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Report of the Inspector General
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**AUDIT OF
MOZAMBIQUE PRIVATE SECTOR
REHABILITATION PROGRAM
PROJECT NO. 656-0201**

**AUDIT REPORT NO. 3-656-91-02
OCTOBER 31, 1990**

The Program was making satisfactory progress in providing various commodities and equipment to manufacturers and farmers and meeting the host government's managerial and technical assistant needs. However,

- \$5.6 million in local currency generations were not deposited into the special accounts in a timely manner, and
 - at least \$242,982 in technical assistance funds should be recovered and reprogrammed.
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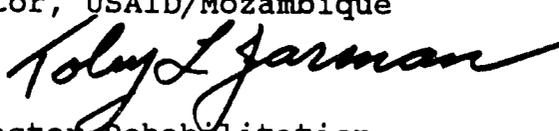
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October 31, 1990

MEMORANDUM

TO : Julius P. Schlotthauer, Director, USAID/Mozambique
FROM : Toby L. Jarman, RIG/A/Nairobi 
SUBJECT: Audit of Mozambique Private Sector Rehabilitation Program

Enclosed are five copies of our audit report on the Mozambique Private Sector Rehabilitation Program, Report No. 3-656-91-02.

We reviewed your comments on the draft report and summarized them after each finding and also included them as an appendix to this report. Based on your comments, all recommendations except Recommendation Nos. 2.1 and 2.4 are resolved and will be closed when appropriate actions are completed. Recommendation No. 2.1 will be resolved when we obtain your agreement to recover the funds that were erroneously paid to the contractor, and closed when appropriate actions are complete. Recommendation No. 2.4 will be resolved once RIG/A/N and the Mission agree on the actual undisbursed balance of the \$114,553 to be reprogrammed and closed when appropriate actions are completed. Please advise me within 30 days, of any actions taken or planned to implement the recommendations.

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

EXECUTIVE SUMMARY

Started in September 1984, the Mozambique Private Sector Rehabilitation Program was designed to:

- increase food production by making various commodities and equipment available to manufacturers and farmers; and
- assist the Government of the People's Republic of Mozambique to meet its needs for managerial and technical skills in support of the private sector.

To achieve these objectives, A.I.D. authorized \$52.3 million for a commodity import program and \$3.0 million for technical assistance.

Between February 8 and May 4, 1990, we audited the program in accordance with generally accepted government auditing standards (see page 1 and appendix I) and found the following:

- The Program was making satisfactory progress in providing various commodities and equipment to manufacturers and farmers and meeting the host government's managerial and technical assistance needs (see page 4).
- USAID/Mozambique had established an adequate system to account for commodity arrivals and end-use (see page 4).
- The host government did not deposit the local currency equivalent of \$5.6 million into the special accounts within the prescribed time limit (see page 5).
- Technical assistance funds totalling \$242,982 were either erroneously paid or unused, and there was no assurance that an additional \$114,553 would be effectively used (see page 8).

The report contains two recommendations. The first recommendation requires the host government to deposit outstanding local currency generations into the special accounts (see page 6). The second recommendation requires the Mission to collect and reprogram funds which were either erroneously paid or unused and to formalize procedures to monitor technical assistance (see page 9). The report also (1) presents our assessment of internal controls (see page 15) and (2) reports on USAID/Mozambique's and the host government's compliance with applicable laws and regulations (see page 17).

A draft of this report was provided to Mission officials for comment. In responding to the draft report, the Mission generally agreed with the findings and recommendations and suggested changes which we incorporated in the final report. With respect to the finding and recommendation on a technical assistance contractor - Shearson Lehman Brothers - the Mission felt that it was a complex issue that needed more research. However, the audit took into account all the information available from both the Mission and the host government. Furthermore, throughout the audit neither the auditors nor the Mission could identify any information, additional to what was obtained, that would invalidate the finding and recommendation on this issue (see pages 9 and 13).

Office of the Inspector General

Office of the Inspector General
October 31, 1990

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INTRODUCTION

Background

The Mozambique Private Sector Rehabilitation Program (PSR) began in 1984 to support policy initiatives by the Government of the People's Republic of Mozambique (GPRM) to revitalize certain activities in the private sector, especially in food production. The purpose of the program was to: increase food production by making various commodities and equipment available to farmers, and assist the GPRM in meeting its critical need for managerial and technical skills to support the private sector.

The purposes of the program were to be met through two complementary but distinct sub-components. First, a \$52.3 million Commodity Import Program (CIP) was to provide foreign exchange needed to supply equipment to farmers such as tractors, trucks, and fertilizer. Under this component, AID/W paid U.S. suppliers for goods on behalf of Mozambican importers. A.I.D. required the GPRM to establish special bank accounts and deposit the local currency equivalent of the U.S. dollar cost of the goods. The local currency deposits were based upon the highest legal rate of exchange in effect on the day the shipping documents were received by the Bank of Mozambique. Furthermore, these deposits were to be made within 120 days from the date the shipping documents were received, and the money was to be used for mutually agreed upon development activities in Mozambique.

Second, a \$3 million technical assistance component was to strengthen various institutions supporting the private sector by: developing feasible and cohesive private sector policies, promoting private entrepreneurs and assisting in the rehabilitation of potentially productive assets in the private sector. The salaries of two personal services contractors responsible for monitoring the arrival and end-use of the CIP commodities were also paid from this component.

Audit Objectives

The office of the Regional Inspector General for Audit/Nairobi audited the Mozambique Private Sector Rehabilitation Program to answer the following audit objectives:

1. What is the progress of the program?
2. Did USAID/Mozambique establish an adequate system to account

for commodity arrivals and end-use?

