to the Cove Trader corn, totalling Ksh 31,069 (\$1,899)

- The excess charges paid as a result of the trips being 3 tonnes and not 5 tonnes. 13074 trips @ Ksh 46.20 - Ksh 604,019 (\$36,921)

Category 6 allocation totals Ksh 635,088 (\$38,820).

NCPB did not agree to the disallowance of this cost, though they were of the opinion that a mis-charge has occurred. This is subject to discussion.

3. Wharfage and handling - Ksh 1,298,821 (\$79,390)

To verify these costs we held discussions with the Kenya Ports Authority Import Accountant and Marine Accountant and also a representative from Dodwell & Company (East Africa) Limited, shipping agents.

Our discussions revealed the following:

- (a) Wharfage is charged at the rate of 1.5 percent of landed cost.
- (b) Wharfage charges and cargo handling costs come within the definition of import costs and are the responsibility of the receiver.
- (c) Port dues, stevedoring and miscellaneous port charges are the responsibility of the shipping agents unless otherwise authorised by the owner.

The handling charges comprise:

	Ksh	\$
handling fee	439,978	26,893
miscellaneous port charges	228,873	13,990
	-----	-----
	668,851	40,883
	=====	=====

Based on a landed cost for the 40,000 MT of Ksh 41,998,000, as used in the port release order dated May 3, 1985, the wharfage charge of Ksh 629,970 (\$38,507) is mathematically correct. As indicated above, the charge is to be borne by the receiver, which in the first instance was GOK, and we have seen no subsequent authorisation to transfer the responsibility for all or part of this cost, and have therefore disallowed the charge of KSh 629,970 (\$38,507) and allocated this to category 1.

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NCPB did not agree to the disallowance of the wharfage charge.

As a result of our discussions we have allocated the handling charges as follows:

- For the same reasons as noted above, we have disallowed this charge and allocated the handling fee of Ksh 439,978 (\$26,893) to category 1.
- The miscellaneous port charges of Ksh 228,873 (\$13,990) should have been borne by the shipping agents and we therefore disallowed the charge and allocate them to category 6.

NCPB did not agree with the disallowance of the handling fee, but accepted in a meeting held on January 15, 1988 that miscellaneous port charges were correctly disallowed.

4. Gate passes and casual labourers - Ksh 188,217(\$11,505)

We held discussions with a representative of Dodwell & Company (East Africa) Limited, shipping agents, who informed us that, if the discharge costs are to be met by the owners of the Cove Trader, then the cost of any labour employed to discharge the cargo should also be met by Cove Trading Inc.

In the case of the Cove Trader, the charter party agreement (clause 21) states that discharge costs are to be met by Cove Trading Inc.

We held discussions with the Import Coordinator, NCPB, who advised us that he, along with other company officials, determine the number of casual labourers to be employed. There is no record kept of this decision, nor of the purpose of employment.

In the light of the above, we have disallowed these charges and allocated the total cost of gate passes (Ksh 1,275, \$78)) and casual labour (Ksh 186,942, \$11,427) to category 6, on the assumption that, if the charges are valid, they should have been borne by Cove Trading Inc.

It should be noted that Ksh 9,131 (\$558) of the casual labour charge did not relate to the Cove Trader.

NCPB did not agree the disallowance of the above costs.

5. Customs charges - Ksh 13,625 (\$833)

No third party documentation was available for verification. The NCPB internal payment document for Ksh 13,625 (\$833) is dated February 11, 1986 and does not give details of the charge.

Without third party documentation to show why the cost was incurred and whether it was necessary, we question this cost and allocate the customs charges of Ksh 13,625 (\$833) to category 6.

NCPB did not agree the allocation of this charge, but accepted that supporting documentation is required.

6. Miscellaneous - Ksh 180,000 (\$11,002)

There are no records available to support the charge of Ksh 180,000 (\$11,002). We understand that the charge represents administrative costs incurred by NCPB.

In the absence of justifying documentation, we have disallowed this expense and allocated the charge to category 6.

NCPB did not agree the disallowance of this charge.

7. Fumigation - Ksh 52,279 (\$3,196)

From our investigations and discussions with NCPB officials, we found that fumigation is a necessary cost to maintain corn free from weevils. From the correspondence between A.I.D. and NCPB, it appears that A.I.D. accepted the cost of fumigation in respect of 1858 MT stored in Mbaraki Warehouse.

