PD-ABH-927

Regional Inspector General for Audit
Nairobi, Kenya

Audit of Development Support Services Contract No. 613-0510-C-00-3024 and Indefinite Quantity Contract No. 613-0510-C-00-2017 In Zimbabwe

Report No. 3-613-94-006-N
February 15, 1994

FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Regional Inspector General for Audit/Nairobi

February 15, 1994

Memorandum

TO: Director, USAID/Zimbabwe, Ted D. Morse

FROM: RIG/A/Nairobi, Everette B. Orr

SUBJECT: Audit of Development Support Services Contract No. 613-0510-C-00-3024 and Indefinite Quantity Contract No. 613-0510-C-00-2017 in Zimbabwe, A.R. No. 3-613-94-006-N

Attached are five copies of an Agency-contracted Audit of Contract No. 613-0510-C-00-3024 and Indefinite Quantity Contract (IQC) No. 613-0510-C-00-2017 with Development Support Services (DSS), which involved monitoring distribution of maize and sorghum for drought relief in Zimbabwe. The non-Federal accounting firm of Price Waterhouse Meyernel, South Africa, performed the audit.

The U.S. Government, through a commodity program under Section 416 of the Agricultural Act of 1949, supplied 58,000 metric tons (MT) of maize and 50,000 MT of sorghum to Zimbabwe. The commodities were distributed through the Zimbabwe Grain Marketing Board (GMB) to the Zimbabwe Department of Social Welfare (DSW), private voluntary organizations, and non-governmental organizations for drought relief programs. Development Support Services, a Zimbabwe-based corporation, was contracted by USAID/Zimbabwe under IQC No. 613-0510-C-00-2017 in February 1992 and Cost Reimbursement Contract No. 613-0510-C-00-3024 in February 1993 to:

- monitor the distribution of maize and sorghum from GMB depots to the drought relief beneficiaries,
- determine if the maize was being made available to beneficiaries as defined by DSW criteria, and
- provide a team to monitor the maize and the sorghum distribution.

The IQC was for a total of US $ 81,412. The only Delivery Order under the IQC covered the period October 1, 1992, to December 31, 1992. As of June 30, 1993, total disbursements under the contract were Zimbabwe dollars (Z$) 394,140[1] (US $70,390).

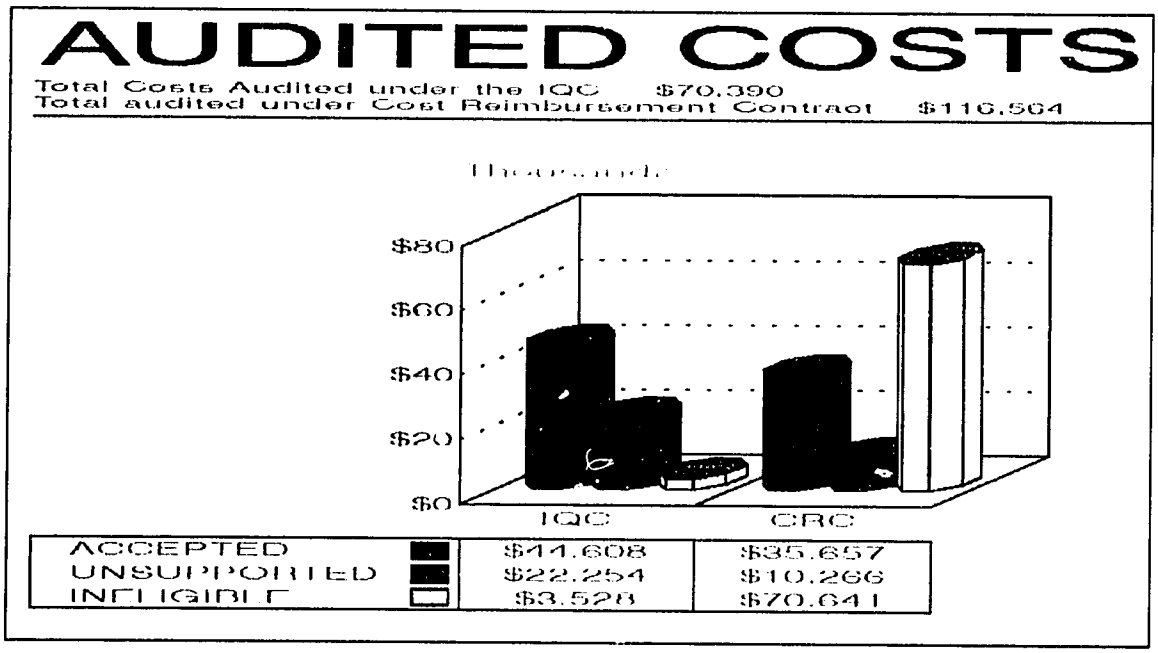
[1]Note: Revenue and expenditure amounts in Zimbabwe dollars are translated into US dollars based on the average foreign currency exchange rates prevailing at the date of reimbursement by USAID/Zimbabwe.

P.O. BOX 30261 NAIROBI, KENYA PHONE (254-2-331160, EXT. 2402 FAX (254-2-213551

The Cost Reimbursement Contract covered the period February 15, 1993, to May 31, 1993. As of June 30, 1993, disbursements totalled Z$ 210,906 (US$ 33,625). Another Z$ 520,221 (US$ 82,939) had been claimed by DSS, but had not been reimbursed.

The objective of the audit was to examine DSS's Fund Accountability Statements (Statements) and to express an opinion as to whether the Statements present fairly the use of funds in accordance with the contract agreements. To answer the objective, the auditors were asked to consider DSS's internal control structure to determine the auditing procedures necessary to express an opinion on the Statements, and to report on significant internal control weaknesses. As part of obtaining reasonable assurance the Statements were free of material misstatement, the auditors were required to test DSS's compliance with terms of the contracts and to report any identified material instances of noncompliance. The audit covered all claims reimbursed and outstanding for the period October 1, 1992 to June 30, 1993 under the IQC, and from February 15, 1993 to June 30, 1993 under the Cost Reimbursement Contract (CRC).