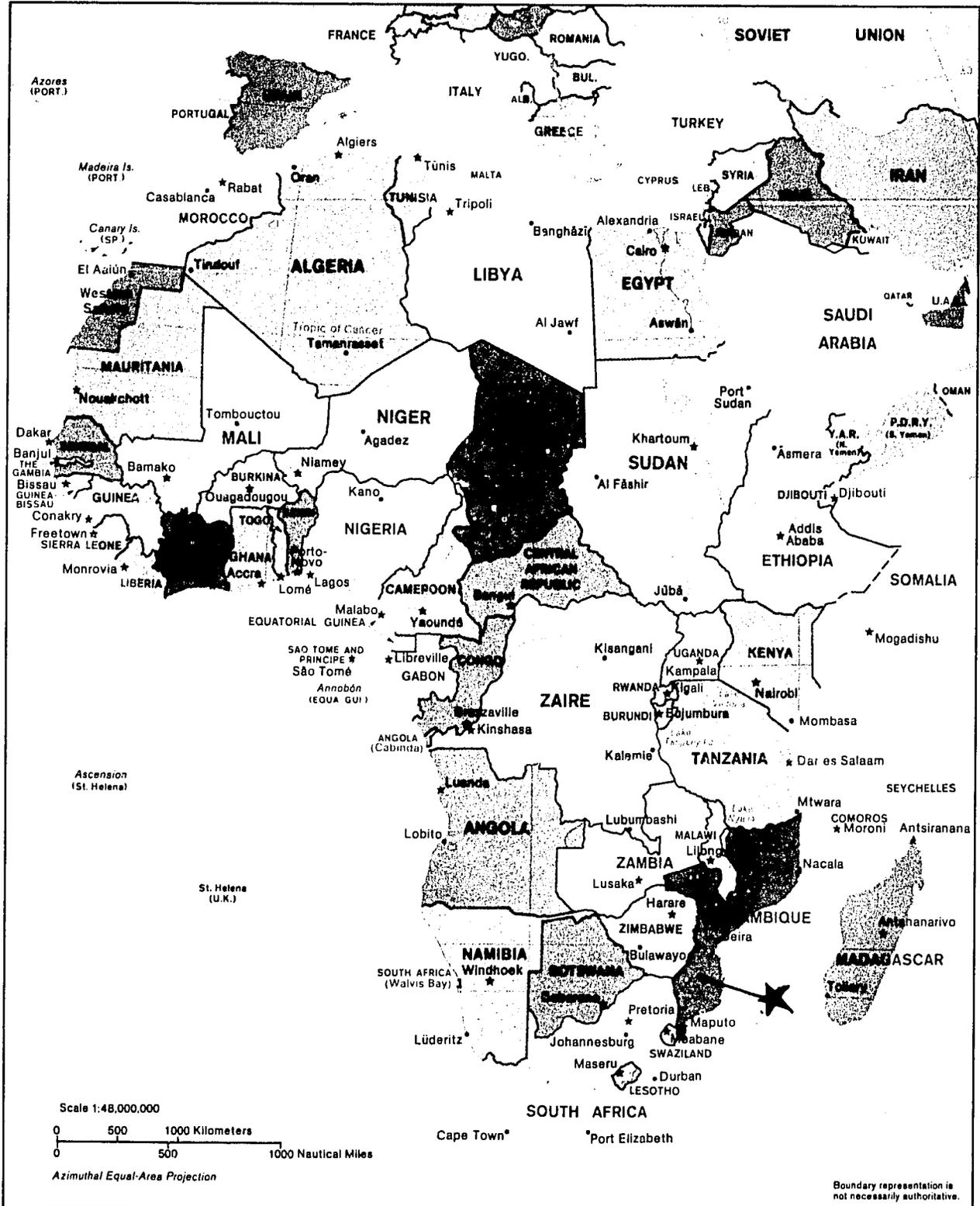
3. Did the Government of Mozambique deposit local currency generations in a timely manner?
4. Did the technical assistance contracts meet their objectives?

In answering these audit objectives, we tested whether USAID/Mozambique followed applicable internal control procedures and complied with certain laws, regulations, contracts and the grant agreements. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for items tested, USAID/Mozambique (or the GPRM) followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- . conclusively determine whether USAID/Mozambique or the GPRM were following procedures or complying with legal requirements,
- . identify the cause and effect of the problems and
- . make recommendations to correct the conditions and causes of the problems.

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

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REPORT OF
AUDIT FINDINGS

What is the progress of the program?

The audit determined that the Mozambique Private Sector Rehabilitation Program was making satisfactory progress in providing various commodities and equipment to manufacturers and farmers and assisting the GPRM's need for managerial and technical skills to support the private sector.

At the time we completed our fieldwork on May 4, 1990, \$44.7 million worth of commodities had been ordered and received under the program's CIP component -- 86 percent of the \$52.3 million allocated to this component. The commodities included tractors, trucks, irrigation pumps, spare parts, rubber, various farm implements, fertilizer and seeds.

Local currency amounting to 7.9 billion Meticaís (\$39.1 million) had been deposited by importers into the special accounts. Of this amount, 5.1 billion Meticaís (\$25.2 million) had been programmed for budget support, 0.7 billion Meticaís (\$3.5 million) was held in trust to help the Mission meet its operating expenses, and 2.1 billion Meticaís (\$10.4 million) was in the process of being programmed.

The technical assistance component was helping to provide the GPRM with critically needed managerial and technical resources. As of May 4, 1990, \$1.8 million out of the \$3 million allocated to this component was spent: (1) establishing computer systems in the Bank of Mozambique, (2) exploring for ammonia and oil, (3) studying the construction industry in Mozambique, (4) rehabilitating tractors, and (5) monitoring commodity imports.

Management Comments and Our Evaluation

USAID/Mozambique did not comment on this objective.

Did USAID/Mozambique establish an adequate system to account for commodity arrivals and end-use?

The audit found that the Mission had established a system which appeared adequate to account for commodity arrivals and end-use. The system contained, among other things, information on the commodities imported such as: their source and origin, the dates of the letters of commitment, when goods were received and released

from customs, and the dates local currency proceeds were deposited into the special accounts.

To test the system, we randomly selected and visited seven out of 24 firms which had imported commodities totalling \$28 million, or 63 percent of the total imported under the Program. Three of these firms were manufacturing companies that were end-users of the CIP-financed commodities such as zinc, rubber and spare parts. The other four were importers who bought commodities such as fertilizer, tractors, and motor pumps which they in turn sold to the other end-users -- specifically farmers. The officials of all seven companies confirmed that they received the commodities in a timely manner and in good condition, and had no problems using them or selling them to the farmers.

We were unable to visit farmers, all of whom were located outside the city of Maputo, because of security reasons. At the time of our audit U.S. Embassy policy prohibited us from traveling more than 70 kilometers outside the city of Maputo. However, the Mission employed two Mozambican personal service contractors who monitored commodity arrivals and end-use to verify whether commodities were being distributed and used by the target population. For example, one contractor maintained among other things, information on goods ordered and dates of arrival. This contractor inspected the goods upon arrival to ensure that the goods ordered and paid for were actually received.

The second contractor visited end-users throughout the country to determine whether CIP-financed commodities were being effectively used.

We reviewed trip reports prepared by the second contractor which covered visits to 822 end-users throughout Mozambique between January 1989 and March 1990. No problems were indicated in the trip reports, and both contractors stated that they had not observed any problems relating to commodity arrivals and end-use.

Therefore, we concluded that, subject to the limitation of not being able to visit farmers and the fact that the two contractors were not independent of USAID/Mozambique, the Mission's system appeared adequate to account for commodity arrivals and end-use.

Management Comments and Our Evaluation

USAID/Mozambique suggested certain wording changes under this objective which we incorporated.

Did the Government of Mozambique deposit local currency generations in a timely manner?

At the time of our audit in May 1990 the local currency equivalent

of \$39.1 million (out of \$44.7 million spent for commodities received) had been deposited into the special accounts. The Mission had established a system of accounting for local currency generated under the program, which included: information on the dollar value of the goods received, applicable rates of exchange, and the amount of local currency actually deposited into the special accounts.

However, the system did not ensure that all local currency was deposited into the special accounts for commodities that had been received between 1986 and 1988.

Some Local Currency Generations Were Not Deposited into the Special Accounts

The program grant agreements required the grantee to deposit, into the special accounts, the local currency equivalent of the U.S. dollar cost of the commodities received. However, local currency equal to \$5.6 million had not been deposited as required. This occurred because the Mission did not exert its right under the grant agreements to demand that the GPRM deposit past due local currency amounts and because the GPRM did not have procedures to ensure that importers made the required deposits in a timely manner. As a result, \$5.6 million was not available for development purposes in Mozambique.

