

PD-ABA-799

ISN 65747

**AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT**

Audit Report No. 7-660-90-05

March 12, 1990

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

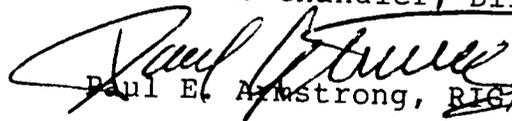
UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

March 12, 1990

INTERNATIONAL ADDRESS
RIG/DAKAR
C/O AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

MEMORANDUM FOR Dennis M. Chandler, Director, USAID/Zaire

FROM:


Paul E. Armstrong, RIGZA/Dakar

SUBJECT:

Audit of USAID/Zaire Commodity Management
Audit Report No. 7-660-90-05

The Office of the Regional Inspector General for Audit/Dakar has completed its audit of USAID/Zaire Commodity Management. 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 three recommendations. Recommendation Nos. 2 and 3 are considered resolved and will not be closed until completion of planned or promised actions. Recommendation No. 1 is unresolved. Please advise me within 30 days of any additional actions taken to implement Recommendation Nos. 2 and 3 and further information you might want us to consider on recommendation No. 1.

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

EXECUTIVE SUMMARY

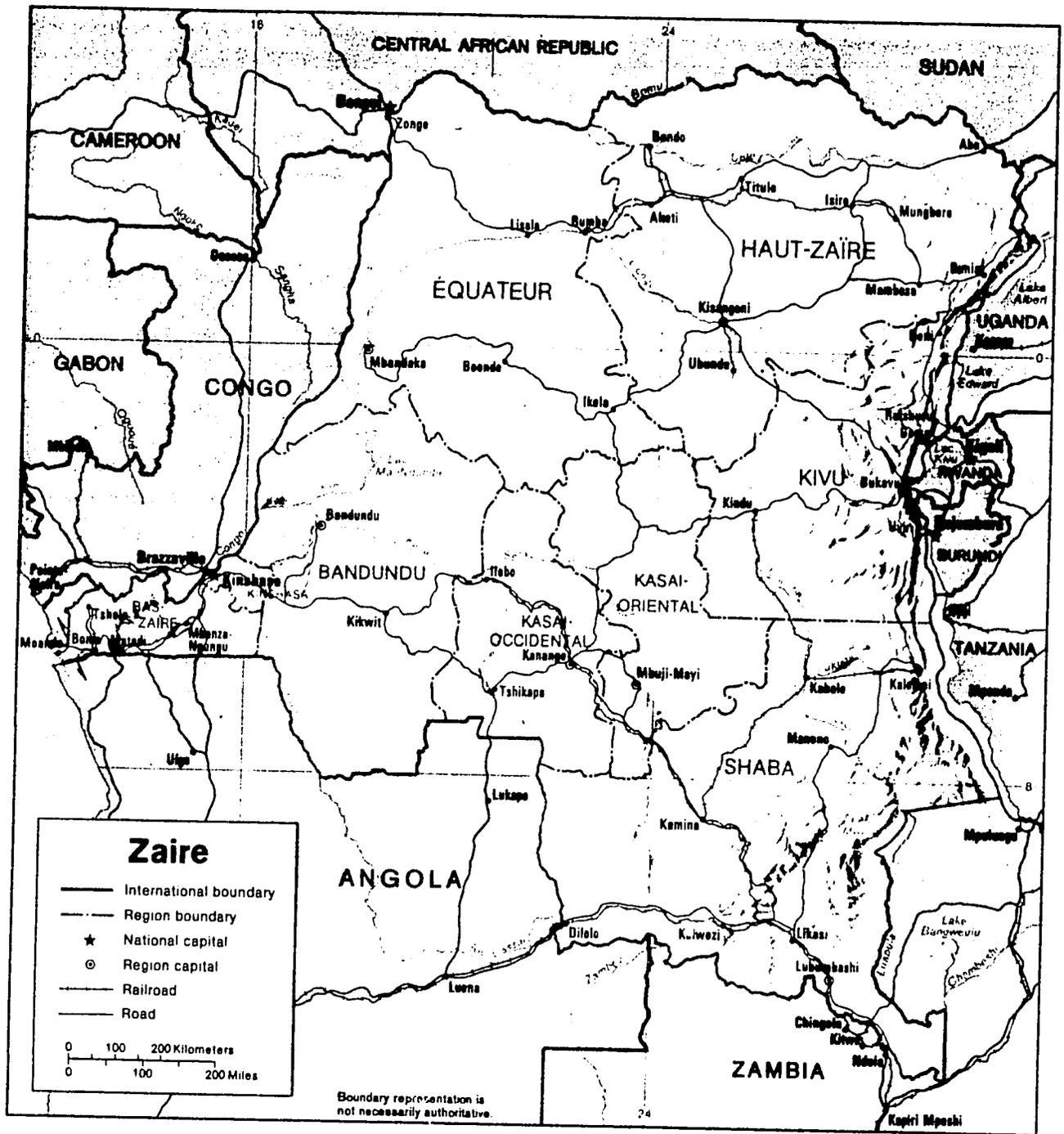
USAID/Zaire is one of the largest procurers of A.I.D. commodities in West and Central Africa. At the end of September 1989, 14 of the Mission's active projects had budgeted for the purchase of about \$55 million in commodities. The Mission's U.S. dollar procurements of project commodities are handled by the Commodity Management Section (CMS) of the Program Development and Operations Office. Other procurements using counterpart funds are administratively controlled by project Personal Services Contractors who assume similar responsibilities as those of the Commodity Management Section.

The Office of the Regional Inspector General for Audit, Dakar, made a performance audit of commodity management in Zaire. The audit found that the Commodity Management Section was well organized and in general was properly following established systems and complying with procurement regulations. On the other hand, project personnel were not routinely carrying out their responsibilities to assure that the commodities were received, accounted for and used as intended. The audit disclosed cases where receiving reports were not completed, inventory records were not accurate and annual physical inventories and end-use checks were not conducted. These shortcomings exposed the projects to the risk of undetected theft, waste and non-usage of project commodities. Additionally, the Mission may have inadvertently relinquished damage claim rights on commodity shipments.