A Statement was prepared by DSS for each contract, and the auditors issued adverse opinions on both. The auditors stated that under the IQC, DSS had ineligible expenditures of Z$ 19,755 (US$ 3,528) and unsupported costs of Z$ 124,610 (US$ 22,254). Under the Cost Reimbursement Contract, the auditors reported ineligible expenditures of Z$ 443,083 (US$ 70,641) and unsupported costs of Z$ 64,393 (US$ 10,266). The following chart shows the questioned amounts in relation to the audited amounts under the two contracts.



The auditors reported material weaknesses which included inadequate accounting and control systems, and incomplete documentation to support expense claims. The auditors also identified certain instances of material noncompliance which included failure to understand contract terms and conditions, and failure to maintain records to support payment of cost claims.

The draft report was submitted to the Mission and to DSS for comments. Their comments, which were considered in finalizing the audit report, are included in the final report as Appendix 1 and 2, respectively. The Mission generally agreed with the audit findings and recommendations included in the audit report. However, DSS offered explanations and background information relating to the questioned amounts, and made some general observations regarding factors that, in DSS's opinion, contributed to some of the problems. In addition, DSS asked the Mission to re-examine the audit findings to determine which of the disputed claims could be paid. RIG/A/N believes that the amounts are properly questioned.

The report contains 27 recommendations covering the questioned costs, internal controls, and compliance with terms of the contracts. It is USAID/Zimbabwe's responsibility to ensure appropriate action is taken on all the recommendations. RIG/A/N is not including recommendations relating to internal controls and compliance in the Office of the Inspector General's audit recommendation follow-up system because the contracts have ended. We are, however, including the following monetary recommendations in the follow-up system.

Recommendation No. 1: We recommend that USAID/Zimbabwe determine the allowability, and recover as appropriate from Development Support Services, questioned ineligible costs of Z$ 19,755 (US$ 3,528) incurred under Indefinite Quantity Contract No. 613-0510-C-00-2017.

Recommendation No. 2: We recommend that USAID/Zimbabwe determine the allowability, and recover as appropriate from Development Support Services, questioned unsupported costs of Z$ 124,610 (US$ 22,254) incurred under Indefinite Quantity Contract No. 613-0510-C-00-2017.

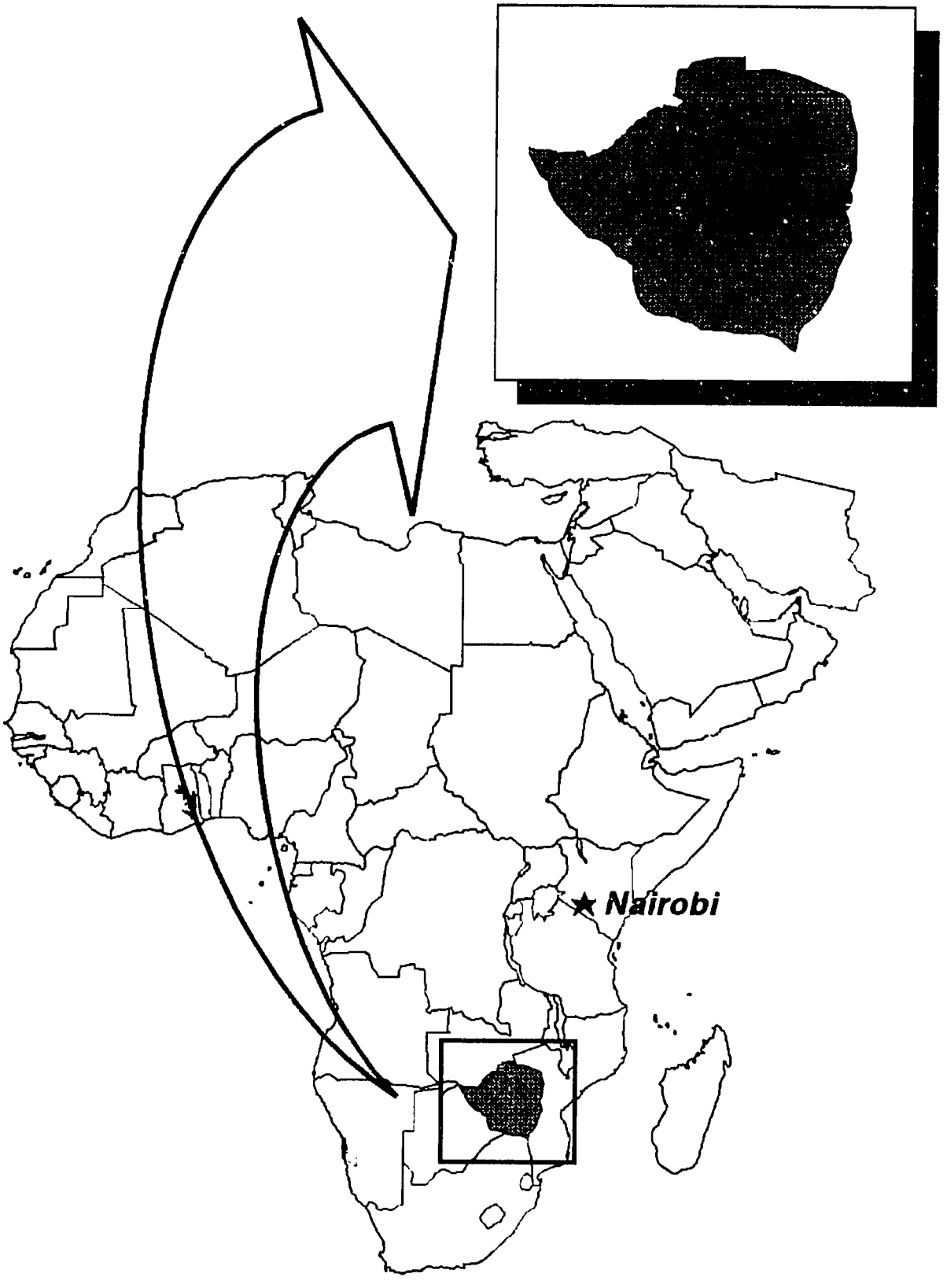
Recommendation No. 3: We recommend that USAID/Zimbabwe determine the allowability, and recover as appropriate from the undisbursed claims questioned ineligible costs of Z$ 443,083 (US$ 70,641) incurred by Development Support Services under Cost Reimbursement Contract No. 613-0510-C-00-3024.