Recommendation No. 1: We recommend that the Director, USAID/Mozambique issue a bill of collection to the Government of the People's Republic of Mozambique requiring it to deposit, into the program's special accounts, the local currency equivalent of \$5.6 million that was outstanding more than 120 days.

Grant Agreements 656-K-601B and 656-K-601C between A.I.D. and the GPRM required the Government to establish a special account in the Banco Popular de Desenvolvimento and deposit the local currency equivalent of the U.S. dollar value of commodities delivered. Grant Agreement 656-K-601D required the grantee to establish a special account in the Banco de Mozambique and deposit local currency, equal to the U.S. dollar value of commodities received under that agreement. The deposits into the special accounts were to be made within 120 days after the shipping documents for each importation were received by the Bank of Mozambique. The amount to be deposited was based on the highest legal rate of exchange in effect on the day the shipping documents were received.

The audit found that the GPRM did not always deposit local currency into the special accounts within the prescribed time. As of May 4, 1990, the local currency equivalent of \$5.6 million was in arrears for more than 120 days -- and \$1.8 million, or 32 percent of this amount was outstanding for more than one year.

This problem of arrears to the special accounts was on-going since February 1987 and the Mission wrote several letters to the Ministry of Finance between October 1987 and September 1988 informing them of the problem. In a Mission Implementation Letter dated June 10, 1988, USAID/Mozambique suspended the program because the Government did not comply with the local currency deposit requirements of the agreements.

The program resumed on September 20, 1988 on the basis of assurances given to the Mission by the Government that the arrears would be paid and future deposits would remain current. Nevertheless, at least \$1.2 million of the \$5.6 million outstanding as of May 4, 1990 related to arrears accumulated before the program resumed in September 1988, and the remaining \$4.4 million was accumulated after the program resumed.

... the local currency equivalent of \$5.6 Million was not deposited into the special accounts...

These outstanding amounts occurred because, first, the GPRM did not have procedures to ensure that importers made the required deposits. Second, according to the Mission and GPRM officials, although the grant agreements were between the GPRM and A.I.D., the Government was reluctant to deposit local currency into the special accounts before importers paid for the goods because the Government did not have procedures to track and collect amounts owed by importers. Third, the Mission did not issue a bill of collection to the Government of the People's Republic of Mozambique requiring it to deposit outstanding local currency generations into the special accounts.

As a result of the foregoing, the local currency equivalent of \$5.6 million was not deposited into the special accounts and therefore not available for development purposes in Mozambique. Based on the above, we concluded that outstanding local currency needed to be deposited and the GPRM's capacity to ensure timely deposits of local currency generations needed to be strengthened.

Management Comments and Our Evaluation

In responding to the draft audit report, USAID/Mozambique agreed with this finding and recommendation. The Mission stated that they sent a letter to the Government of the People's Republic of Mozambique on August 3, 1990 requesting them to deposit within 30 days all local currency due as of June 30, 1990. The Mission also stated that, as a result of that letter, the GPRM deposited \$3.7 million of the \$5.6 million which was outstanding for more than 120

days at the time we completed our fieldwork on May 4, 1990. Further, the Mission stated that it expected the balance of the arrears to be deposited during October 1990.

USAID/Mozambique officials previously stated that the GPRM had agreed to employ a specialist to assist the Ministry of Finance in establishing a system to monitor and account for local currency deposits. The specialist will be funded under the technical assistance component of the program. In their comments on the draft report, the Mission stated that they had introduced certain procedures to ensure that deposits would be made on time. These procedures included requiring importers (1) to make normal commercial arrangements for payment, acceptable to the Bank of Mozambique, before letters of commitment are issued and (2) fulfill these arrangements prior to receiving original shipping documents needed to obtain goods. Moreover, USAID/Mozambique stated that those importers who fall into arrears will be suspended from the program.

RIG/A/N considers Recommendation No. 1 resolved. It will be closed when this office receives documentary evidence that the Mission has required the GPRM to deposit the local currency equivalent of \$5.6 million that was outstanding for more than 120 days as of May 4, 1990.

Did the technical assistance contracts meet their objectives?

USAID/Mozambique funded eight technical assistance contracts under the Private Sector Rehabilitation Program at a cost of \$2,010,909. Personal service contracts awarded to two individuals -- totalling \$166,636 -- to monitor arrival and end-use of CIP commodities were meeting their objectives. Two maintenance contracts for \$514,500 to service agricultural equipment were likewise successful. However, the following four contracts for approximately \$1.3 million were not entirely successful in meeting their objectives:

- . A \$694,773 contract with the U.S. firm of Shearson Lehman Brothers;
- . Two contracts totalling \$560,000 with the U.S. firm of Arthur D, Little; and
- . A \$75,000 contract with the Nairobi firm of Coopers & Lybrand.

**Some Technical Assistance
Contracts Did Not Meet Their Objectives**

The objectives of the Shearson Lehman Brothers, Arthur D. Little, and Coopers & Lybrand contracts were, respectively, to: establish

computer systems and provide training in the Bank of Mozambique, attract foreign investment in ammonia and oil projects, and recommend actions to make the Mozambique construction industry more efficient. However, the firms did not provide all the required systems or training, attract the hoped for foreign investment, and make useful recommendations to the construction industry. This occurred because USAID/Mozambique did not establish a system to link contract payments with project accomplishments and monitor and identify potential constraints to the successful implementation of technical assistance contracts. As a result, \$242,982 should be recovered and reprogrammed. In addition, the undisbursed balance of \$114,553 that was to be spent under the Arthur D. Little contract should be reprogrammed.

Recommendation No. 2: We recommend that the Director USAID/Mozambique:

- 2.1 Issue a bill of collection or devise another suitable method to recover the \$100,941 for services which were not performed by Shearson Lehman Brothers.
- 2.2 Reprogram \$125,000 which will not be used under the Shearson Lehman Brothers contract.
- 2.3 Issue a bill of collection for \$17,041 to Arthur D. Little for payments which exceeded the hourly rate for services specified in the contract.
- 2.4 Reprogram the undisbursed balance of the \$114,553 that was to be spent under the Arthur D. Little contract which expired on August 31, 1990.
- 2.5 Formalize in a Mission order, or other appropriate documentation, procedures to monitor the successful implementation of technical assistance contracts.

Shearson Lehman Brothers

The GPRM signed a \$694,773 contract with Shearson Lehman Brothers (SLB) which required SLB to establish two computer systems in the Bank of Mozambique -- a debt analysis management system and an external operations system. SLB was also required to train bank personnel to operate these systems, and provide financial advisory services. These tasks were to be performed over a 12-month period from October 1, 1984 to September 30, 1985, and payment was to be made on the basis of monthly invoices submitted by the contractor after completing specified tasks.

The audit found that while most of the services were provided under this contract, two were not. In the first case, SLB did not install an external operation systems, in the Bank of Mozambique, for which the Mission had budgeted \$125,000. Although SLB did not

bill USAID for this service, as of May 1990 the Mission had not liquidated this amount. In the second case, SLB did not provide the required training to Bank of Mozambique personnel on the aforementioned system. Yet, SLB inappropriately billed the Mission for \$100,941 and was paid.