Similarly, project personnel responsible for the administration and control of counterpart fund procurements were not always applying sound procurement practices. The audit found cases where the need for commodities had not been documented, competition had not been sought, required approvals had not been received and payment support files were not complete. The Mission, therefore, was not assured that only required commodities were purchased at the most advantageous price.

Finally, the audit found that the Mission was charging costs of the Commodity Management Section to one project, even though the procurements were made for numerous projects and should have been charged to the operating expense account. The auditors identified at least \$670,000 charged to specific projects that should have been charged as overhead expenses of the Mission.

The report recommends that USAID/Zaire charge to projects only those costs directly relatable to the project and to strengthen commodity management at the project level. The Mission did not agree that it had charged operating expenses to projects but, rather, had used innovative approaches to accomplishing Mission goals. They did agree to take steps to strengthen commodity management at the project level.



**AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT**

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**AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT**

PART I - INTRODUCTION

A. Background

The Mission in Zaire is one of the largest procurers of A.I.D. commodities in West and Central Africa. At the end of September 1989, 14 of the Mission's active projects planned to purchase various types of commodities to meet project objectives. The Mission budgeted commodity costs for these 14 projects at about \$55 million. Project commodities included office furniture, well drilling equipment, medical supplies and contraceptives, motor vehicles and construction equipment.

The Mission's Commodity Management Section (CMS), established in 1987 under the direction of the Program Development and Operations Office, is responsible for all U.S. dollar project procurements. CMS personnel, in addition to other tasks, determine the best acceptable prices, issue and monitor purchase orders, notify the project of arrivals, issue the receiving reports to the projects and prepare the vouchers for payment. The office is headed by a U.S. Direct Hire procurement officer with a Personal Services Contractor (PSC) procurement officer, a PSC administrative assistant and four local national procurement technicians.

Project personnel, generally A.I.D. PSC's, are also responsible for some non-dollar or counterpart fund procurements. Counterpart funds are monies generated by the P.L. 480 and Commodity Import Programs and are owned by the host country which, for the two projects reviewed, had given administrative control for procurements to USAID/Zaire. With regard to counterpart fund procurements, A.I.D. project personnel assume the same tasks as those handled by CMS. These personnel perform the tasks in the absence of formal guidance.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Dakar, conducted a performance audit of commodity management in Zaire. Specifically, the audit sought to determine whether the Mission had:

- effectively planned for commodities, i.e., needs, specifications, procurement mode, and waivers;
- complied with procedures for committing project funds for commodities;
- complied with requirements for competition, supplier eligibility and pricing;
- established adequate controls over the receipt, utilization and disposal of commodities; and
- properly charged costs of the Commodity Management Section to the operating expense account.

The last objective was added during the latter part of the audit after the auditors determined that commodity management costs were not always allocated in accordance with the A.I.D. handbooks.

The audit was conducted at USAID/Zaire in Kinshasa and at project sites located in Kinshasa, Lubumbashi, Kabongo, Kongolo, Sona-Bata, Kisantu, and Mvuazi. The auditors interviewed A.I.D., contractor, local vendor and host government personnel. Audit work included the review and analysis of project documents, contracts, receiving and inventory records, and payment support documentation.

To assess the Mission's planning process for project commodities, we selected 5 of the 14 active projects that had planned commodity procurements (see Exhibit 1). The 5 projects represented about \$33.6 million of the \$55 million of commodities reflected in the procurement plans of the projects and were judgementally selected based on magnitude and status of procurements.

In order to assess the other phases of the commodity management cycle we selected 13 major procurement actions totaling about \$3.7 million on three projects. This represented 25 percent of the \$14.5 million of commodity disbursements on the previously 5 selected projects. These 13 actions were selected based on dollar amount, completion of all procurement steps and susceptibility of the items to loss or mismanagement. We tracked the procurement from the point of requisition and attempted to locate, verify inventories and determine the condition and usage of each of the items received under the purchase order.

Additionally, a limited review of all counterpart fund disbursements between January and September 1989, valued at

about \$810,000, was made on the Central Shaba Agricultural Development Project (No. 660-0105), and the Shaba Refugee Roads Project (No. 660-0115) in the Shaba Region. The review was limited to evaluating the support documentation available to substantiate need, competition, receipt and disbursement. We did not validate the existence or condition of the commodities purchased. Also, internal controls relating to commodity management at the Mission and at project sites were reviewed, as well as those established for counterpart fund disbursements for the two projects cited above.

We did not review procurement actions undertaken by Technical Assistance Contractors, nor those conducted by A.I.D./Washington. These procurement modes involved relatively insignificant amounts of procurements.

The audit was conducted between August and November 1989, and was made in accordance with generally accepted government auditing standards.

**AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT**

PART II - RESULTS OF AUDIT

USAID/Zaire had an effective system to define commodity requirements and specifications, determine eligibility of suppliers and mode of procurement and obtain necessary waivers for commodities. The Mission's well organized Commodity Management Section was following established systems and procedures to commit project funds and initiate procurement actions using U.S. dollars.

However, the Mission was charging projects for the full amount of certain operating and expense costs that did not expressly benefit the project or that had no relation to the project. True project costs were distorted and operating expense costs of the Mission were understated. Further, project personnel were not routinely carrying out their responsibilities to assure that the commodities were received, accounted for, and used as intended. Also, project personnel responsible for counterpart fund procurements were not always applying sound procurement practices. The audit report contains recommendations to charge projects only for those costs directly relatable to the project and to strengthen commodity management at the project level.

A. Findings and Recommendations

1. General Management Support Services Should Be Charged to the Operating Expense Account

In order to have better management control over total A.I.D. operating costs, Handbook 19 Chapter 11 requires Missions to charge general management support services to the operating expense account. The audit found that the Mission was charging to a single project, costs for general management support services or even costs totally unrelated to that project. For example, costs of the Commodity Management Section, were charged to one project, even though the procurements were made for numerous projects and should have been charged to the operating expense account. According to the Mission, severe shortages of overhead expense monies dictated such a policy, which was well known to the Africa Bureau. As a result of this practice, at least \$670,000 reported to be going for specific projects is being diverted to support overhead expenses of the Mission.