The fumigation was carried out by NCPB on July 11, 1985 (383 MT) and July 22, 1985 (1475 MT). The internal charge from NCPB of Ksh 7.89 per MT implies that 6626 MT were fumigated. The highest rate being charged by independent pest control companies was Ksh 6.25 per MT, for quantities more than 1000 MT and Ksh 6.50 per MT for quantities less than 1000 MT, this information being extracted from a memo from the NCPB Pest Control Officer to the Managing Director dated July 24, 1985. (This memo also confirmed the treatment of 1858 MT ex the Cove Trader). We are uncertain as to whether the 383 MT relates to the Taiwo/King George corn or to that unloaded earlier from the Selmar Enterprise, which is assumed to belong to GOK at July 11, 1985.

In the absence of information confirming fumigation of grain exceeding 1858 MT, and also an explanation as to why the NCPB charge is greater than that of an independent contractor we have allocated the cost of fumigation as follows:

	Ksh	\$
Category 4 - 1475 MT @ Ksh 6.25 (accepted)	9,219	564
Category 6 - 383 MT @ Ksh 6.50 (questioned)	2,489	152
Category 6 - Balance (disallowed)	40,571	2,480
	-----	-----
Total	52,279	3,196
	=====	=====

NCPB did not agree the rates used in the allocation of this cost. NCPB agreed in a meeting held on January 15, 1988 the disallowance of costs relating to fumigation in excess of 1858 M.T.

8. Gunnies - Ksh 7,625,410 (\$466,101)

We were provided with warehouse analyses which we verified with internal purchase advices and also by total weight reconciliation. These can be summarised as follows:

	90kg	50kg
Bags used pre June 26, 1985	82011	65448
Bags used post June 26, 1985	317662	-
	-----	-----
Total	399673	65448
	=====	=====

The gunnies were charged out by NCPB at Ksh 16.50 per 90kg bag and Ksh 15.75 per 50kg bag. The cost per bag (unspecified volume) per the NCPB's quote to A.I.D. of June 27, 1985 (Appendix) was KSh 16.89.

East African Bag and Cordage Company Limited have advised us that their then current rates were Ksh 15.50 per 90kg bag and Ksh 13.50 per 50kg bag.

NCPB have not produced to us the purchase invoices in respect of the actual bags used for the Cove Trader corn.

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Based on the above information and the assumption that A.I.D. agrees that NCPB should take a profit on each bag supplied, and ignoring the flat rate quotation of June 27, 1985, the cost of gunnies has been allocated as follows:

	Ksh	\$
Category 1		
(Disallowed)- 82011 @ Ksh 16.50 =	1,353,181	82,713
-65448 @ Ksh 15.75 =	1,030,806	63,007
	-----	-----
	2,383,987	145,720
	-----	-----
Category 3		
(Accepted) - 317662 @Ksh 16.50 =	5,241,423	320,381
	-----	-----
Total	7,625,410	466,101
	=====	=====

A.I.D. effectively took possession of all bags used under category 1 at no charge at the time when A.I.D. repossessed all the corn.

NCPB did not agree with the cost portion that has been disallowed. They maintained that all the gunnies were passed to A.I.D. and then on to Tarbert Trading Limited.

9. Handling and storage - Ksh 2,580,815 (\$157,752)

The above amount comprises:

	Ksh	\$
(a) Handling -	1,083,915	66,254
(b) Re-stacking -	3,837	235
(c) Marking -	41,364	2,528
(d) Overtime -	242,182	14,803
(e) Storage -	1,209,517	73,932
	-----	-----
Total	2,580,815	157,752
	=====	=====

(a) Handling

Our investigation revealed the following:

- Handling charges paid by NCPB were Ksh 57 per ton - the rate set out on June 27, 1985.

- The total tonnage handled was 39,242.97 MT, of which 10,653.39 MT was corn off-loaded before May 20, 1985 and 28,589.58 MT was corn on board the the Taiwo and the King George as at May 20, 1985.
- By reference to the supporting documentation, NCPB paid Ksh 1,083,915 (\$66,254) for handling of which:
 - (i) Ksh 472,473, (\$28,880) relates to corn off-loaded before May 20, 1985.
 - (ii) Ksh 414,926, (\$25,362) relates to corn on board the lighters at May 20, 1985.
 - (iii) Ksh 196,516, (\$12,012) is a charge from Kimashi Warehouses in respect of which we have not seen an invoice.