The auditors found that the Mission initiated action in June 1987 to issue a bill of collection to recover the \$100,941. However, during our audit in May 1990 - almost three years later - there was no evidence that the bill of collection had in fact been issued. This matter was discussed with RIG/I in Nairobi on May 31, 1990 who reviewed the available documentation and advised us that the situation did not warrant a criminal investigation, but that collection should be pursued.

... SLB inappropriately billed the Mission for \$100,941 and was paid.

The above problems occurred because the Mission did not establish a system to link payments to SLB with project accomplishments. Because documentation in the Mission was incomplete, the auditors were unable to establish the reasons why (1) the external operations system for which \$125,000 was budgeted was not installed, or (2) the payment of \$100,941 was made without the training being provided. Furthermore, these problems occurred before any of the current Mission officials had arrived. Likewise, we could not determine why a bill of collection had not been issued for the latter amount.

As a result, (1) an amount of \$125,000 would not be used under the SLB contract and (2) a payment of \$100,941 to Shearson Lehman Brothers Inc., relating to training not provided, was erroneously made. Thus the former amount should be decommitted and reprogrammed, and the latter amount collected from the contractor.

Arthur D. Little

The GPRM signed two contracts with Arthur D. Little (ADL) for a total of \$560,000. On May 23, 1985, the GPRM signed the first -- a \$190,000 technical assistance contract to assist it in identifying firms interested in developing an ammonia project. A total of \$189,921 was spent on this contract, but ADL's efforts to identify firms interested in the ammonia project were unsuccessful. Furthermore, \$17,041 in hourly charges billed by the contractor were higher than the hourly charges specified in the contract.

A second contract for \$370,000 was signed on October 25, 1986. Under this contract, ADL was to conduct studies and provide technical advice to help the GPRM attract foreign companies to

invest in ammonia production and develop offshore petroleum resources. Two studies -- one for ammonia and another for oil -- concluded that both projects were viable and that there were international firms interested in investing in them. Consequently, promotion work for the ammonia project started in late 1986 and the one for oil in early 1987.

In November 1988 - about two years later - ADL submitted its final report which concluded that their efforts were successful in identifying companies interested in promoting oil exploration, but unsuccessful in identifying firms interested in pursuing the ammonia project -- \$113,537 of which was spent for the latter.

However, by letter dated August 8, 1989 the GPRM stated there were good prospects for the successful promotion of the ammonia project and requested financial support from USAID/Mozambique. The GPRM demonstrated to USAID/Mozambique that it had received two investment proposals and stated that it required technical assistance in its negotiations. The Mission agreed and signed an amendment to the contract with ADL on December 28, 1989 which allowed ADL to use an unliquidated balance of \$114,553 for this purpose. Yet, at the time of our audit in May 1990, no agreement with foreign companies had been concluded, although the Mission stated that negotiations were underway.

Thus, \$286,417 was spent over four years without positive results because USAID/Mozambique did not have procedures to identify potential constraints to the successful implementation of the ammonia contracts. For example, in their final report dated October 26, 1988, Arthur D. Little stated that the ammonia project had failed due to a combination of circumstances, including: depressed ammonia prices, world-wide oversupply of ammonia and concerns about investing in southern Africa. Also, at an April 26, 1990 meeting with the GPRM's Director of Hydrocarbons, under which the ammonia project fell, the auditors were told that security problems at the project site - Pande - also contributed to the failure of the ammonia project. This official further stated that the lack of infrastructure in the Pande region was another problem which discouraged potential investors. All these constraints existed throughout the project.

Also, we could not determine why \$17,041 was overpaid to the contractor because the overpayment was made prior to the arrival of the current Mission staff, and documentation was incomplete.

As a result of the foregoing, \$286,417 was spent without positive results and \$17,041 relating to the promotion of the ammonia project was erroneously paid. Furthermore, there was no evidence that another \$114,553 for follow-on work would be effectively used because some of the constraints to the successful implementation of the ammonia project described above still existed.

Based on the above, we concluded that the Mission should issue a bill of collection for \$17,041 to Arthur D. Little. In addition, the Mission needed to perform an evaluation of constraints to the successful implementation of the ammonia project before spending additional funds, of up to \$114,553, after the contract expired on August 31, 1990 -- or reprogram the money if the Mission decides not to make any further expenditures.

Coopers & Lybrand

In 1985 the Government identified a need to reorganize Mozambique's building materials and construction industry to make it more productive, and requested that USAID/Mozambique finance a study to assess the strengths and weaknesses in the industry and recommend action to help achieve this goal. In February 1988 USAID/Mozambique signed a \$75,565 contract with Coopers & Lybrand to examine the construction industry in a broad macro-sense and develop a detailed plan of action.

Coopers & Lybrand conducted their study between February 1988 and April 1989. However, the GPRM felt the draft report was inadequate and requested additional information and clarification of matters they considered too general to be actionable. The contractor delivered its final report in October 1989 and was paid \$72,260 since it technically met the contractual requirements. According to the head of the GPRM's Investments and External Relations Department in the Ministry of Construction, most of the comments previously made by the GPRM on the draft were not adequately addressed in the final report because the contractor would have been required to re-do much of the fieldwork. This official further stated that the Coopers & Lybrand study could not be used for the intended purpose of helping to rehabilitate the industry.

As a result, \$72,260 paid to Cooper & Lybrand to study the buildings materials and construction industry in Mozambique was not effectively used.

According to this official, the study was based on conditions which existed in 1985, and did not address changes in the economic environment resulting from the Government's 1987 Economic Reform Program. Therefore, the study was based on a different economic environment. The GPRM official also stated that the report was general and did not recommend specific courses of action. Further, the study lacked quantitative details, required to support its conclusions, which he attributed to inexperienced personnel on the Coopers & Lybrand team.

As a result, \$72,260 paid to Coopers & Lybrand to study the

building materials and construction industry in Mozambique was not effectively used.

Management Comments and Our Evaluation

In responding to the draft report regarding the Shearson Lehman Brothers contract, the Mission agreed to reprogram the \$125,000 not spent for an external operations system.

USAID/Mozambique also agreed that SLB did not provide training to Bank of Mozambique personnel, for which SLB was paid \$100,941. However, the Mission stated that more research was needed before it could issue a bill of collection. They stated that the Bank of Mozambique signed another agreement with SLB in 1987 to use the \$100,941 in question, and that issuing a bill of collection hinges on clarifying A.I.D.'s role in this matter. The Mission further stated that neither USAID nor the audit team could establish if USAID approved the 1987 agreement. It suggested that this issue be turned over to RIG or another entity that can undertake the necessary research.

RIG/A/N discussed this issue with RIG/I in Nairobi on May 31, 1990 who reviewed the available documentation and advised us that the situation did not warrant criminal investigation, but that collection should be pursued. We believe that additional research on the SLB matter is unnecessary because we determined that USAID/Mozambique did not approve the 1987 agreement between SLB and the Bank of Mozambique. Current Mission management did not even learn of the existence of this agreement until May 2, 1990 when the auditors and the Mission's Program Officer met with a Bank of Mozambique Director. Furthermore, in their response to our record of audit findings, USAID/Mozambique stated that they contacted the previous project officer for technical assistance who confirmed that the Mission was not a party to the 1987 agreement.