Discussion

Handbook 19, Chapter 11 states that contractors engaged in Agency management and support functions should be charged to the operating expense account. The importance of this provision was emphasized by the Acting A.I.D. Administrator, in a November 3, 1989 cable to all Mission directors when he stated "I am convinced that we as an agency must understand better the relationships between our programs and the levels of workforce and operating expenses needed to manage them". In order to accurately determine and report the true costs related to carrying out A.I.D. projects and programs, it is necessary to include only costs directly chargeable to those projects or programs. In cases where a cost is related to more than one project, an allocation of the cost must be made based on the benefits derived by each project, if determinable, or the cost must be included as general overhead.

The Mission was charging costs to projects that should have been charged to the operating expense account. For example, certain Commodity Management Section (CMS) costs were charged to the Central Shaba Agricultural Development Project even though the section's personnel were responsible for all the Mission's dollar project procurements. The costs of two Personal Services Contractors (PSC) in the amount of \$330,000, had been charged to the project since

1987. Other costs, such as the direct hire procurement officer, four local national procurement technicians and costs to operate the office were paid from the Mission's operating expense account. The auditors observed that the PSC's were engaged in tasks related to general project procurement support activities in CMS rather than to activities related to a single project.

The Mission did not agree with the auditors assessment that CMS costs were improperly charged. They stated that at the end of calendar year 1986 that the only way they could carry out an economic assistance program with extensive commodity procurement actions was to employ PSC personnel and to charge their cost to the most appropriate projects, based on level of effort. According to the Mission in an environment of severe shortages of operating expense monies, the Mission had the choice of establishing a CMS staffed by PSC's or reducing projects and they chose the former.

Further, the auditors noted that the practice of charging operating expense type costs to projects was not restricted to the CMS. After identifying and reviewing all PSC charges on our five sample projects, the auditors determined that six PSC's costing about \$670,000 were improperly charged to a project (see Exhibit 2). When the Mission's method of charging overhead type costs to projects was brought to their attention they agreed with the auditors that only costs related to project activities should be charged to the projects. However, they did not agree with the auditors assessment that certain costs charged to the projects should have been charged to the operating expense account. They stated that the present controller deficiencies did not allow them to allocate PSC costs to several projects in any one year as evenly as they desired and that they planned to allocate costs when the new MACS accounting system became operational. The auditors believe, however, this does not mitigate the fact that their current policy was not appropriate, nor does it support the conclusion that charging operating expense cost to a single project is appropriate.

About \$670,000 in overhead expenses may have been incorrectly charged to the projects. This alone is a significant amount and does not include other Mission overhead costs that may have been made to other projects not included in our audit sample. Based on the potential impact of the mischarges we do not agree with the Mission's decision to make the changes when the new automated accounting system becomes operational, but think immediate

actions should be taken to properly disclose costs in accordance with A.I.D. requirements and the wishes of the Acting Administrator.

Recommendation No. 1

We recommend that the Director, USAID/Zaire:

- a. identify and report to the Regional Inspector General/Dakar, all overhead expenses being improperly charged to projects; and
- b. discontinue the use of project funds to support overhead-type activities.

Mission Comments

The Mission objected to the audit assessment that it improperly charged overhead expenses to projects. According to the Mission, under the circumstances of limited operating expenses and U.S. direct hire ceilings, the most prudent action in 1987 was to charge parts of CMS expenses to the projects. The Mission stated that such action was taken with the Africa Bureau's knowledge and, in fact, was encouraged by a December 25, 1987 cable asking each USAID to be innovative to obtain the necessary staff to efficiently and expeditiously carry out the U.S. economic assistance program. Further, since the Africa Bureau was aware of the charges, the USAID assumed that it was up to the Bureau to advise the Mission that the charges were improper, and if changes were warranted, to provide the necessary operating expenses and manpower resources to implement these changes.

The Mission also stated that the Mission accounting operations required improvements which had been well documented in all Internal Control Vulnerability Assessments since October 1986. These deficiencies did not allow the Mission to allocate PSC costs to several projects in any one year as evenly as they desired. However, in the Mission's opinion, since the life of the projects was often seven to ten years, by the conclusion of the project there would have been an equitable distribution of costs.

Accordingly, USAID/Zaire did not agree that overhead expenses were improperly charged to projects nor do they intend to discontinue the practice of charging selected PSC's to the projects. They thought that the recommendation should more appropriately be addressed to the Controller and Management Offices in the Africa Bureau.

Office of the Inspector General Comments

The report does not assess management's decision in 1987 to use project or program funds to support operating expense type activities. Nor does it assess whether the Africa Bureau is aware of and responsible for encouraging the use of project or program funds for other than intended purposes. Rather, it points out that the Mission's policy of using project or program funds to pay for general management support services, is contrary to Handbook 19, Chapter 11.

Further, we would like to point out that RIG/A/Dakar was aware that the Mission's accounting operations were weak, making it difficult to evenly allocate PSC costs to several projects. Consequently, we did not recommend at this time that personnel working on more than one project be allocated evenly among the projects. Our recommendation is directed at overhead expenses improperly charged to projects, as defined in Handbook 19, Chapter 11.

We have made modifications to the draft report, such as striking the agricultural economist from Exhibit 2, deleting the section on FAAS costs and more clearly explaining the Mission positions. In order for the finding to be resolved, the Mission must agree to comply with the Handbook or provide official evidence that the USAID/Zaire is exempt from the requirements.

2. Project Personnel Need to Assure that Commodities Are Accounted For and Used as Intended

Once dollar funded project commodities are received in country, project personnel should acknowledge receipt, apply inventory controls and utilize the commodities as intended. The audit determined that project personnel did not always complete receiving reports, maintain inventory records, conduct annual physical inventories or routinely monitor commodity usage to preclude idle equipment. Although there were a number of reasons why this occurred, the auditors noted that project guidance was not clear and the Mission had not established adequate internal controls to assure compliance with A.I.D. policy. As a result of these shortcomings, possible theft, waste and non-usage of commodities was identified.

Discussion

According to A.I.D. Handbook 1, project personnel must coordinate the arrival and availability of commodities with other project activities in order for projects to attain their intended objectives in a timely manner. This can not be done unless project personnel: i) complete receiving reports to assure that the requisitioned number of commodities arrived in good condition, ii) conduct periodic inventories to show that commodities are available and in usable condition, and iii) periodically conduct end use checks to assure that the commodities are used as intended. The following illustrates cases where project personnel did not follow the necessary commodity management procedures.