Recommendation No. 4: We recommend that USAID/Zimbabwe determine the allowability, and recover as appropriate from the undisbursed claims, questioned unsupported costs of Z$ 64,393 (US$ 10,266) incurred by Development Support Services under Cost Reimbursement Contract No. 613-0510-C-00-3024.

We consider all recommendations to be unresolved. The recommendations will be resolved when the Mission makes a final determination as to the allowability of the questioned amounts, and will be closed when the Mission takes action appropriate to the determination. Please respond to this report within 30 days indicating action planned or taken to implement the recommendations.

Thank you for the cooperation extended to Price Waterhouse Meyernel auditors and the Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.


★ Nairobi

AUDIT OF
DEVELOPMENT SUPPORT SERVICES
CONTRACT NO. 613-0510-C-00-3024 AND
IQC NO. 613-0510-C-00-2017
IN ZIMBABWE.

ATTACHMENTS

ATTACHMENT I

AUDIT OF DEVELOPMENT SUPPORT SERVICES CONTRACT NO. 613-0510-C-00-3024 AND IQC NO. 613-0510-C-00-2017 IN ZIMBABWE

FINAL REPORT

DECEMBER 15, 1993

AUDIT OF DEVELOPMENT SUPPORT SERVICES
CONTRACT NO. 613-0510-C-00-3024 AND IQC NO. 613-0510-C-00-2017

TABLE OF CONTENTS

		Page No.
1.	INTRODUCTION	
1.1	Background	1
1.2	Audit Objectives and Scope	4
1.3	Brief Summary of Audit Results	8
1.4	Brief Summary of Mission Comments	9
1.5	Brief Summary of Development Support Services Comments	10
2.	FUND ACCOUNTABILITY STATEMENTS	
2.1	Independent Auditor's Reports	11
2.2	Fund Accountability Statements	15
2.3	Findings and Recommendations	19
3.	INTERNAL CONTROL STRUCTURE	
3.1	Independent Auditor's Report	44
3.2	Introduction	48
3.3	Findings and Recommendations	49
4.	COMPLIANCE WITH CONTRACT PROVISIONS AND US GOVERNMENT REGULATIONS	
4.1	Independent Auditor's Report	55
4.2	Introduction	57
4.3	Findings and Recommendations	57

8

AUDIT OF DEVELOPMENT SUPPORT SERVICES
CONTRACT NO. 613-0510-C-00-3024 AND IQC NO. 613-0510-C-00-2017

EXHIBITS

Exhibit No.	Title
1.	List of Report Recommendations
2.	Indefinite Quantity Contract Unsupported Salary Cost
3.	Indefinite Quantity Contract Ineligible Per Diem
4.	Indefinite Quantity Contract Unsupported Subsistence Claims
5.	Indefinite Quantity Contract Unsupported Per Diem Claims
6.	Indefinite Quantity Contract and Cost Reimbursement Contract Ineligible Transport
7.	Cost Reimbursement Contract Ineligible Salary Cost
8.	Cost Reimbursement Contract Ineligible Per Diem
9.	Cost Reimbursement Contract Unsupported Subsistence Claims
10.	Cost Reimbursement Contract Unsupported Per Diem Claims
11.	Cost Reimbursement Contract Unsupported Travel Costs

AUDIT OF DEVELOPMENT SUPPORT SERVICES
CONTRACT NO. 613-0510-C-00-3024 AND IQC NO. 613-0510-C-00-2017

APPENDICES

Appendix No.	Title
1.	Mission Comments
2.	Development Support Services Comments

AUDIT OF DEVELOPMENT SUPPORT SERVICES
CONTRACT NO. 613-0510-C-00-3024 AND IQC NO. 613-0510-C-00-2017

1. INTRODUCTION

1.1 Background

The US Government through its Section 416 program was to supply maize and sorghum to Zimbabwe which was to be distributed through the Grain Marketing Board (GMB) to the Department of Social Welfare (DSW) and Private Voluntary Organization's (PVO's) / Non-Governmental Organization's (NGO's) for drought relief programs.

USAID/Zimbabwe signed an Indefinite Quantity Contract (IQC) No. 613-0510-C-00-2017 in February 1992 and a Cost Reimbursement Contract No. 613-0510-C-00-0324 in February 1993 with Development Support Services (DSS). Only Delivery Order No. 1 was issued to the Contractor under the IQC before USAID/Zimbabwe changed to the Cost Reimbursement Contract. The objectives of both these contracts were to: (a) monitor the distribution of maize and sorghum from GMB depots to the drought relief beneficiaries; (b) determine if the maize was being effectively made available to the beneficiaries as defined by DSW criteria; and (c) provide a team to monitor the maize and sorghum. The Contractor was to review all DSW and PVO/NGO accountability reports to ensure that all the maize and sorghum had been utilized. The Contractor was also to reconcile differences in data in coordination with DSW. Finally the Contractor was expected to develop a research sample and methodology to determine the degree to which activities undertaken by DSW met the terms and requirements of Section 416 program by developing a questionnaire recording various data.