As such, we believe it is clear that A.I.D. did not approve the 1987 agreement. More importantly, since the services were not provided under the SLB contract to which A.I.D. was a party, the Mission should issue a bill of collection to SLB and recover the money. However, the recommendation has been worded to also allow for alternative means of recovery, to be determined by the Mission, in the event that it would be easier and more practical to recover these funds by other than a bill of collection.

Based on the above, RIG/A/N considers Recommendation No. 2.2. resolved; it will be closed when we receive documentary evidence that \$125,000 has been reprogrammed. Recommendation No. 2.1 is unresolved. It will be resolved when we obtain Mission concurrence to recover the \$100,941 erroneously paid to SLB; it will be closed once we receive documentary evidence that a bill of collection or similar document has been issued to SLB.

In its comments regarding the Arthur D. Little contract, the Mission agreed with the recommendation to recover \$17,041 by deducting it from forthcoming ADL invoices. The Mission further stated that in August 1990, they allowed the ADL contract to expire rather than extend it. They considered this to be the most cost effective way to satisfy the recommendation. The Mission added that they would reprogram the undisbursed balance of the \$114,553 obligated for the ADL contract extension.

RIG/A/N considers Recommendation No. 2.3 resolved. The recommendation will be closed when we receive documentary evidence that \$17,041 was deducted from forthcoming ADL invoices. Recommendation 2.4 is unresolved. It will be resolved once RIG/A/N and the Mission agree on the actual undisbursed balance of the \$114,553 to be reprogrammed. It will be closed once we receive documentary evidence that the agreed upon amount has been reprogrammed.

USAID/Mozambique agreed with the finding regarding Coopers & Lybrand. They suggested that the recommendation be revised to indicate that its intent is to formalize existing procedures to monitor the successful implementation of technical assistance contracts. This suggested revision was incorporated in the final report.

Based on the above, Recommendation No. 2.5 is resolved. The recommendation will be closed when we receive a Mission Order or other appropriate documentation outlining the Mission's procedures to monitor the successful implementation of technical assistance contracts.

**REPORT ON
INTERNAL CONTROLS**

During the course of our audit, several internal control weaknesses came to our attention. The following is a description of those weaknesses as they pertain to our specific audit objectives.

Audit Objective One

The first objective consisted of gathering and verifying information. For this objective, the categories of applicable internal controls and the reportable problems are covered under objectives three and four.

Audit Objective Two

This objective relates to the Mission's system to account for the arrivals and end-use of program financed commodities. In conducting our audit, we used the controls cited in A.I.D. Handbook 15 Chapter 10. Our audit found that the Mission assessed the GPRM's capability to establish and maintain the required system and when they found that the GPRM did not have such capability, the Mission established their own arrival-accounting and end-use system. The Mission's system contains all the information relating to an import transaction from obligation to deposit of local currencies into the special account. Furthermore, the Mission has employed full-time employees to monitor arrival and end-use of program financed commodities.

Audit Objective Three

This objective relates to the depositing of local currency generations into the special accounts. In planning and performing our audit of the local currency deposits, we considered the applicable internal control procedures cited in A.I.D. Handbooks 3, and 15. For the purposes of this report, we have classified the relevant policies and procedures in the following categories: commodity ordering, arrival accounting, converting U.S. dollars into local currency, and depositing local currency into the special accounts.

We noted one reportable condition relating to the depositing of local currency into the special accounts:

The Mission did not effectively use its system to require the Government to deposit all the local currency generations into the special accounts in a timely manner.

This deficiency in internal controls resulted in the equivalent of \$5.6 million that was not deposited when required.

Audit Objective Four

This objective relates to effective use of inputs under the technical assistance component. In planning our audit of the technical assistance funds, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 11. For the purpose of this report, we have classified policies and procedures into the following categories: the contract-type selection process, contractor selection process, and contractor performance.

We noted two reportable conditions as follows:

- . The Mission did not have a system to link payments to contractors with project accomplishments.
- . The Mission did not have procedures to identify potential constraints to the success of technical assistance contracts.

These deficiencies in internal controls resulted in erroneously paying \$117,982 to two contractors and ineffectively using \$286,417 of technical assistance funds. Establishing procedures to identify potential constraints to the successful implementation of technical assistance contracts could result in the more effective use of up to \$114,553 in the future.

. . . .

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on program funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described under audit objectives three and four are material weaknesses.

<p style="text-align: center;">REPORT ON COMPLIANCE</p>
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The results of our tests of compliance disclosed the following instances of noncompliance:

- . Audit objective No. 3 - the GPRM did not deposit into the special accounts all local currency generations within 120 days as required by article 5 of the grant agreements.
- . Audit objective No. 4 - Shearson Lehman Brothers was paid for services not rendered. Also, Arthur D. Little charged in excess of the employee hourly charges contained in the contract.

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Mozambique, contractors, and the Government of the People's Republic of Mozambique complied, in all significant respects, with laws, regulations, contracts and grants applicable to the program. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Mozambique, contractors, and the Government of the People's Republic of Mozambique had not complied, in all significant respects, with those provisions.

SCOPE AND METHODOLOGY

Scope

We conducted a performance audit of USAID/Mozambique's Private Sector Rehabilitation Program in accordance with generally accepted government auditing standards. We conducted the audit from February 8 through May 4, 1990, and covered the systems and procedures relating to inputs financed by A.I.D. from September 29, 1984 (project inception) through May 4, 1990. We conducted our fieldwork in the offices of USAID/Mozambique, the GPRM and the importers. The scope of our audit did not include visits to farmers that were end-users of commodities. This was because all farmers were located outside of the city of Maputo, where travel was prohibited by the U.S. Embassy due to security problems.

Methodology

The methodology of each audit objective is as follows:

Audit Objective One

The first audit objective consisted of gathering and verifying information to determine the progress of the program. To do this, we held discussions with key persons involved with the program to obtain their views and assessments on the program's results to date. These persons included Mission and GPRM officials as well as importers. In addition, we reviewed grant agreements and their amendments, evaluation reports, implementation letters and the Mission's expenditure reports.

Audit Objective Two

To accomplish the second objective, we determined whether (1) the Mission had a system to adequately account for commodity arrivals and end use, (2) the system contained necessary information for each import transaction, (3) commodities ordered and paid for arrived in country, (4) commodities were received in good condition, and (5) commodities were being used as intended. To accomplish these ends, we reviewed the Mission's records to assess the adequacy of their system in accounting for the arrival of commodities and their use. Also, we interviewed Mission officials

to document their procedures for monitoring commodity arrivals and usage. In addition, we interviewed importers to obtain their views regarding the promptness of commodity arrivals and usage. However, due to security reasons, we did not visit farmers who were end-users of these commodities since all were located outside of Maputo.

Audit Objective Three

To accomplish this objective, we determined whether (1) there was a system to account for local currency generations, (2) the system included necessary information relating to goods received, and (3) the Mission effectively used the system to ensure timely deposit into the special accounts of the local currency equivalent of the U.S. dollar value of goods received. We reviewed the computer spread sheets maintained by the Mission which recorded the dollar value of goods received, dates received, rates of exchange used, local currency amounts to be deposited into the special accounts and the number of days these amounts were overdue. We listed all amounts outstanding for more than 120 days. We discussed these outstanding amounts with the Mission, GPRM and importers.