Receiving Reports Were Not Prepared

Project personnel on all three projects reviewed had failed to complete receiving reports on some of the items that arrived at the project site. In one case miscellaneous spare parts had arrived sometime in 1988, but had still not been reported as received at the time of the audit in November 1989. Because parts have already been used it is no longer possible at this late date to determine if the number of parts purchased was the same number that arrived. In another case two screenhouses, costing \$16,000, arrived in 10 boxes in April 1989. The project personnel had not prepared a receiving report and therefore it was not known if all the spare parts are available to assemble the screenhouses. In a third case four Mack Trucks costing \$208,000 arrived in July 1989. No receiving report had been

prepared so it was not possible to determine if the trucks had arrived damaged and if a claim was warranted. The Mission stated that these vehicles were under consignment to a freight forwarding agent until October 1, 1989. Further, project officials had not received the trucks, nor the documents permitting lawful receipt as of that date. However, this does not explain why the receiving report had not been completed at the end of November. In these three cases non-acknowledgement of the receipt of the items created situations where the project may have (i) paid for spare parts that never arrived, (ii) bought screenhouses which could never be assembled because parts were missing, and (iii) inadvertently relinquished damage claim rights.

Inventories Were Not Accurate

Project personnel on the three projects included in the audit were not routinely entering commodities in the inventory records, recording inventory issues or conducting annual physical inventories according to Mission Order No. 301. While tracking items through the procurement system the auditors noted that substantial numbers of spare parts and 275 medical kits had not been entered on the inventory control records. In turn, some of these items had already been issued from the warehouse without reflecting it on the inventory records. Project managers indicated that after adequate shelves were constructed the spare parts would be counted and posted to the records. Additionally, in the Mission comments to the draft report they stated that there had been a count of the items received and that items were well protected. This, however, does not explain why the established inventory system was not being maintained.

Specific examples of poor inventory control were found on the Applied Agricultural Research Project at the Kisanga site, where only 3 of the 4 motorcycles delivered were entered on the inventory records. According to the project officials a fourth motorcycle costing about \$1,000 had not been included in the inventory because it had been involved in an accident. There was no accident report or other evidence in the files to confirm the project staff's assertions. At the same location, four Toyota Land Cruisers, valued at \$159,000 and the two screenhouses mentioned on page 9 of the report, had not been entered on the inventory records. The Mission responded to the draft report by stating that the motor cycles and Land-Rovers were not USAID financed commodities and that there were site problems related to the screenhouses. Our intention, in this case, was not to address only USAID commodity issues,

rather our intention was to identify examples of inaccurate project inventories.

In another case, project officials on the Rural Health II project indicated that a typewriter shown in the inventory records had been stolen, but the stolen item had not been removed from the records. No evidence, such as a theft report, was found in the files to support the project staff's comments. The Mission replied that this was a single case of the project's \$5 million commodity procurement effort. The auditors agree, but also believe this and the other cases of poor inventory controls are illustrative of a systemic problem.

On the third project, at the Kongolo site, a physical inventory and end use survey had not been conducted. Additionally, there was no fixed asset inventory and the consumable inventory was not current. This site is scheduled to shut down in early 1990 and property is to be transferred to other sites. In the Mission response to the draft report they stated that a complete inventory was made at this site in November 1989. Since this report was not given to the auditors during the audit we assume it was conducted subsequently and in response to the audit fieldwork.

Commodities Were Not Always Fully Used

The audit found that some vehicles and heavy equipment were idle at project sites and that end use surveys had not been conducted in accordance with USAID/Zaire Mission Order No. 309. On the Central Shaba Agricultural Development project nine Mack trucks, valued at about \$470,000 had not been used for 10 months and a grader and bulldozer, with an estimated value of about \$270,000 had not been used for over six months. The equipment could not be repaired because the project did not have the necessary spare parts when they were needed. The Mission stated in response to the draft report that the needed parts were requisitioned soon after these units were found to need repair but the paperwork was lost, and that the problem was not one of failure to follow up but one of documentation procedures. However, the auditors find it hard to believe that all nine trucks broke down at the same time and that all parts orders were lost.

At the Mvuazi site of the Applied Agricultural Research project similar cases were found. A bulldozer and a scraper bought from a U.S. Army surplus lot for about \$48,000 had been awaiting spare parts since 1987. At the Kisanga site

of the project, a pickup truck in good condition had remained unused for about 4 years. At the same location only 2 of 6 Jeep Land-Rovers were in working condition and the project had no plans to repair them. During the audit the Mission informed the auditors that the bulldozer and scraper had been repaired and that the local personnel had refused to drive the pickup truck following an accident. Based on this information the four inoperable vehicles plus the pickup truck should be made available to other projects, or otherwise disposed of in accordance with regulations.

While discussing spare parts availability with the manager of Transmac, a local Mack truck dealer, the auditors noted two A.I.D. Mack trucks parked on the Transmac lot. The manager stated that they had been received in late 1988, one had been repaired around May 1989, and one had not been repaired since approval had not been received from the Commodity Management Section (CMS). The CMS later stated that the trucks were not their responsibility, but that of the project officers. In any event the trucks should be used or made available for disposal.

The commodity management system broke down because project personnel did not follow standard commodity management procedures. In our view, project personnel did not know how to accurately conduct physical inventories, understand their importance, nor realize the importance of tight control records. Also, the Mission did not have in place adequate internal controls to ensure project personnel were complying with the procedures.

As a result of this system breakdown the auditors identified one and possibly two thefts of U.S. furnished commodities, hundreds of thousands of dollars of commodities not used as intended and other possible cases where A.I.D. may have paid for items that they never received. Also, by not filling out receiving reports in a timely manner, A.I.D. may have forgone damage claim rights.

Recommendation No. 2

We recommend that the Director, USAID/Zaire:

- a. issue an administrative memorandum requiring projects to send copies of receiving reports to the Commodity Management Section within 30 days of receipt of the goods by the project;

- b. issue guidance on the proper procedures for conducting annual physical inventories and assure that all projects comply with Mission Order 301, requiring annual physical inventories be conducted by the end of each fiscal year;
- c. conduct end use checks as required by Mission Order 309 in conjunction with annual physical inventories to determine status of equipment and take action to dispose of unusable or excess property and remove it from inventory records; and
- d. take immediate action to have the two Mack trucks at TransMac repaired and placed in service.

