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AUDIT OF
THE KISMAYO PORT REHABILITATION
PROJECT (SOMALIA)
PROJECT NO. 649-0114

AUDIT REPORT NO. 3-649-88-14
June 27, 1988

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

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June 27, 1988

MEMORANDUM FOR DIRECTOR, USAID/Somalia, Lois C. Richards

FROM: RIG/A/Nairobi, Richard C. Thabet *R. C. Thabet*

SUBJECT: Audit of Kismayo Port Rehabilitation Project-Somalia
Report No. 3-649-88-14

The Office of the Regional Inspector General for Audit/Nairobi has completed its audit of USAID/Somalia Kismayo Port Rehabilitation Project No. 649-0114. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains one unresolved recommendation. Please advise me within 30 days of actions taken to implement the recommendation, and further information you might want us to consider.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

A.I.D. initially funded the construction of the Kismayo Port in fiscal year 1962, at a total cost of \$11.1 million. During operations (after construction of the port was completed) the facilities deteriorated, mostly due to design and maintenance deficiencies. A project agreement was initiated in 1982 to rehabilitate the Kismayo Port, utilizing an improved design. In order to provide adequate construction management and administrative expertise on the new project, A.I.D. signed a Participating Agency Service Agreement with the U.S. Navy in April, 1986. The Navy subsequently awarded the construction contract to the George A. Fuller Company.

A.I.D. obligated \$36 million as the total U.S. funding for the project, of which approximately \$22.4 million had been expended by December 31, 1987. Additionally, the host government contributed 105 million Somalia Shillings (approximately \$1.2 million). The project was approximately 75 percent complete as of December, 1987, and was scheduled for completion in June, 1988.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi made a program results audit of the Kismayo Port rehabilitation project. The audit objectives were to determine if (1) the project was accomplishing the desired results, and (2) the provisions of the agreements were being implemented. The review of the internal controls was limited to the finding areas presented in this report. The audit was conducted during the period September 1987 through January 1988, and covered selected project activities from September 9, 1985 (date of the construction contract) to December 31, 1987.

Audit fieldwork was performed at the USAID/Somalia office in Mogadishu and at the U.S. Naval Facilities Engineering Command office in Kismayo. We interviewed officials of both offices and the George A. Fuller Company (contractor) and observed construction in process at the four docks in Kismayo, Somalia. We tested the accounting records and performed other audit procedures as we considered necessary in the circumstances. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The objectives were being accomplished satisfactorily and the Kismayo Port was approximately 75 percent complete at the time of our review. In general, the terms and provisions of the contract and service agreement were being complied with, and progress was satisfactory.

However, two conditions required management attention. Some routine construction costs were paid from a contingency fund instead of the contract fund. Additionally, there were only limited provisions for maintenance and spare parts for the port facility once the construction contract has been completed (see other pertinent matters).

Routine Construction Costs Were Being Charged To a Contingency Fund Without Adequate Justification - In addition to the \$36 million obligated for construction, the Participating Agency Service Agreement, section D.3, established a contingency fund to provide for unforeseen difficulties encountered during construction. During the course of construction, the U.S. Navy submitted 14 charge orders (as of the date of audit) totaling \$916,273 as cost reimbursable under these contingency provisions. However, in four instances, normal construction costs required by the PASA were charged to the contingency fund. Consequently the contingency fund was erroneously charged \$147,578. This misclassification of expenditures was due to the lack of cost justification in the billing procedures.

Discussion - The Participating Agency Service Agreement provided for a small contingency fund (approximately \$1.1 million) to provide for accidental omissions, and errors in estimating quantities of materials and labor requirements. Additionally, the agreement stated that "Routine modifications for unforeseen conditions/design changes, etc. shall not require USAID approval,..."

The U.S. Navy claimed expenditures for reimbursement from the contingency fund to maintain vehicles (\$30,000), purchase a satellite communication system (\$69,469), and claim airfare and per diem cost for naval personnel (\$11,998). These costs were specified in the construction contract and/or the Participating Agreement, were anticipated for administering the construction contract, and therefore, should not have been charged to and paid from the contingency fund.

Additionally, the contingency fund was charged \$36,111 for a contractor's claim for reimbursement of port charges which the contractor defined as being "excess", and therefore beyond the scope of the construction contract. In response to our request for supporting documentation, the contractor was unable to substantiate that these costs were in excess of normal anticipated operational expenses. Therefore, in the auditors' opinion, these costs were misclassified, and would be more appropriate allocated within the fixed price contract.

Under the reporting procedures, the Mission had insufficient data to detect that the U.S. Navy had included some uncorrect charges. Procedures for billing USAID included submitting an approved U.S. Navy form (2277) which did not itemize billing data. Consequently, the Navy was able to claim \$147,578 additional construction costs as contingency expenditures, which were subsequently reimbursed by the USAID/Somalia Controller without adequate justification or understanding of the nature of the expenditures.

Recommendation No. 1

We recommend that the Director, USAID/Somalia:

- a. reclassify the \$147,578 as normal construction costs; and
- b. obtain from the U.S. Navy an adequate justification for each item of contingency expenditure when submitting the monthly billing invoices.

USAID/Somalia officials generally concurred with the finding and recommendations. However, they stated that USAID/Somalia continued to have problems with our recommendation for recovery of the \$36,111 attributed to excess port charges. They conceded, however, that the services represented by these billings had not been rendered.

However, Federal Procurement Regulations (Section 1-15.201-2) requires that, in order for an item of cost to be allowable, it must be reasonable. Additionally, Section 1-15.201.3c) defines reasonable as "The actions that a prudent business man would take in the circumstances...". In our opinion, the payment for services neither requested nor received is not the actions of a prudent man. Consequently, we stand by our recommendations.