Audit Objective Four

To accomplish this objective, we determined whether the (1) contracts provided reasonable assurances that the necessary services would be provided on time, (2) contractors were capable of performing according to contract terms, (3) contractors were performing in accordance with contracts' statements of work, (4) contracts were achieving their stated objectives, and (5) contractors' billings were in accordance with the contracts. We reviewed the technical assistance contracts and determined their objectives. We compared the accomplishments of these contracts against their objectives by reviewing various correspondence between the contractors and the Mission. We reviewed the payments to contractors to determine whether they complied with contract terms and whether they were reasonable. Also, we discussed these contracts with the Mission and GPRM officials.

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APPENDIX II

ACTION AID-3 INFO ECON POL/RIO

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UNCLAS SECTION 01 OF 03 MAPUTO 03343

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E.O. 12356: N/A

TAGS: ---

SUBJECT: DRAFT AUDIT REPORT, MOZAMBIQUE PRIVATE SECTOR
REHABILITATION PROGRAM 656-0201

REF: (A) DRAFT AUDIT REPORT, (B) MAPUTO 1624, (C)
NAIROBI 2293

1. FOLLOWING ARE USAID/MOZAMBIQUE'S COMMENTS ON THE SUBJECT DRAFT AUDIT REPORT. THE MISSION WOULD AGAIN LIKE TO EXPRESS ITS APPRECIATION FOR THE COLLABORATIVE WAY IN WHICH THE AUDIT WAS CONDUCTED. AS A RESULT, WE BELIEVE THAT BOTH THE MISSION AND THE AUDIT TEAM WERE ABLE TO COVER A WIDE RANGE OF COMPLEX ISSUES IN A SHORT TIME. INEVITABLY, DIFFERENCES OF OPINION AND INTERPRETATION WILL ARISE ON SPECIFIC POINTS. THE FOLLOWING COMMENTS INDICATE ADDITIONAL FACTS OR DIFFERING PERSPECTIVES THAT THE AUDIT TEAM MAY WISH TO TAKE INTO CONSIDERATION. WHERE RELEVANT, WE HAVE NOTED ARGUMENTS ALREADY PUT FORWARD IN REF B.

2. P. (II) OF EXECUTIVE SUMMARY. WE WOULD LIKE TO SUGGEST THE FOLLOWING REVISION TO THE FINAL SENTENCE OF THE EXECUTIVE SUMMARY TO REFLECT, AS INDICATED ABOVE, THE MISSION'S DIFFERING PERSPECTIVE ON SEVERAL ISSUES RAISED IN THE AUDIT. QUOTE. IN RESPONSE TO THE DRAFT REPORT, THE MISSION GENERALLY AGREED WITH THE INTENT OF THE RECOMMENDATIONS, BUT FELT THAT SOME RECOMMENDATIONS AND FINDINGS DID NOT FULLY TAKE INTO CONSIDERATION ALL RELEVANT FACTS AND ISSUES AND THEREFORE DID NOT ADDRESS THE COMPLEXITIES INVOLVED IN SOME ISSUES RAISED IN THE AUDIT. UNQUOTE.

3. P. 6 IN THE LAST SENTENCE PLEASE CHANGE LETTERS OF CREDIT TO READ AID DIRECT LETTERS OF COMMITMENT.

4. P. 9 UNDER RECOMMENDATION NO. 1 OUR CALCULATIONS INDICATED LOCAL CURRENCY EQUIVALENT OF 5.6 MILLION (INSTEAD OF 5.7) HAS OUTSTANDING FOR MORE THAN 120 DAYS.

5. P.9 LAST SENTENCE - PURSUANT TO OUR RECORDS PLEASE CHANGE 5.7 TO 5.6 --CHANGE 1.9 TO 1.4 -- AND CHANGE 33 PERCENT TO 25 PERCENT.

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6. P. 10 SECOND PARAGRAPH, PURSUANT TO OUR RECORDS AS A RESULT OF THE SUSPENSION, THE MINISTRY OF FINANCE DEPOSITED 95 PERCENT OF THE THEN APREARS INTO THE SPECIAL ACCOUNT. ONLY 1.2 MILLION OF THE 5.6 (INSTEAD OF 1.9 OF 5.7) MILLION OUTSTANDING AT TIME OF THE AUDIT RELATED TO ARREAPS ACCUMULATED BEFORE SUSPENSION. CONSEQUENTLY, THE REMAINING FIGURE SHOULD BE AMMENDED TO 4.4 INSTEAD OF 3.8.

7. P. 10 THE OFFSET BLOCK SHOULD READ 5.6 INSTEAD OF 5.7.

8. P. 11 FURTHER CLARIFICATION TO PARAGRAPH 3, USAID DID SEND A LETTER TO THE GOVERNMENT OF MOZAMBIQUE ON AUGUST 3, 1990 REQUESTING PAYMENT IN 30 DAYS OF ALL LOCAL CURRENCY DUE AS OF 30 JUNE 1990 (4,265,411,756 METICAIS). TO DATE ALL BUT 1,405,474,825.50 HAS BEEN DEPOSITED. THIS REMAINING AMOUNT WILL BE DEPOSITED IN THE FIRST WEEK OF OCTOBER.

9. P 12, TOP OF PAGE, PLEASE CHANGE SENTENCE TO READ QUOTE THESE PROCEDURES INCLUDED REQUIRING IMPORTERS TO MAKE NORMAL COMMERCIAL ARRANGEMENTS FOR PAYMENT ACCEPTABLE TO THE BANK BEFORE LETTERS OF COMMITMENT ARE ISSUED AND FULFILL THESE ARRANGEMENTS PRIOR TO OBTAINING ORIGINAL SHIPPING DOCUMENTATION FOR OBTAINING OF GOODS. MOREOVER, USAID WILL SUSPEND FROM THE PROGRAM THOSE IMPORTERS WHO FALL INTO ARREARS.

10. P.16, OFFSET IN BOX. ON THE SHEARSON LEHMAN BROTHERS (SLB) CONTRACT, WE DO NOT THINK IT WAS A "FAULT" THAT THE DOLS 125,000 BUDGETED FOR THE EXTERNAL OPERATIONS SYSTEM WAS NOT USED. THESE FUNDS WERE INTENDED TO FINANCE THE HARDWARE AND SOFTWARE COSTS INVOLVED WITH LINKING THE EXTERNAL OPERATIONS UNIT OF THE BANK WITH OTHER UNITS HANDLING FOREIGN EXCHANGE. THIS WOULD ALLOW THE BANK TO USE ITS COMPUTER SYSTEM TO PRODUCE A COMPREHENSIVE PICTURE OF ITS EXTEPNAL ACCOUNTS. AS THE BANK OF MOZAMBIQUE DISCUSSED WITH THE AUDIT TEAM, A NUMBER OF INTERNAL ORGANIZATIONAL ISSUES PRECLUDED THE BANK FROM PROCEEDING WITH THE INTENDED COMPUTER LINKS, AND IT WAS APPROPRIATE THAT THESE FUNDS WERE NOT SPENT. THE

MISSION AGREES THAT THESE FUNDS SHOULD NOW BE DECOMMITTED AND REPROGRAMMED.