Mission Comments

The Mission agreed that tighter control in receiving commodities was warranted, especially in the remote location of the Shaba region. A study is being done of the special situation in Shaba and an administrative memorandum will be issued concerning processing of receiving reports.

Although the Mission felt that the responsibilities for annual physical inventories are adequately described in USAID Mission Order 301 it agreed that written guidance on procedures for conducting annual inventories was warranted.

The Mission agreed that end-use checks should be done in conjunction with annual inventories. Additionally, they had developed a schedule for end-use checks outside of the annual inventory cycle. These scheduled end-use checks would satisfy the annual requirement when judged appropriate.

According to the Mission the 2 trucks referred to in Finding 2(d) belonged to the Office des Routes, who needed time to find its own funds for repair. Both vehicles have been repaired and are now in service.

Office of the Inspector General Comments

Findings 2(a), and (b) are considered resolved and can be closed on receipt of supporting documentation.

Finding 2(c) is considered resolved. However, RIG/A/Dakar would like to review the procedures used to conduct end-use checks and be notified which projects have completed end-use checks in the first quarter of FY 1990, prior to closure.

Finding 2(d) is considered as closed.

3. Project Employees Should Improve the Administration of Counterpart Fund Procurements

A.I.D. Missions should apply sound procurement practices regardless of whether the commodities are purchased with U.S. dollars or counterpart funds. On two projects reviewed where counterpart funds were used, documentation was insufficient to support the procurement actions and commodities were purchased without obtaining required approvals or seeking multiple sources of supply. There was no formal guidance for procurements made with counterpart funds. As a result, the project paid \$18,000 more than necessary for one purchase, and other purchases could have been made for considerably less money.

Discussion

According to A.I.D. Handbook 1, project managers must be sure that commodities are procured in the most prudent manner possible in order to optimize the use of project resources. This applies to project commodities purchased with U.S. dollars as well as project commodities purchased with country counterpart funds. Standard procurement practices require that project managers show that the procurements were made in the most prudent manner possible by documenting each phase of the procurement process. Procurement records should include purchase requests, proforma bids or a note to the file indicating multiple sources of supply were sought, evidence of proper approval authority, receiving reports or other indications of receipt, invoice for payment, and evidence of payment.

On the two projects reviewed there was a general lack of documentation to validate that the procurements had been made in accordance with generally accepted procurement procedures. Further, where some documents were available there were indications that project personnel did not procure the items in the most prudent manner possible. As illustrated by the following examples, competitive sources of commodities were not sought and proper approvals were not always obtained before the commodities were procured.

Competitive Sources of Supply

On the Shaba Refugee Roads Project, about half of the \$130,000 of expenditures went to one local vendor who operated out of his house and carried no inventory.

The vendor, acting as a middleman, ordered from Europe, charging as much as 3 times more than the price available to the Commodity Management Section (CMS) in Kinshasa. The vendor air-freighted all of these orders from Europe and included about \$13,000 for shipping charges. If the project had looked for other sources of supply it would have been apparent that the items could have been purchased at a much lower price.

Preapproval

Procurements were not always initiated by authorized project personnel or preapprovals by Mission Officials were not obtained in advance when necessary. For example, in one case, the contract chief of party at one site ordered 10 Kardex inventory file cabinets for about \$25,000 from a local vendor, who air-freighted the items from Belgium for an additional \$4,000. The items were ordered without authority or knowledge of the responsible project officer. Also, since the purchase exceeded \$5,000, preapproval should have been made by the local project officer's supervisor in Kinshasa. The auditors found a comparable Kardex in a General Services Administration contractor's catalog at the CMS office in Kinshasa for \$689.99 or a total of about \$7,000 for the 10 cabinets. In effect the project paid about \$18,000 or almost three times more than necessary.

The above examples were brought to the attention of the Mission and they agreed that project staff were not adequately documenting the procurement process. They were unaware that the project had paid almost three times or \$18,000 more than was necessary and that half of the procurements were going to one vendor, without the project staff seeking other alternative sources of supply.

Recommendation No. 3

We recommend that the Director, USAID/Zaire issue formal procurement guidance for commodities purchased with counterpart funds, specifically requiring project personnel to document procurement actions, obtain necessary approvals and seek multiple sources of supply.

Mission Comments

The Mission fully agreed with the finding and is preparing a Mission Order covering counterpart fund procurements.

IG Comments

Finding 3 is considered resolved and can be closed upon review of the Mission Order by RIG/A/Dakar.

B. Compliance and Internal Control

Compliance

The audit did not identify cases of non-compliance with statutes, regulations, contracts, or grant agreements.

Internal Controls

The Mission's internal controls generally assure adequate control of project commodities in determining need, committing funds, affecting procurements and accounting for and use of the commodities. However, USAID/Zaire needs to strengthen some internal controls over the management of commodities at the project level. This is discussed on pages 9 to 13 of the report.

The audit also disclosed that project personnel did not always follow internal controls in Mission Orders 301 and 309, which require annual physical inventories and end use checks. These instances are discussed on pages 10 and 11 of the report.

The review of internal controls was limited to the issues related to commodity management as discussed in this report.

**AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT**

PART III - EXHIBITS AND APPENDICES

AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT

Projects Included in Sample
(In Thousands of Dollars)
As Of September 30, 1989

<u>Project</u>	<u>Number</u>	<u>Authorized</u>	<u>Procurement</u>	
			<u>Planned</u>	<u>Disbursed</u>
Applied Agricultural Research and Outreach	660-0091	\$15,000	\$4,230	\$1,240
Agricultural Marketing Development	660-0098	10,000	1,875	470
Area Food and Market Development	660-0102	15,000	2,700	401
Central Shaba Agricultural Development	660-0105	33,907	14,421	7,440
Rural Health II	660-0107	<u>21,700</u>	<u>10,420</u>	<u>4,910</u>
<u>Total</u>		<u>\$95,607</u>	<u>\$33,646</u>	<u>\$14,461</u>

AUDIT OF
USAID/ZAIRE COMMODITY MANAGEMENT

Personal Services Contractors
Improperly Charged To Projects
(As Of September 30, 1989)

<u>Contractors</u>	<u>Project</u>	<u>Duties</u>	<u>Amount</u>
Ben-Senia, Diane	660-0105	Assistant	\$10,216
Gordon, Carey	660-0091	Contracting Services	29,000
	660-0105	" " "	27,954
Driscoll, Thomas	660-0098	Transport Officer	225,000
Lacerte, Paul	660-0098	Commodity Management	6,075
	660-0105	" " "	319,893
Meyers, Rodney	660-0105	" " "	45,090
Thomason, Emmett	660-0105	" " "	8,814
<u>TOTAL</u>			<u>\$672,042</u>



EMBASSY OF THE
UNITED STATES OF AMERICA
Agency for International Development
Kinshasa



February 6, 1990

Mr. Paul A. Armstrong
RIG/A/Dakar
American Embassy
Dakar, Senegal

Dear Mr. Armstrong:

Attached are USAID/Zaire's comments to the draft audit report, "Audit of USAID/Zaire Commodity Management."