Additionally USAID/Somalia requested that the recommendation concerning the requiring of an itemized supplemental report be dropped from the audit because of their prior (unsuccessful) attempts to modify Navy billing procedures.

The lack of itemized billings had resulted in USAID reimbursing \$147,578 in unallowable expenditures. Without a procedure to explain future billings, we have no assurance that additional amounts will not be subsequently claimed for reimbursement. Consequently we again stand by our recommendation.

Other Pertinent Matters

The audit noted a lack of provisions for maintenance and repair of the port facility, including the proposed water treatment plant. Only brief maintenance courses had been provided to date, and these were poorly attended. Additionally, the quantity of spare parts, in the opinion of the construction chief engineer, was inadequate. Although the report makes no recommendation, the auditors' believe that provision for maintenance and repair require closer management attention.

USAID/Somalia requested that we delete the section of the report which expressed the auditor's concern with the lack of provisions for maintenance and spare parts.

This request appears to be based on the Somalian designated representative's opinion that the existing provisions were adequate.

RIG/A/Nairobi does not contend that USAID/Somalia or the contractor has failed to fulfill the provisions of the project. However, USAID has invested over \$22 million in rehabilitating the port at Kismayo as a result of the previous facilities deteriorated condition, which was attributed largely

to lack of maintenance and spare parts. We are concerned that similar shortcomings could limit the potential usefulness of this investment. We therefore believe that our statement is useful, and should remain in the report.

We noted that invoices submitted by the contractor had not been reconciled with monthly invoices submitted by the US Navy (at Norfolk, VA.) to USAID/Somalia. For September and October 1987, USAID reimbursements to the Navy exceeded contractor request for reimbursements by \$378,497.

The naval Resident-Officer-In-Charge-Of-Construction stated that he thought the difference was due to the U.S. Navy's need to have funds available to pay the contractor in order to comply with the Prompt Payment Act. We were unable to confirm the cause, however, since supporting records are maintained by the U.S. Navy Facilities Engineering Command of Norfolk, Virginia, U.S.A.

We also noted one instance where USAID/Somalia had misposted a \$200,000 budget amendment increase. The increase had been posted to the construction portion of the contract, rather than the architectural and engineering portion. We attributed this misposting to a clerical error. Consequently no recommendations are being made.

ACTION: AID-5

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FOR RIG/A/N - THABIT FROM DIRECTOR RICHARDS

E.O. 12858: N/A

SUBJECT: DRAFT AUDIT REPORT ON KISMAYO PORT PROJECT
 (849-114)

1. WE ARE IN GENERAL AGREEMENT WITH THE REPORT AND ITS RECOMMENDATION. WE DO CONTINUE TO HAVE PROBLEMS WITH THE POSITION (DOLS.86,111) OF SECTION A OF THE RECOMMENDATION WHICH RELATES TO QUOTE EXCESS PORT CHARGES UNQUOTE. WE GRANT THAT THIS IS AN UNDESIRABLE COST. INDEED IT IS REPUGNANT TO AMERICAN SENSIBILITIES TO PAY CHARGES, PARTICULARLY TO A GOVERNMENT ENTITY, FOR SERVICES NOT RENDERED. HOWEVER, WE NOTE THAT THE CONTRACTOR MADE GOOD FAITH EFFORTS TO AVOID SUCH EXCESS COSTS. THEREFORE, WE FIND IT UNACCEPTABLE TO BURDEN THIS CONTRACTOR WITH THESE COSTS WHICH COULD NOT BE AVOIDED. WE DO NOT BELIEVE THESE COSTS ARE QUOTE NORMAL UNQUOTE.

2. THE RESULTS SOUGHT BY SECTION B OF THE RECOMMENDATION ARE LAUDABLE. HOWEVER, BASED ON PRIOR ATTEMPTS TO ALTER NAVY BILLING PROCEDURES, WE DO NOT BELIEVE THAT THIS IS A VIABLE RECOMMENDATION AND REQUEST THAT IT BE DROPPED FROM THE FINAL REPORT.

3. WE FIND THE ADDENDUM ENTITLED QUOTE OTHER PERTINENT MATTERS END QUOTE TO DETRACT FROM THE OTHERWISE WELL-SUPPORTED (EVEN IF CONCLUSIONS DRAWN ARE DISPUTED BY US) FINDINGS IN THE REPORT. WE FEEL STRONGLY THAT WE SHOULD HAVE BEEN AFFORDED EARLIER OPPORTUNITY TO RESPOND TO THESE MATTERS. WE REQUEST THAT THE SECTION BE DELETED SINCE THE MATTER REGARDING THE SPARE PARTS AND TRAINING WAS DISCUSSED ON 5/23/88 WITH THE USLR DESIGNATED REPRESENTATIVE FOR THE PROJECT AND HE STATED THAT HE IS SATISFIED WITH THE AMOUNT OF SPARE PARTS AND TRAINING SUPPLIED BY THE CONTRACTOR. ALSO, AS PER AMENDMENT COVERING WATER SUPPLY SYSTEM WAS NOT AVAILABLE TO AUDITORS CONCLUSION RE MAINTENANCE OF WATER TREATMENT PLANT MAY BE PREMATURE.

4. I AM PLEASED THAT THE DRAFT REPORT INFORMS ITS READERS THAT THIS PROJECT HAS BEEN EFFECTIVELY IMPLEMENTED. I THANK YOU AND YOUR STAFF FOR THIS

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Appendix 1
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