WE SUGGEST THAT THE BOX ON P.16 BE REVISED AS FOLLOWS FOR CLARITY: QUOTE. AN AMOUNT OF DOLS 100,941 WAS PAID TO SHEAPSON LEHMAN BROTHERS INC. (SLB) FOR SERVICES WHICH WERE NOT RENDERED; USAID DID NOT DISBURSE ANOTHER DOLS 125,000 FOR AN EXTERNAL OPERATIONS SYSTEM, AND THIS AMOUNT SHOULD NOW BE REPROGRAMMED. UNQUOTE.

11. P. 17. USAID BELIEVES MORE RESEARCH IS NEEDED BEFORE ISSUING SLB A BILL OF COLLECTION FOR DOLS 100,941. AS DISCUSSED IN REF B PARA 5, THE BANK OF MOZAMBIQUE (THE CONTRACTING AGENT) REACHED AN AGREEMENT WITH SLB IN 1987 FOR UTILIZATION OF THE DOLS 100,941 IN QUESTION. NEITHER USAID NOR THE AUDIT TEAM COULD ESTABLISH IF USAID APPROVED THIS AGREEMENT. AS FAR AS THE BANK OF MOZAMBIQUE IS CONCERNED, THE MATTER WAS RESOLVED IN 1987, AND THEY SEE NO REASON TO COUNTERSIGN A BILL OF COLLECTION (AS IS REQUIRED UNDER A HOST COUNTRY CONTRACT). WE BELIEVE FURTHER INVESTIGATION IS REQUIRED, NOT BECAUSE OF POTENTIAL WRONGDOING AS IMPLIED ON P.15 OF THE DRAFT AUDIT REPORT, BUT BECAUSE THE VALIDITY OF ISSUING A BILL OF COLLECTION HINGES ON CLARIFYING A.I.D.'S ROLE IN THIS MATTER. USAID DOES NOT HAVE THE NECESSARY INVESTIGATIVE CAPACITY (SEE REF B, PARA 15B), AND WE AGAIN WOULD LIKE TO REITERATE OUR SUGGESTION THAT THIS ISSUE BE TURNED OVER TO RIG OR ANOTHER ENTITY THAT CAN UNDERTAKE THE NECESSARY RESEARCH.

12. P. 18, PARA BEGINNING "HOWEVER, BY LETTER . THIS PARAGRAPH DOES NOT REFLECT THE FACT THAT THE MISSION EXTENDED THE ARTHUR D. LITTLE CONTRACT ONLY WHEN ENH DEMONSTRATED THAT NEGOTIATIONS WERE UNDERWAY ON TWO SOLID INVESTMENT PROPOSALS. PROVIDING TECHNICAL ASSISTANCE DURING SUCH NEGOTIATIONS WAS THE SPECIFIC INTENT OF THE ADL CONTRACT, AND WE AGREED TO EXTEND THE COMPLETION DATE ON THIS BASIS. THE APPROPRIATENESS OF THIS EXTENSION SHOULD NOT, WE BELIEVE, BE EVALUATED SOLELY BY WHETHER FOREIGN INVESTMENTS HAVE RESULTED. AN EQUALLY GOOD MEASURE OF SUCCESS IS IF BAD INVESTMENTS ARE AVERTED. WE SUGGEST THAT THE PARAGRAPH BE REVISED AS FOLLOWS:

QUOTE. HOWEVER, BY LETTER DATED AUGUST 8, 1989 THE GPEM STATED THERE WERE GOOD PROSPECTS FOR SUCCESSFUL PROMOTION OF THE AMMONIA PROJECT AND REQUESTED FINANCIAL SUPPORT FROM USAID/MOZAMBIQUE. ENH DEMONSTRATED TO USAID THAT IT HAD RECEIVED TWO INVESTMENT PROPOSALS, AND THAT IT REQUIRED TECHNICAL ASSISTANCE IN ITS NEGOTIATIONS. ONLY AT THIS STAGE DID THE MISSION AGREE TO SIGN AN AMENDMENT TO THE CONTRACT WITH ADL ON DECEMBER 28, 1989 WHICH ALLOWED ADL TO USE AN UNLIQUIDATED BALANCE OF DOLS 114,553

FOR THIS PURPOSE. AT THE TIME OF OUR AUDIT IN MAY 1990, INVESTMENT NEGOTIATIONS WERE STILL UNDERWAY. UNQUOTE.

13. P. 18, LAST PARA. USAID DISAGREES THAT WE DID NOT IDENTIFY POTENTIAL CONSTRAINTS TO SUCCESSFUL IMPLEMENTATION OF THE AMMONIA CONTRACTS. REF B PARA 8 EXTENSIVELY DISCUSSES THE ISSUES THAT HAVE BEEN CONSIDERED IN THE EXTENSION OF THE ADL CONTRACT, INCLUDING THE EVOLUTION OF THE SOCIO-POLITICAL SITUATION, CHANGING SECURITY CONDITIONS, DRILLING TO CONFIRM THE SUPPLY OF GAS, AND EVOLVING ATTITUDES ON THE PART OF POTENTIAL INVESTORS.

THE CONSTRAINTS SUGGESTED ON PP. 18-19 WERE DISCUSSED WITH THE AUDIT TEAM AND, WE BELIEVE, ADEQUATELY ADDRESSED. DEPRESSED AMMONIA PRICES AND WORLD OVERSUPPLY, AS EXPLAINED BY THE DIRECTOR OF ENH, WERE THE FACTORS THAT STEERED THE PROJECT TO THE SOUTH AFRICAN MARKET, WHERE AMMONIA IS IN SHORT SUPPLY AND MOZAMBIQUE'S PRICE WOULD BE COMPETITIVE. SECURITY PROBLEMS HAVE SIGNIFICANTLY IMPROVED AND FOUR SUCCESSFUL TEST WELLS HAVE BEEN DRILLED. THE QUESTION OF WHO WILL UPGRADE THE INFRASTRUCTURE IN THE PROJECT AREA HAS BEEN RAISED AS AN ISSUE, BUT THIS IS AN ITEM FOR CONTRACT NEGOTIATIONS AND SHOULD NOT BE SEEN AS A BARRIER TO INVESTMENT. WE SUGGEST

THAT THE REFERENCES TO THE INADEQUATE ANALYSIS OF CONSTRAINTS BE DROPPED. AT A MINIMUM, THE REPORT SHOULD INDICATE THAT THE MISSION HAD A SOUND BASIS FOR REACTIVATING THE ADL CONTRACT.

14. P. 19, GENERAL COMMENTS ON ADL RECOMMENDATIONS. GIVEN THE EXTENSIVE ANALYSIS ALREADY COMPLETED, USAID FEELS THAT ANY FURTHER EVALUATION OF THE CONSTRAINTS TO THE AMMONIA PROJECT WOULD ENTAIL EXCESSIVE COSTS RELATIVE TO THE VALUE OF THE CONTRACT. BECAUSE THE AUDIT TEAM CONTINUES TO FEEL THAT THE CONSTRAINTS HAVE NOT BEEN ADEQUATELY ANALYZED, WE DECIDED TO ALLOW THE ADL CONTRACT TO EXPIRE IN AUGUST 1990 RATHER THAN EXTEND IT FURTHER. ALTHOUGH WE ARE WITHDRAWING TECHNICAL ASSISTANCE AT AN IMPORTANT STAGE IN NEGOTIATIONS AND WE BELIEVE THE CONTRACT SHOULD BE EXTENDED, WE DO NOT SEE ANY OTHER COST-EFFECTIVE WAY TO SATISFY THE RECOMMENDATION ON P. 19 "TO PERFORM AN EVALUATION OF CONSTRAINTS TO THE SUCCESSFUL IMPLEMENTATION OF THE AMMONIA PROJECT". WE PROPOSE TO WORK WITH ENH TO DEDUCT THE DOLS 17,041 OVERPAYMENT CITED ON P.19 FROM FORTHCOMING INVOICES FOR ACCRUED EXPENDITURES RATHER THAN ISSUE A BILL OF COLLECTION. THE BALANCE REMAINING WILL BE REPROGRAMMED.