- The total charge for handling the entire cargo of 39,242.97 MT (at Ksh 57) should have been Ksh 2,236,849 (\$136,727). We understand that the undercharge of Ksh 1,152,934 (\$70,473) has not been paid by NCPB. It comprises:

	Ksh	\$
(i) Undercharge by Combined Warehouses	1,227,311	75,019
(ii) Undercharge by Coast Spinners and NCPB depot	18,027	1,102
(iii) Overcharge by Combined Warehouses resulting from charging at 91 kg per bag	(8,426)	(515)
(iv) Overcharge by Kimashi Warehouses	(76,222)	(4,659)
(v) Small overcharges by Combined Warehouses	(769)	(47)
(vi) Unexplained difference	(6,987)	(427)
Total	1,152,934	70,473
	=====	=====

Not bringing into account the net undercharge, or allocating it to categories noted above, the charges presented by NCPB have been allocated as follows:

	Ksh	\$
Category 1, disallowed -	472,473	28,880
Category 3, accepted -	414,926	25,362
Category 6, questioned -	196,516	12,012
	-----	-----
Total	1,083,915	66,254
	=====	=====

(b) Re-stacking

The re-stacking charge results from bags being used as a ladder to stack the grain and then being re-stacked in an orderly fashion. Charges of this nature were only made by Mbaraki Warehouses.

Re-stacking charges of Ksh 3,837 (\$235) have been disallowed and allocated to category 6 as we believe they should be covered by handling and storage charges and should not be borne separately by either NCPB or A.I.D..

(c) Marking

We found that the total cost of marking all the bags at the agreed rate of 45 cents per bag (of unspecified capacity) would have been Ksh 209,304 (\$12,794). The total claimed was Ksh 41,364 (\$2,528) resulting in an undercharge of Ksh 167,940 (\$10,266). Combined Warehouse did not claim for any marking. Mbaraki Warehouse did not claim for marking all the bags and it was not possible to know whether Kimashi Warehouse claimed this as part of the handling cost.

We have examined the invoices and supporting documentation, for two charges raised by Mbaraki Port Warehouses (Kenya) Limited.

Invoice 27242 - Ksh 3,944 (\$241) which related to marking performed between May 9, 1985 and May 15, 1985.

Invoice 28590 - Ksh 37,420 (\$2,287) which related to marking after June 26, 1985.

EXHIBIT 5
(Page 10 of 14)

On the assumption that the marking of bags occurs simultaneously with the receipt of corn and bagging, we have allocated the above charges as follows:

	KSh	\$
Category 1 disallowed -	3,944	241
Category 3 accepted -	37,420	2,287
	-----	-----
Total	41,364	2,528
	=====	=====

This allocation takes no account of any undercharges.

(d) Overtime

The overtime charge comprises:

Invoice No.	Warehouse	Ksh	\$	Period of incurrence
27242	Mbaraki	23,415	1,431	9/5/85 - 15/5/85
27243	Mbaraki	8,295	507	17/5/85 - 20/5/85
28590	Mbaraki	54,915	3,357	26/6/85 - 10/7/85
97127	Combined	155,557	9,508	9/5/85 - 20/5/85
		-----	-----	
Total		242,182	14,803	
		=====	=====	

We compared the overtime charged by the two warehouses in an attempt to achieve some comfort of the amounts claimed. We found that the Combined Warehouses overtime is significantly higher, for example on May 10, 1985:

Combined Mbaraki

No of bags handled	10265	11260
No of hours of overtime	7225	2300

We discussed this anomaly with NCPB officials in Mombasa, who agreed that Combined Warehouses appear to charge a very high amount of overtime.

On the assumption that the overtime charged is acceptable, and that overtime has been incurred as a direct result of off-loading, the charge of Ksh 242,182 (\$14,803) has been allocated as follows:

Category 1 disallowed - Ksh 187,267 (\$11,446)
Category 3 accepted - Ksh 54,915 (\$3,357)

(e) Storage

We calculated that the total storage charge for the total Cove Trader corn should have been Ksh 1,331,792 (\$81,405), based on the daily purchases advices raised by NCPB detailing quantities held at the warehouses. NCPB have claimed the following:

	Ksh	\$
- as noted above	1,209,517	73,932
- as per note 10	39,290	2,401
	-----	-----
	1,248,807	76,333
	=====	=====

Thus, there is an apparent undercharge from the warehouses totalling Ksh 82,985 (\$5,072) in respect of the various categories.

In our calculation of Ksh 1,331,792 (\$81,405), the agreed rate of storage per tonne per week of Ksh 3.65 was applied up to June 25, 1985. Subsequent to that date, Ksh 4.05 was the rate used. This new rate was conveyed to the Managing Director of NCPB by a consortium of warehouses on July 1, 1985. However, we have seen no evidence that A.I.D. was made aware of or agreed to the revised rate.

Our analysis of the invoices and supporting documents gives us the following allocation based on incurrence of the cost. We have assumed that the increased rate of Ksh 4.05 is acceptable.