As you will note, we are taking some strong exceptions to certain statements and recommendations. In fact, we feel that it would be more appropriate for you to redraft the audit report and submit it again for our comments. We will make every effort to return our comments, via cable, within ten days of receipt of the redraft.

Should you feel that you are unable to comply with our request, please incorporate the attached comments in their entirety as an addendum to the final audit report.

We appreciate your cooperation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dennis M. Chandler".

Dennis M. Chandler
Director

Attach: a/s

cc: AFR/CONT, R. King
AFR/CCWA, M. A. Rielgeman

Pages 7 through 11. USAID/Zaire request that the RIG restate the findings and Recommendation Number One as a result of the comments that follow.

USAID does not accept the allegation that it improperly charged overhead expenses to projects, but rather believes that it acted in a prudent fashion to provide needed oversight and support services to projects in an era of declining operating expense (O.E.) resources. For example, in the case of the USAID Commodity Management Section (CMS), in accordance with AID's well established policy of minimizing fraud, waste and abuse, the USAID made a conscious decision to employ Personal Service Contractor (PSC) personnel and to charge their cost to the most appropriate projects, based on level of effort. This decision was required as a result of conditions that were existing at the end of calendar year 1986, which were that USAID was involved in carrying out an economic assistance program, with extensive commodity procurement actions, without the benefit of procurement expertise. The system in effect at that time was that each project officer was responsible for the project procurement even though such project officers were not fully acquainted with AID's procurement regulations and FAR procedures. In this environment and with the severe shortage of O.E. monies, USAID had the choice of establishing a CMS staffed by PSC's or reducing projects. USAID believed that the objectives of our economic assistance program would be better served by the former.

Our files are well documented as to our attempts to obtain additional O.E. resources, USDH ceiling increases, as well as MODE increases at the U.S. Mission. To imply on page 7 that the USAID had available additional O.E. funds as a result of this practice is an erroneous statement. On the contrary, it was the lack of O.E. funds as well as a lack of USDH ceiling and MODE increases that forced the USAID to pursue funding selected contract commodity procurement specialists through projects on which a substantial portion of their efforts were dedicated. A review of our O.E. obligations for fiscal years 1987 through 1989 will indicate that the USAID did not have excess O.E. funds that could have resulted in unnecessary year end O.E. procurement activity. This USAID has consistently met the 85 per cent requirement of having its O.E. budget level obligated by August 15 of the respective fiscal year.

Furthermore, this USAID has kept the Africa Bureau fully informed of its practice of charging selected contractor costs to projects, as may be evidenced in the detailed contractor listing, by contractor title and source of funding, that was included as a part of the Annual Budget Submission (ABS) for fiscal years 1989, 1990 and 1991. The USAID would like to quote from cable, STATE 399588 dated December 25, 1987, regarding the use of program funds for contractors:

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"examples of costs funded with program funds are: (1) costs associated with consultants, short term contractors, PASA and RSSA personnel engaged exclusively in project or program design, implementation and evaluation, including feasibility studies. Such costs include direct contractual expenses, as well as support costs to the extent that they can be identified and segregated. (2) all participant training costs, contracts for transportation of program commodities, program commodity inspections, feasibility studies, engineering contracts other than those exclusively for agency management requirements, special projects or program evaluation, etc."

As can be readily seen, it was certainly not the intent of this cable to discourage a USAID from projectizing contract personnel, but on the contrary it was encouraging each USAID to be innovative to obtain the necessary staff to efficiently and expeditiously carry out the U. S. economic assistance program.

With respect to FAAS costs, it is the policy of AID to require that project funded personnel be charged the appropriate per capita costs of the FAAS costs. Although such a policy is not yet contained in Handbook 19, PFM/FM/BJD, AID/W, for the past several years, has promulgated this policy. Therefore USAID requests that the RIG obtain directly from PFM/FM/BJD, AID's guidance on this cost allocation.

Regarding the comment on page 7 which states:

"The Acting AID Administrator stated, in a November 3, 1989, cable to all Mission directors, that Missions should obtain a better understanding of the amount of operating expenses needed to support A.I.D. programs."

This comment, we assume, refers to cable, STATE 352960, dated November 2, 1989. We have complied with the guidance contained in this cable and have submitted our "Mission Profile" to the Africa Bureau. We can only assume that the Africa Bureau will advise if it feels that the USAID is improperly charging contractors to projects and, if so, provide us with the necessary operating expense and manpower resources to implement any change which the Africa Bureau may propose.

We also take great exception to the conclusion drawn from the comment on page 10, which states:

"When the Mission's method of charging overhead type costs to projects was brought to their attention they agreed with the auditors that only costs related to project activities should be charged to the projects."

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We did agree with this statement and still do. What is left out of the paragraph is our response that the costs we were and are charging to project activities were and are appropriate. We did agree that our present Controller deficiencies did not allow us to allocate PSC costs to several projects in any one year as evenly as we would desire. But this does not substantiate the implication that our current policy was not appropriate. Neither does it substantiate the conclusion that charging a cost to a single project is inappropriate.

The Controller Office Assessment made during November and December, 1989, by AID/W, documents that the USAID's accounting operations require improvements. The status of the Controller's Office and lack of sophisticated accounting technology has been well documented in all Internal Control Vulnerability Assessments since October, 1986. The USAID is, in fact, waiting for the new automated accounting system, MACS, to be operational before it commences allocating a particular PSC cost over several projects. This system, which should be operational in April, 1990, will then permit the application of PSC costs to several projects without an inordinate increase in workload in the Controller's Office. However, the lack of implementation of this practice in prior fiscal years does not distort project costs. As our projects have a project life of seven to ten years, at the conclusion of the project there will be an equitable distribution of contractor costs, although we are well aware that in any given fiscal year there may be a slight distortion as a result of 100 percent funding of a contractor to one project in one fiscal year.