The total amount obligated under the IQC was $81,412. Delivery Order No. 1 issued under the IQC covered the period from October 1, 1992 to December 31, 1992. Total disbursements as per USAID/Zimbabwe records under the IQC as of June 30, 1993 were $70,390. The Cost Reimbursement Contract covered the period February 15, 1993 to May 31, 1993. The total amount obligated under the Cost Reimbursement Contract was $138,640. Total disbursements by USAID/Zimbabwe under the Cost Reimbursement Contract were $33,625 as of June 30, 1993.

The most important terms and conditions of the IQC Contract with respect to this audit include the following:

- the Contractor agrees to make a reasonable effort to have the persons identified in the contract available to USAID/Zimbabwe for performance under the delivery orders;

- the fixed daily rate includes salary for the person, fringe benefits required by Zimbabwe law and such other fringe benefits that the Contractor may normally provide to its employees, company indirect expense or overheads and company profit;

- in addition to fixed rates USAID/Zimbabwe shall reimburse the Contractor for specified direct costs described in each delivery order;

- payment of all US dollar costs shall be in accordance with AIDAR 752-7003;

- the US dollar costs allowable under this contract shall be limited to reasonable, allocable and necessary costs determined in accordance with the clause of the contract entitled "allowable cost and payment";

- this is a time and materials, Indefinite Quantity-type contract with all payments in US dollars;

- all Delivery Orders are subject to the terms and conditions of the contract and in the event of a conflict between the Delivery Order and the Contract, the Contract shall control;

- salaries and wages payable to the Contractor's employees may not exceed the Contractor's established policy and practices;

- workmen's compensation insurance which is required in accordance with Zimbabwe law shall be obtained and maintained by the Contractor;

- under the payment terms USAID/Zimbabwe has agreed for the Contractor to bill actual expenses incurred on a monthly basis. Reimbursable expenses such as per diem, transportation and communication/report line items will be paid upon submission and approval of the supporting documents to the USAID/Zimbabwe Executive Officer of actual costs incurred.

The most important terms and conditions of the Cost Reimbursement Contract with respect to this audit include the following:

- costs allowable under the contract shall be limited to reasonable, allocable and necessary costs determined in accordance with the clauses of the contract;

- payment of the fixed fee shall be based on the same ratio of the total fixed fee as the related payment being made on account of allowable costs is to the total estimated costs;

- the Contractor may in some circumstance invoice and be paid for recorded costs for items such as services purchased directly for the purpose of this contract, even though the Contractor has not yet paid for these items or services, provided that such costs are paid in the ordinary course of business. "The ordinary course of business" is defined in accordance with the principles of the Prompt Payment Act which is within 30 days after the Contractor's receipt of payment from USAID for such costs;

- any tax or duty from which the United States Government is exempt by agreement with the Government of Zimbabwe or from which the Contractor is exempt shall not constitute allowable costs;

- salaries and wages payable to the Contractor's employees shall not exceed the Contractors established policy and practices.

1.2 Audit Objectives and Scope

1.2.1 Audit Objectives

Price Waterhouse was contracted by USAID/Zimbabwe under its Indefinite Quantity Contract No. 645-0000-I-00-1-53-02 to perform an agency-contracted audit of DSS Contract No. 613-0510-C-00-5014 and IQC No. C0-613-2017-01 in accordance with generally accepted auditing standards and the US Comptroller General's "Government Auditing Standards" (1988 Revision).

The objective of the audit was to examine Development Support Services' Fund Accountability Statements (FAS) and express an opinion as to whether the FAS presents fairly the use of contract funds in accordance the contract agreements. In order for the auditors to answer the objective, they were to consider the auditee's internal control structure so as to determine the auditing procedures for the purpose of expressing an opinion on the FAS. The auditors were required to report on significant internal control deficiencies and material weaknesses. As part of obtaining reasonable assurance whether the FAS were free of material misstatements, the auditors were required to test the auditee's compliance with the terms of the contract agreements and report on any identified material instances of noncompliance.

1.2.2 Audit Scope

The scope of this audit, as established in the Price Waterhouse Delivery Order, included a review of the Fund Accountability Statements, a review of compliance with the provisions of the contracts and US laws and regulations, and an evaluation of the internal control structure of the auditee. The scope of review for this audit included all claims reimbursed by USAID/Zimbabwe and all claims outstanding for the period from October 1, 1992 under the IQC and from February 15, 1993 under the Cost Reimbursement Contract to June 30, 1993. Total claims reimbursed by USAID/Zimbabwe under the IQC amounted to $70,390. No claims were outstanding at June 30, 1993. Total claims reimbursed by USAID/Zimbabwe under the Cost Reimbursement Contract amounted to $33,625 and claims outstanding amounted to $82,939 at June 30, 1993.

Due to Mission concerns Price Waterhouse was asked to pay particular attention to the following:

- personnel and travel policies of the Contractor;
- accounting records and supporting documentation maintained by the Contractor;
- salary and per diem amounts claimed and invoiced by the Contractor versus the actual amounts paid to the Contractor's field officers;
- payments for services rendered and for which the Mission had already reimbursed the Contractor based on original invoices which were later reported as being outstanding by the support services vendor.

1.2.3 Scope Limitation

Price Waterhouse did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control review program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

1.2.4 Methodology

Price Waterhouse conducted the initial survey of the accounting records on July 28, 1993 at which time the identification and selection of transaction for detailed testing was completed. Price Waterhouse subsequently prepared its audit work plan for approval by RIG/A/N, secured approval and performed fieldwork from August 2, 1993 through September 17, 1993. The fieldwork was performed in Harare at the offices of DSS and USAID/Zimbabwe. The audit report was then prepared at our office in Johannesburg.