	KSh	\$
Category 1 disallowed -	201,209	12,299
Category 2 disallowed -	99,395	6,076
Category 3 accepted -	82,060	5,016
Category 4 accepted -	694,432	42,447
Category 6 disallowed -	132,421	8,094
	-----	-----
Total	1,209,517	73,932
	=====	=====

Category 6 allocation comprises:

- (i) A charge from Kimashi Warehouses of Ksh 131,609 (\$8,045), for which there was no invoice available;
- (ii) A charge of Ksh 812 (\$49) on Mbaraki Warehouses invoice number 27242 which did not relate to the Cove Trader corn.

EXHIBIT 5
(Page 13 of 14)

Summary of note 9 allocations

EXHIBIT 1	TOTAL	Questioned	Disallowed	Accepted
	Ksh	Ksh	Ksh	Ksh
Handling	1,083,915	196,516	472,473	414,926
Re-stacking	3,837	-	3,837	-
Marking	41,364	-	3,944	37,420
Overtime	242,182	-	187,267	54,915
Storage	1,209,517	-	433,025	776,492
Total	2,580,815	196,516	1,100,546	1,283,753

EXHIBIT 2	TOTAL	C1	C2	C3	C4	C6
	\$	\$	\$	\$	\$	\$
Handling	66,254	28,880	-	25,362	-	12,012
Re-stacking	35	-	-	-	-	235
Marking	2,528	241	-	2,287	-	-
Overtime	14,803	11,446	-	3,357	-	-
Storage	73,932	12,299	6,076	5,016	42,447	8,094
Total	157,752	52,866	6,076	36,022	42,447	20,341

EXHIBIT 3	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh
Handling	1,083,915	472,473	-	414,926	-	196,516
Re-stacking	3,837	-	-	-	-	3,837
Marking	41,364	3,944	-	37,420	-	-
Overtime	242,182	187,267	-	54,915	-	-
Storage	1,209,517	201,209	99,395	82,060	694,432	132,421
Total	2,580,815	864,893	99,395	539,321	694,432	332,774

NCPB did not agree the disallowance of these costs.

Note: C1 - C6 refer to the categories in Exhibit 4.

10. Storage charge for 3,554 bags - Ksh 39,290 (\$2,401)

We have verified the charge made for storage of 3554 bags from port tally sheets, warehouse records and hand-over certificates.

We have allocated this storage cost on the basis of 3480 bags (or 313.2 MT) at the rate of Shs 3.65 per ton per week for 34 weeks, 34 bags or 3.06 MT. at the same rate for 19 weeks and 40 bags or 3.6 MT at the same rate for 16 weeks. We have allocated the cost to the appropriate categories as follows:

	KSh	\$
Category 1, disallowed -	8,002	489
Category 2, disallowed -	3,429	210
Category 4, accepted -	16,184	989
Category 5, disallowed -	11,675	713
	-----	-----
Total	39,290	2,401
	=====	=====

NCPB did not agree the disallowance of this cost.

Costs accepted are costs which are proprietary and reasonable and should be borne by A.I.D.

The exchange rate applied is 1 U.S. dollar = 16.36 Kenya Shillings, which is a mid rate between June 1985 and October 1985.

UNITED STATES GOVERNMENT

memorandum

DATE: March 2, 1988

REPLY TO
ATTN OF: Laurence R. Hausman, Acting Director, USAID/Kenya

SUBJECT: Mission Response to the Non-Federal Audit of USAID/Kenya's
Drought Emergency Food Program

TO: Richard C. Thabet, RIG/A/Nairobi

- A. We accept Recommendation No. 1 of the Draft Audit Report, 2/9/88:

Discussion:

- 1) Accept a total of KShs. 7,222,165 (\$441,453);
- 2) Unless supporting documentation can be made available to not accept charges of KShs. 212,630 (\$12,997);
- 3) Disallow a total of KShs. 6,187,973 (\$373,238) of different types of costs explained in the report which are not considered valid, proper or reasonable under the programs.

- B. We request that Recommendation No. 2 be eliminated:

Discussion:

We understand from the Draft Audit findings that some program costs, amounting to KShs. 1,267,579 (\$77,480), are known services performed by the National Youth Service (NYS) that were not charged to the NCPB. Therefore, the NCPB has not sought reimbursement from USAID. It was USAID's understanding at the time of the operation that the NYS services were either voluntary under the GOK Emergency Drought Relief Program or such services were provided for from the GOK National Famine Relief Fund. It is our opinion that USAID should not be liable for such costs since no costs were incurred by the NCPB. Therefore we request that Recommendation No. 2 be eliminated.

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