Accordingly, this USAID is unable to accept the draft Recommendation Number One in that we do not accept the conclusion that overhead expenses were improperly charged to projects nor do we intend to discontinue the practice of charging selected PSC's to the projects on which they work. Should the RIG feel that such a recommendation is required, then it should more appropriately address its recommendation to the Africa Bureau CONT and MGT Offices who are responsible for the allocation of O. E. financial and personnel resources.

Exhibit 2 has Douglas, Daniell (the surname is Daniell, the first name is Douglas) stated as an "Evaluation Officer," which is in error. The contract for Mr. Daniell will reflect that he is an "Agricultural Economist," who worked extensively with Project 660-0102 to which his contract was charged. Similarly, Driscoll, Thomas, should be classified as a "Transport Officer" per his contract, not a "Transport Engineer."

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Recommendation No. 2

- a. "Issue an administrative memorandum requiring projects to send copies of receiving reports to the Commodity Management Section within 30 days of receipt of the goods by the project."

Response: When commodities are released from customs, the CMS prepares a receiving report which is sent to project officers since, according to Mission Order 309, project officers are responsible for the accounting of project commodities. Furthermore, USAID will issue and enforce an administrative memorandum requiring projects to return receiving reports to CMS within 30 days and include this requirement in an amended Mission Order 309.

USAID has, in addition, engaged a contractor to study the special problems of project commodity documentation in Shaba. USAID is considering engaging a local freight expeditor and a local commodity management specialist to be based in the Shaba Area Development Office, but reporting to the U. S. Commodity Management Section in Kinshasa. USAID believes that having a central point for receipt of project commodities in Shaba will greatly reduce the amount of lost or delayed documentation related to commodities.

- b. "Issue guidance on the proper procedures for conducting annual physical inventories and assure that all projects comply with Mission Order 301, requiring annual physical inventories be conducted by the end of each fiscal year."

Response: USAID believes that the basic responsibilities for annual physical inventories are adequately described in USAID Mission Order 301. However, USAID agrees that the procedures for conducting annual inventories in the Mission Order are not yet adequate. Therefore, USAID is drafting further written guidance on procedures for conducting annual inventories.

USAID would like to point out, however, that in some projects, especially those with long supply lines, such as the health projects, regular audit procedures may not be practical, and special audit procedures may need to be adopted on a case-by-case basis.

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- c. " Conduct end-use checks as required by Mission Order 309 in conjunction with annual physical inventories to determine status of equipment and take action to dispose of unusable or excess property and remove it from inventory records."

Response: USAID agrees that end-use checks should be done in accordance with annual inventories. In addition, USAID would like to note that end-use checks are already conducted regularly according to a pre-determined schedule, as shown below:

USAID IMPLEMENTATION SCHEDULE FOR END-USE CHECKS OF NON-EXPENDABLE PROPERTY

Project No.	Project Title	Status	Expected Completion Date of Inspection
660-0079	Nutr.Improvement:		February 1990
660-0091	Applied.Ag.Research		May 1990
660-0094	Family Planning Service		1990
660-0098	Ag.Marketing Devel. III		1990
660-0101	School of Public Health		1990
660-0102	Area Food & Mark. Devel	Completed	1 December 1989
660-0105	Central Shaba Devel	Completed	1 December 1989
660-0107	Rural Health II-Health		1990
660-0107	Rural Health II-Water		February 1990
660-0114	Shaba Refugee Health		1990
660-0115	Shaba Refugee Roads	Completed	22 November 1989
660-0116	Shaba Refugee Water		February 1990
660-0119	Ag.Policy.& Planning		1991
660-0120	Private Sector Support		1991
660-0125	Small Proj.Support		1991
698-0421	CCCD-Zaire		1990
698-0474.60	HIV/AIDS		1991
PL 480/079	Title II MCH Program		1990

End-use checks are conducted both by USAID staff and contractors assigned for specific projects.

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In cases where it is deemed appropriate, USAID may elect to accept the findings of the scheduled end-use check rather than conduct an end-use check with annual inventory. USAID feels that its serious attitude toward end-use checks is further demonstrated by the fact that end-use checks of all commodities imported under the three most recent and the current commodity import programs had been conducted. This excellent performance has been recognized in other audits and evaluations.

- d. Take immediate action to have the two Mack trucks at TransMac repaired, and put into use or sold, with the proceeds going to the U.S. Treasury.

Response: These vehicles are no longer at TransMac. Both vehicles, originally under expired project 0028, have been repaired and are now in service on Office de Routes (OR) road maintenance activities and are being used in USAID funded road activities under project 0098. The reason the units remained at TransMac was that the title holder, OR, needed time to find its own funds for repair of the trucks, which OR eventually did.

As a point of information, USAID would like to remind RIG/A that when Counterpart Funds (CPF) are generated from the local sale of imported commodities, any refunds or proceeds are returned to the Counterpart Fund account rather than to the U.S. Treasury.

Recommendation No. 3

"We recommend that the Director, USAID/Zaire issue formal procurement guidance for commodities purchased with counterpart funds, specially requiring project officials to document procurement actions, obtain necessary approvals and seek multiple sources of supply."

Response: USAID fully agrees that greater controls are needed over the projects' use of Counterpart Funds. Even before this audit was planned, USAID has been working to improve prevailing commercial practice, approval and disbursement of CPF-funded commodity procurement transactions.

USAID, after consultation with AID's Regional Legal Advisor and appropriate GOZ officials, has now drafted and is preparing to issue a Mission Order on CPF Procurement, based on the following concepts:

1. Acceptable standards for procurement following good commercial practice using specified competition procedures, together with guidelines for related disbursement and fiscal accounting satisfactory to USAID.

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2. CPF-financed project procurement and related disbursement/fiscal accounting to be performed by:

- A. Host Country responsible agency(HC).
- B. Institutional Contractor/Private Voluntary Organizations (PVOs) acting as agents of GOZ
- C. Project-funded Personal Services Contractor(PSC) specifically authorized to act in name of the respective Government of Zaire (GOZ) project concerned.