The principal audit steps performed included:

- an examination of the IQC Contract and Cost Reimbursement Contract, contract amendments, project correspondence and Applicable Federal Acquisition Regulations (FAR), to gain an understanding of the goals and objectives of the contracts, the activities being funded by USAID/Zimbabwe, the cost budget line items and the contracting procedures and requirements placed on DSS by USAID/Zimbabwe;

- performance of detailed compliance testing of internal controls, audit procedures to detect errors and irregularities as required by SAS 53 and 54 and audit procedures to evaluate the auditee's compliance with the contracts and applicable terms and conditions, a review of the accounting system and internal controls of the auditee in order to obtain reasonable assurance of detecting errors, irregularities and illegal acts;

- testing of revenue and cost transactions in the Fund Accountability Statements to determine the extent of non-compliance, unallowable costs or unallocable costs and the effectiveness of internal controls;

- reconciliation of financial reports submitted by DSS to USAID/Zimbabwe to the accounting records in order to determine whether the financial submissions of the Contractor are accurate and supported by the accounting records;

- reconciliation of claims for reimbursement submitted by DSS to USAID/Zimbabwe to the accounting records and supporting documentation;

- an examination of the cash book and general ledger of DSS to determine whether revenues received and expenditure incurred were properly recorded, accumulated and reported;

- an examination of the bank statements and cash book of DSS to determine that they were reconciled on a timely basis and that transactions were appropriate;

- an examination of costs claimed to determine whether they were payable under the terms and conditions of the contract;

- obtaining confirmation from the vendors that the Contractor had paid the vendors prior to requesting reimbursement from USAID/Zimbabwe;

- obtaining a payroll from the auditee to establish whether the rates paid were supported by the employee biodata sheets;

- reconciliation of salaries paid by the Contractor with amounts claimed from USAID/Zimbabwe and confirmation of amounts paid from the employees where possible;

- confirmation of per diems paid with the employees where possible and examination of supporting documentation to determine whether amounts claimed from USAID/Zimbabwe were the actual payments received by the employees; and

- an examination of the personnel, travel and per diem policies of the Contractor to determine whether the amounts paid by the Contractor to employees were in accordance with Contractors' policies and did not exceed amounts authorized by USAID/Zimbabwe.

1.3 Brief Summary of Audit Results

1.3.1 Fund Accountability Statements

Our audit tests of the Indefinite Quantity Contract No. 613-0510-C-00-2017 Fund Accountability Statement revealed that of the total costs claimed and reimbursed of US$70,390 (Z$394,140) and included in the Fund Accountability Statement, US$25,782 (Z$144,365) were questioned costs. Of the questioned amount US$3,528 (Z$19,755) were ineligible costs and US$22,254 (Z$124,610) were unsupported costs.

Our audit tests of the Cost Reimbursement Contract No. 613-0510-C-00-3024 Fund Accountability Statement revealed that of the total costs claimed of US$116,564 (Z$731,127) and included in the Fund Accountability Statement, US$80,907 (Z$507,476) were questioned costs. Of the questioned amount US$70,641 (Z$443,083) were ineligible costs and US$10,266 (Z$64,393) were unsupported costs.

1.3.2 Internal Control Structure

Our evaluation of the internal control structure identified certain reportable conditions which we believe constitute material weaknesses in view of the fact that expenditures totalling US$106,689 (Z$651,841) were either ineligible or unsupported. The most important of these material reportable conditions include the following: inadequate accounting and control systems, incomplete documentation to support payments and inadequate documentation to support expense claims.

1.3.3 Compliance with Contract Terms and Conditions and Related Provisions

Our evaluation of compliance with the terms and conditions of the IQC and Cost Reimbursement Contract and related provisions identified material instances of non-compliance which caused us to conclude that the aggregation of

misstatements resulting from those failures are material to the Fund Accountability Statements. The most important of these material instances of non-compliance include the following failure to: understand the contract terms and conditions, understand the Federal Acquisition Regulations (FAR), and to maintain adequate records to support payment of cost claims.

1.4 Brief Summary of Mission Comments

The Mission comments are included in this report as Appendix 1.

The Mission believes that Development Support Services has been given sufficient opportunity by the Mission and by the auditors to provide supporting documentation to substantiate the costs claimed for reimbursement. The Mission also noted that they would be prepared to sign a follow on contract with the auditors to review any further documentation which Development Support Services may provide, however, they were not optimistic that this would lead to any further resolution of the questioned costs.

The Mission Director noted that USAID did move Development Support Services to a Cost Reimbursement Contract following the identification of concerns under the IQC. Although, it is clear that Development Support Services still did not take the financial and managerial responsibilities seriously, further exposure was limited.

The Mission Director noted that USAID did identify a need for an audit of the two contracts and thereby has minimized to a large extent the financial vulnerability of the US Government at an early stage. The net exposure to the Mission is US$23,750 under the two contracts on a total expenditure claim of US$186,954.

The Mission Director has noted that the Mission has now implemented a policy of performing pre-award surveys for all contracts in excess of US$25,000 with new firms contracted by the Mission unless the contract is for a fixed fee. All new IQC firms must demonstrate to the Mission their financial viability and undergo a pre-award survey prior to the award of an IQC.

1.5 Brief Summary of Development Support Services Comments

The Development Support Services comments are included as Appendix 2 to this report.

Development Support Services have commented on the audit finding in the Fund Accountability Statement providing reasons and background information for each of the questioned costs. In addition some general observations were made regarding factors which contributed to some of these problems such as: lack of start up capital, problems with reimbursement from USAID and rumours and gossip from the Development Support Services employees.

In conclusion Development Support Services requested USAID to re-examine the financial figures to determine what can be paid to Development Support Services to enable them to pay-off their outstanding vendors.