15. P. 21, CLARIFICATION ON COOPERS AND LYBRAND PAYMENT. USAID AGREES WITH THE AUDIT TEAM'S CONCLUSION ON THE COOPERS AND LYBRAND STUDY; HOWEVER, WE THINK IT IS IMPORTANT TO MAKE CLEAR THAT THERE IS NO QUESTION OF THE LEGITIMACY OF THE PAYMENT TO COOPERS AND LYBRAND. THE AUDIT TEAM, IN DISCUSSIONS WITH USAID STAFF, COMPLEMENTED THE MISSION ON THE RATIONALE PUT FORWARD IN THE ADMINISTRATIVE APPROVAL FORM THAT JUSTIFIED PAYMENT TO COOPERS AND LYBRAND. TO MAKE THIS CLEAR IN THE TEXT OF THE AUDIT REPORT WE SUGGEST THE FOLLOWING CHANGES.

FIRST, REVISE SENTENCE THREE OF THE FIRST FULL PARA ON P. 21 TO READ: QUOTE. THE CONTRACTOR DELIVERED ITS FINAL REPORT IN OCTOBER 1989 AND WAS PAID DOLS 72,260 SINCE IT TECHNICALLY MET THE REQUIREMENTS OF THE CONTRACT. UNQUOTE. SECOND, PLEASE REVISE THE "BOX" ON P.21 TO READ: QUOTE. USAID/MOZAMBIQUE WAS REQUIRED TO PAY DOLS 72,260 FOR A STUDY THAT DID NOT PROVE USEFUL DUE TO DELAYS IN ITS EXECUTION. UNQUOTE.

16. RECOMMENDATION ON MANAGEMENT OF TECHNICAL ASSISTANCE CONTRACTS. REF C INDICATES THAT THE AUDIT TEAM PLANS TO ADD AN ADDITIONAL RECOMMENDATION TO THE AUDIT REPORT REQUIRING THE MISSION TO "ESTABLISH PROCEDURES TO MONITOR THE SUCCESSFUL IMPLEMENTATION OF TECHNICAL ASSISTANCE CONTRACTS." AS DISCUSSED IN REF B PARA 9 AND IMPLICITLY ACKNOWLEDGED BY THE AUDIT TEAM IN REF C PARA 1, SUCH PROCEDURES ARE ALREADY IN PLACE. WE THEREFORE SUGGEST REVISING THE RECOMMENDATION AS FOLLOWS TO INDICATE THAT THE INTENT

OF THE RECOMMENDATION IS TO FORMALIZE THESE EXISTING PROCEDURES IN A MISSION ORDER OR OPERATING INSTRUCTION: QUOTE. WE RECOMMEND THAT THE DIRECTOR USAID/MOZAMBIQUE FORMALIZE IN A MISSION ORDER OR OTHER APPROPRIATE DOCUMENTATION THE PROCEDURES THAT THE MISSION HAS ADOPTED TO MONITOR THE SUCCESSFUL IMPLEMENTATION OF TECHNICAL ASSISTANCE CONTRACTS. UNQUOTE.

17. USAID/MAPUTO WILLING TO DISCUSS ANY OF THE ABOVE ISSUES AND FORWARD ANY REQUIRED DOCUMENTATION OR CLARIFICATIONS OR CALCULATIONS. (DRAFTED BY PO: CPASCUAL/CMO:EKELLY, APPROVED BY PO: CPASCUAL).
METELITS

BT
#3343

NNNN

Handwritten initials/signature

ACTION AID-3 INFO ECON POL/RIO

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 FM AMEMBASSY MAPUTO
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FOR RIG/A

E.O 12356: N/A

TAGS: ---

SUBJECT: DRAFT AUDIT REPORT,
 - MOZAMBIQUE PRIVATE SECTOR
 - REHABILITATION PROGRAM 656-0201

REF: (A) NAIROBI FAX DATED 10-4-90
 (B) MAPUTO 3343

1. WE HAVE REVIEWED THE REVISED LISTING OF LOCAL CURRENCY DEPOSITS OUTSTANDING FOR MORE THAN 120 DAYS AS OF MAY 4, 1990 SUBMITTED WITH REF (A) AND AGREE WITH THE REVISED TOTAL OF THE METICAIS EQUIVALENT OF USD 5.6 MILLION WITH THE METICAIS EQUIVALENT OF USD 1.8 MILLION OUTSTANDING MORE THAN 1 YEAR.

2. FOLLOWING IS THE CURRENT STATUS OF THE MAY 4, 1990 LIST:

	USD EQUIVALENT	METICAIS
DEPOSITED AS OF 9-30-90	3,466,240	2,062,463,273
DEPOSITED 10/90	281,217	201,362,575
TO BE DEPOSITED 10/90 PER MINISTER OF FINANCE LETTER PRESENTLY BEING CIRCULATED FOR SIGNATURE	1,457,288	1,040,008,660
OUTSTANDING AND TO BE RESOLVED	393,857	343,664,675
TOTAL PER MAY 4, 1990 LIST	5,598,602	3,647,499,193

3. WE HAVE ALSO FOLLOWED UP WITH OUR RLA ON THE INFORMATION TRANSMITTED THROUGH PETER MWAI CONCERNING THE SHEAPSON LEHMAN BROTHERS BILL FOR COLLECTION. BASED ON HB11, CHAPTER 1, ATTACHMENT 1L, IT IS USAID'S UNDERSTANDING THAT MWAI WAS ADVISED THAT USAID MAY ISSUE A BILL FOR COLLECTION TO A CONTRACTOR ON A HOST COUNTRY CONTRACT WITHOUT THE HOST COUNTRY'S COUNTERPART

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SIGNATURE. USAID'S RLA, HOWEVER, POINTS OUT THAT HB 19, CHAPTER 7D(7) CLEARLY STATES THAT, IF THE USAID FEELS THAT IT WOULD BE MORE EFFECTIVE TO ISSUE A BILL FOR COLLECTION DIRECTLY TO THE CONTRACTOR (ON A HOST COUNTRY CONTRACT), CONCURRENCE FROM THE HOST COUNTRY MUST BE OBTAINED. RIG MAY WISH TO TAKE THIS INTO CONSIDERATION WHEN FINALIZING ITS AUDIT RECOMMENDATIONS.

4. PLEASE LET US KNOW IF ANY FURTHER INFORMATION MAY BE REQUIRED. (DRAFTED BY CONT:MROCHA, APPROVED BY DIR:JSCHLOTTHAUER). WELLS

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APPENDIX III

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