3. Commodities to be procured with CPF will be identified in annual GOZ-approved CPF budgets and, to the extent status of project permits, in Project Paper, Project Agreement, procurement plans (and periodic updates). Description would be as broad as possible although major items of equipment, (e.g. trucks, motorcycles, generator sets, lathes, etc.) would be specifically identified, whereas general categories of goods, (such as "construction materials") would be acceptable.

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Response on specific points of information contained in draft Audit Report concerning 660-0107 Water Project:

Page 13 (Finding No. 2) The audit report states that:

In a third case, four Mack trucks costing \$208,000 arrived in July 1989. No receiving report had been prepared so it was not possible to determine if the trucks had arrived damaged and a claim may be warranted.

This account is inaccurate and misleading. The Mack trucks did arrive in country in July, and were still under consignment to the freight forwarding agent (AMIZA) as of 1 October 1989. Project officials had not received the trucks, nor the documents permitting lawful receipt as of that date. Since that time, the freight forwarder has delivered the trucks to the project, damage reports were filed and a request for the freight forwarder to submit a claim for damages incurred in shipment has been processed.

The logistical difficulties of receiving project equipment in Lubumbashi, 1400 miles from the USAID office, should not be overlooked, nor the numerous errors committed by a contracted freight forwarder in mishandling the shipping documents, failing to store the trucks in a secure location, etc. The audit report would be better appreciated if these considerable constraints and the Mission's dependence on local firms and infrastructure were acknowledged and fairly taken into account.

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Response on specific points of information contained in draft audit report concerning Basic Rural Health II (SANRU):

1) Section 2; p. 14 Inventories were not accurate:

Paragraph one states "While tracking items through the procurement system the auditors noted that substantial numbers of spare parts and 275 medical kits....."

These statements are misleading for two reasons. Firstly, the auditors failed to mention that both procurements represented the most recently received commodities comprising over 650 cartons of equipment/spare parts. Project staff had actually counted and documented all vehicle spare parts (400 cartons) and performed a random inspection and count of several medical equipment kits (each found intact and triple packaged in cartons, wooden crates and metal containers per our request). Furthermore, this project has well-guarded warehouses with no evidence of commodity theft at the central site in its nine-year history.

Secondly, owing to the multiple number of distribution points throughout all 11 regions of Zaire (90 zones), project staff concentrate on distributing all equipment as quickly as possible. SANRU's permanent inventory records accurately reflect an itemized account of all items received as well as final destination. However, prior to documenting commodities on permanent inventory records, the project maintains a list of all items and destination on a temporary list as they are being distributed. At no point is the project distributing materials without documentation, as evidenced in the project monthly reports which itemizes all commodities distributed to health zone including the exact number of brochures!

2) Section 2. p. 15, paragraph one:

".....Rural Health II Project indicated that a typewriter had been stolen, but the stolen....."

USAID agrees that in the event the central project office receives information that an item has been stolen in the field, project staff should request an incident report and it should be reflected on the permanent inventory files.

It should be noted that the SANRU (660-0107) Project has completed approximately five million dollars worth of commodity procurement including thousands of small items. Project staff does make an effort to document down to field level.

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Response to specific points in the report concerning the Applied Agricultural Research Project and RAV:

- A. Two screenhouses (Note: not greenhouses) which arrived in April 1989 for which no receiving report was submitted (Page 13 of draft audit). The delay in submission of the receiving report for the two RAV screenhouses resulted from not having a suitable site for the installation of these screenhouses when they arrived. When the commodities were ordered and airfreighted to Zaire, the project planned to install them at the PNM (National Corn Program) headquarters at Kaniameshi, near Lubumbashi. This was not done as RAV encountered unexpected administrative delays in obtaining land title in the name of the GOZ for that station. Based on prudent management, USAID was reluctant to invest funds for infrastructure improvements until this issue was resolved. Now that RAV has recently obtained land title, preparations are underway for the installation by April 1990 of the screenhouses at Kaniameshi as part of renovation activities planned for that station. USAID accepts that, in spite of the unanticipated delays in the installation of the screenhouses, RAV should have verified at the time of their reception whether or not all material had arrived and subsequently submitted a commodity receiving report to USAID as well as including these commodities on RAV's inventory (Page 15 of audit).
2. The four motorcycles referred to on page 14 were not USAID financed commodities. The pickup truck and Land-Rovers referred to on Page 16 likewise were not USAID financed commodities.
3. In reference to four USAID financed Toyota Land Cruisers which had not been entered on RAV commodity inventory records (Page 15), USAID was aware of this prior to the audit and the project officer had already brought it to RAV's attention. USAID is working closely with RAV to improve its overall systems for commodity management, in line with Mission Orders 301 and 309, to ensure that problems like this are avoided in the future.
4. In reference to spare parts requested in 1987 for RAV bulldozer and scraper (Page 16). As mentioned previously in the Mission's response to this audit, prior to 1987 project officers were directly involved in ordering commodities for the projects. Due largely to this, when the USAID established its procurement office in 1987, the RAV project had a considerable backlog of procurement actions including the spare parts mentioned above. Given the volume of pending higher priority procurement actions for the various USAID projects, the spares for RAV were not immediately ordered. Subsequently, further delays were encountered in locating a supplier for the required parts. As the audit noted, the RAV bulldozer and scraper are now operational and are being used in support of project activities.

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Response to specific points of information concerning Project 660-0105:

On Page 15, it was stated that no inventory or end-use survey was conducted at the Kongolo site No. 1. In fact, a complete inventory was made at this site in November, 1989. As all commodities will be transferred to site No. 2 in March 1990, USAID has decided to wait until after transfer to site No. 2, when the combined inventories of equipment can be more easily subjected to an end-use check.

On Page 15-16, in reference to the nine Mack trucks, the grader and the bulldozer which had not been used for several months, USAID would like to point out that parts were requisitioned soon after these units were found to need repair, but that the paperwork was lost. The Mission believes that the problem in these cases was not one of failing to follow up on the need for spare parts, but a problem of documentation procedures, which we are addressing as described in our above response to Recommendation Number Two, i.e. we are designing a new system to address the Shaba documentation problem.

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