Price Waterhouse Meyernel
Chartered Accountants (SA)
Geskatte Rekenmeesters (SA)

Member firm of Coopers & Lybrand
Price Waterhouse

30 Rivonia Road
Sandown 2196
PO Box 783127
Sandton 2146
Johannesburg
South Africa

Rivoniaweg 30
Sandown 2196
Posbus 783127
Sandton 2146
Johannesburg
Suid-Afrika

☎ 780-2000
FAX 780-2534

Price Waterhouse Meyernel

2. FUND ACCOUNTABILITY STATEMENTS

2.1 Independent Auditor's Report

2.1.1 Independent Auditor's Report on the Fund Accountability Statement of Development Support Services Indefinite Quantity Contract No. 613-0510-C-00-2017

We have performed a financial audit of the Fund Accountability Statement of Development Support Services under USAID/Zimbabwe Indefinite Quantity Contract No. 613-0510-C-00-2017 for the period October 1, 1992 through to June 30, 1993. The Fund Accountability Statement is the responsibility of Development Support Services management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and in accordance with US Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 46 of US Government Auditing Standards since no such quality control review program is offered by professional organizations in South Africa. We believe that the effect of this departure from the financial audit requirements of US Government Auditing Standards is not material because we participate in the Price Waterhouse

Senior Partner Senior Vennoot [illegible] Deputy Senior Partner Adjunk-Senior Vennoot [illegible] Managing Partner Besturende Vennoot [illegible]
Partner-in-charge Vennoot-in-beheer [illegible] Local Partners Plaaslike Vennote [illegible]

21

Worldwide internal quality control review program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Section 2.2.3, the Fund Accountability Statement was prepared on the basis of cash receipts and cash disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

The results of our tests disclosed $ 25,782 in questioned costs as detailed in the Fund Accountability Statement:

(1) $3,528 of expenditures that are explicitly ineligible because, they are in excess of authorized contract rates, or because payment has not yet been made or because the costs are prohibited by the terms and conditions of the contract; and

(2) $22,254 of expenditures that are deemed to be unsupported as they are not supported by adequate documentation.

In our opinion, because of the significance of the questioned costs referred to in the preceding paragraph, the Fund Accountability Statement examined does not present fairly, in conformity with the basis of accounting described above, the revenues and costs incurred and reimbursed for the period October 1, 1992 to June 30, 1993.

This report is intended for the information of Development Support Services and the US Agency for International Development. However, this restriction is not intended to limit the distribution of the report, if a matter of public record.

Price Waterhouse Magiano

September 17, 1993

22

Price Waterhouse Meyernel
Chartered Accountants (SA)
Geskrywe Rekenmeesters (SA)

Member firm of Price Waterhouse

90 Rivonia Road
Sandown 2196
PO Box 783127
Sandton 2146
Johannesburg
South Africa

Rivoniaweg 90
Sandown 2196
Posbus 783127
Sandton 2146
Johannesburg
Suid-Afrika

Tel 780-2000
Fax 780-2534

Price Waterhouse Meyernel

2.1.2 Independent Auditor's Report on the Fund Accountability Statement of Development Support Services' Cost Reimbursement Contract No. 613-0510-C-00-3024

We have performed a financial audit of the Fund Accountability Statement of Development Support Services under USAID/Zimbabwe Cost Reimbursement Contract No. 613-0510-C-00-3024 for the period from February 15, 1993 to June 30, 1993. The Fund Accountability Statement is the responsibility of the Development Support Services management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards (Revision 1988) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, Paragraph 46 of US Government Auditing Standards, since no such program is offered by professional organizations in South Africa. We believe that the effects of this departure from the financial audit requirements of US Government Auditing Standards is not material because we participate in the Price Waterhouse Worldwide internal quality control review program which requires the Price Waterhouse Johannesburg office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Senior Partner/Senior Vennoot J Beggs Deputy Senior Partner/Adjunk-Senior Vennoot F de Beer Managing Partner/Besturende Vennoot SA Heyman
Partner-in-charge/Vennoot-in-beheer J D Wilson Local Partners/Plaaslike Vennote J Andrew MH Bixenstine D Brummer BR Carlstein JM Chimbout
SK Cunliffe KPE Davies PPE Du Toit JH Fourie JS Haughton RD Hunter W Jourbert MWK Mabuza PH Louser SF Mare DC Morris J Nortje
B Neale JN Nurse SA Pienaar AL Pienaar FJ Pienaar JG Pienaar ME Pienaar DR Pitt JB Sarrel TA Scholing JL Smith F Stoman J van der Heever
WW Venter JA Wasser SH Wong

23

As described in Section 2.2.3 the Fund Accountability Statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

The results of our tests disclosed $80,907 in questioned costs as detailed in the Fund Accountability Statement:

(1) $70,641 of expenditures that are explicitly ineligible because they are in excess of authorized contract rates or because payment has not been made or are prohibited by the terms and conditions of the contract; and

(2) $10,266 of expenditures that are not supported with adequate documentation.

In our opinion, because of the significance of the questioned costs referred to in the preceding paragraph, the Fund Accountability Statement examined does not present fairly, in conformity with the basis of accounting described above, the revenues and costs incurred and reimbursed for the period February 15, 1993 to June 30, 1993.

This report is intended for the information of Development Support Services and the US Agency for International Development. However, this restriction is not intended to limit the distribution of the report, if a matter of public record.

Price Waterhouse Manila

September 17, 1993

2.2 Fund Accountability Statements

2.2.1 Fund Accountability Statements of Development Support Services under the Indefinite Quantity Contract No. 613-0510-C-00-2017 for the period October 1, 1992 to June 30, 1993

	Total	Accepted Costs	Questioned Costs		
			Ineligible Costs	Unsupported Costs	Findings (Sections 2.3.1)
	Z$	Z$	Z$	Z$	
Revenues					
• Funds received from USAID/Zimbabwe	394,140				
Total Z$	394,140				
Total US$	70,390				
Expenditure					
• Salaries	249,230	160,078	-	89,152	2.3.1
• Per diem	47,160	9,810	1,892	35,458	2.3.1
• Transportation	95,577	77,714	17,863	-	2.3.1
• Communication/ reports	2,173	2,173	-	-	
Total Z$	394,140	249,775	19,755	124,610	
Total US$	70,390	44,608	3,528	22,254	
Balance Z$	-				
Balance US$	-				

2.2.2 Fund Accountability Statement of Development Support Services under the Cost Reimbursement Contract No. 613-0510-C-08-3024 for the period February 16, 1993 to June 30, 1993

	Total	Accepted Costs	Questioned Costs		
			Ineligible Costs	Unsupported Costs	Findings (Sections 2.3.2)
	Z$	Z$	Z$	Z$	
Revenues					
• Funds received from USAID/Zimbabwe	210,906				
Total Z$	210,906				
Total US$	33,625				
Expenditure					
• Salaries	360,895	66,925	293,970	-	2.3.2
• Per diem	105,811	10,068	33,758	61,985	2.3.2
• Transportation	204,326	124,863	77,055	2,408	2.3.2
• Reporting	5,938	5,938	-	-	
• Fixed fee	54,157	15,857	38,300	-	2.3.2
Total Z$	731,127	223,651	443,083	64,393	
Total US$	116,564	35,657	70,641	10,266	
Balance Z$	(520,221)				
Balance US$	(82,939)				

2.2.3 Notes to the Fund Accountability Statements

- **Basis of Accounting**

The Fund Accountability Statements are prepared on a cash basis, which records and reports revenues and expenditure when cash is received or expended by the auditee. This is a cornprehensive basis of accounting other than generally accepted accounting principles.

DSS does not maintain accounting records such as a cash book or general ledger to account for revenue and expenditure under the two contracts. Expenditure claims are thus prepared from payment vouchers and a variety of other sources.

- **Revenues**

Revenues represent amounts received in cash from USAID/Zimbabwe during the period of review under the IQC and Cost Reimbursement Contract. Revenues exclude funds received from other sources. Revenues are translated into US dollars based on the average foreign currency exchange rates prevailing at the date of the reimbursement by USAID/Zimbabwe.

- **Expenditure**

Expenditures represent amounts expended in cash during the period of review under the IQC and Cost Reimbursement Contract. Expenditures are translated into US dollars based on the average foreign currency exchange rates prevailing at the date of the reimbursement by USAID/Zimbabwe.

2.2.4 Sample Selection Criteria

The scope of this audit included only revenue and expenditure of DSS under the IQC and Cost Reimbursement Contract with USAID/Zimbabwe. DSS is responsible for maintaining all original supporting documentation of contract expenditure. Reimbursements were made by USAID/Zimbabwe to DSS based on claims submitted.

Our audit methodology included the following selection of a sample of revenue and expenditure transactions for detailed audit testing:

Revenue

- All of the revenues received from USAID/Zimbabwe were confirmed with USAID/Zimbabwe.

Expenditure

- The selection of expenditure transactions for detailed testing under each contract was based on potential risk. The sample profile is as follows:

Contract	Total Costs	Sample Selected	Percentage Selected	Not Reviewed
	Z$	Z$	%	Z$
IQC				
• Salaries	249,230	249,230	100	-
• Per diem	47,160	47,160	100	-
• Transport	95,577	95,577	100	-
• Reporting	2,173	2,173	100	-
Cost Reimbursement Contract				
• Salaries	360,895	360,895	100	-
• Per diem	105,811	105,811	100	-
• Transport	204,326	204,326	100	-
• Reporting	5,938	2,143	36	3,795

2.3 Findings and Recommendations

The following tables present a breakdown of the questioned costs included in the Fund Accountability Statements.

2.3.1 Breakdown of Questioned Costs under the Indefinite Quantity Contract No. 613-0510-C-00-2017

Description	Questioned Costs		Finding No.	Exhibit No.
	Ineligible	Unsupported		
	Z$	Z$		
Salaries				
• No time sheets prepared		89,152	1	2
		89,152		
Per diem				
• Claim in excess of authorized rate	601		2	3
• Duplicate claim	1,291		3	3
• No evidence of payment		14,837	4.2	5
• No supporting documentation for the claim		16,530	4.1	4
• Unable to support number of days		4,091	6	5
	1,892	35,458		
Transportation				
• Claim in excess of contract budget	13,081		10	
• Claimed but payment not yet made	4,782		11	6
	17,863			
Total Z$	19,755	124,610		
Total US$	3,528	22,254		

Note: USAID/Zimbabwe have reimbursed Development Support Services for all the costs that have been questioned.

2.3.2 Breakdown of Questioned Costs under the Cost Reimbursement Contract No. 613-0510-C-00-3024

Description	Questioned Costs		Finding No.	Exhibit No.
	Ineligible	Unsupported		
	Z$	Z$		
Salaries				
• Claimed but not yet paid	293,970		8	7
	293,970			
Per diem				
• Claimed but not yet paid	26,226		4.3	8
• No evidence of payment		9,080	4.2	10
• Unable to support expenses		1,877	7	10
• No supporting documentation for the claim		51,028	4.1	9
• Duplicate claim	1,521		3	8
• Claim in excess of authorized rates	5,923		2	8
• Claim by non-field staff	88		5	
	33,758	61,985		
Transportation				
• Rental claimed but not yet paid	73,740		11	6
• Overdue interest claimed	2,526		13	
• Damages claimed	789		14	
• No supporting documentation for rental		554	15	
• No mileage logs maintained in respect of fuel costs		1,854	12	11
	77,055	2,408		
Fixed fee				
• Based on questioned costs	38,300		16	
	38,300			
Total Z$	443,083	64,393		
Total US$	70,641	10,266		

Note: USAID/Zimbabwe have not reimbursed Development Support Services for all the costs that have been questioned, only Z$210,906 (US$33,625) of total costs claimed have been reimbursed.

30

Salaries Claimed but not Supported by Time sheets

Finding No. 1

We noted that salaries had been claimed for reimbursement from USAID/Zimbabwe which could not be supported by either time sheets or payment advice slips. It was therefore not possible to determine whether the salaries claimed were in respect of time charged to monitor the distribution of maize and sorghum from the Grain Marketing Board to the beneficiaries or in respect of other USAID/Zimbabwe project activities.

For the first contract (IQC), time charged by the Contractor's employees could only be supported by payment advice slips which indicated the number of days worked. No time sheets were maintained by the Contractor under the IQC for time charged by himself to the project. The Contractor only implemented a time sheet recording system for the duration of the first two months of the second contract.

Salaries questioned as unsupported costs on the basis of no time sheets or payment advice slips amounted to Z$89,152 (US$15,920) under the IQC (see Exhibit 2). The Contractor should have implemented and maintained time sheets in respect of all contract work undertaken for USAID\Zimbabwe. This would have enabled time charged to the contract to be supported for reimbursement.

Recommendation No. 1

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unsupported salary costs of Z$ 89,152 (US$ 15,920).

Mission Comments

Salaries claimed must be supported by time sheets reflecting actual hours worked by all employees. Payment advice slips were located to support time

charges for most employees, excluding Mr Chinhori. As Mr Chinhori is a working director of Development Support Services, time sheets are critical to substantiate actual charges to this contract versus supervision and administration time. It appears that Development Support Services has charged the number of days ordered as opposed to the number of days worked in most cases. This is not acceptable as Development Support Services is responsible for ensuring documentation is maintained to support all contract charges.

Auditee Comments

The extraordinary item on this account is the salary related to the Senior Level Consultant (Mr Chinhori) Z$60 480, for the 60 days allowed in the contract. This full amount is being rejected by USAID for lack of time sheets. It should be noted that for the whole IQC, the issue of time sheets was never implemented for all categories of staff.

For both contracts, Mr Chinhori was employed in the role of team leader, which involved both management and participation in project work. Of the total 60 days ordered in the IQC, the first ten days were devoted to preparatory work, methodology design, selection and training of enumerators, introductions to and meetings with government's national provincial and district project officers. Mr Chinhori spent these ten days on this project work.

During weeks 3 and 4, Mr Chinhori led the entire team of enumerators in the Masvingo Province, where work was with the Provincial Social Welfare Office (PSWO), and the eight districts in the province. Mrs Murungu of the Masvingo PSWO can confirm this. Similarly weeks 5 and 6 was devoted to work and introductions in Mashonaland West Province. Ms Chizarura of DSW can confirm this participation, since she was the PSWO responsible to accompany Development Support Services. During week 7 through 12, the Development Support Services survey group was divided into teams, going to the respective provinces of Masvingo and Mashonaland West.

One team was led by Mr Chinhori and the other by the Junior Level Consultant. Again the enumerators can confirm this. For instance, in week 9, Mr Chinhori spent that time in the Karoi and Kariba districts of Mashonaland West Province,

following some disturbing reports about food distribution in the Kariba district. It was at this time that the Development Support Services team led by Mr Chinhori had the opportunity to meet with the DSW/USAID team, which comprised Mr R Mudzidzwa (The National Transport Co-ordinator, DSW), Mr Yusuf (The Drought Relief Advisor, DSW) and Mr C Chiherea (USAID/GDO) and other provincial officers to verify the distribution system.

During the IQC period, the contract required that weekly reports be prepared and submitted to both DSW and USAID for review. This was done by Development Support Services and both USAID and DSW can confirm this. The Junior Level Consultant and Mr Chinhori had the added responsibility of submitting and discussing these weekly reports with both DSW national office and the GDO/FA of USAID which can be confirmed with them.

With this background, Mr Chinhori spent most of the 60 days ordered, if not all, on project work, rather than administration, Development Support Services would therefore request USAID to reconsider this issue and to at least compensate Mr Chinhori's active participation in the monitoring of food distribution throughout the IQC period. Although time sheets were not prepared, Mr Chinhori actively participated in the project to ensure its success.

Auditor's Response

We have noted the above comments but maintain that without time sheets being prepared it was not possible for us to determine with any verifiable accuracy the actual time charged against the contract. We concur with the Mission comments. The recommendation stands.

Per Diems Claimed in Excess of Authorized Rates

Finding No. 2

We noted that accommodation and subsistence per diems had been claimed by DSS which were in excess of their personnel policy and in excess of the rates authorized by USAID/Zimbabwe.

USAID/Zimbabwe, after reviewing the DSS personnel policy authorized a subsistence rate of Z$60 per day and an accommodation allowance of Z$140 per day. Both the IQC and Cost Reimbursement Contracts authorized this per diem rate of Z$200 per day which is equivalent to US$36 per day.

We have questioned the following per diems claimed by DSS which are in excess of the authorized rate as ineligible costs for reimbursement:

- IQC Z$601 (US$107). See Exhibit 3 for details.
- Cost Reimbursement Contract Z$5,923 (US$945). See Exhibit 8.

Recommendation No. 2

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed in excess of the authorized rates of Z$601 (US$107) under the IQC and Z$5,923 (US$945) under the Cost Reimbursement Contract.

Mission Comments

The Mission attempted many times to obtain Development Support Services personnel policy. When a copy of the "policy" was received, it was clear that it was written in response to USAID's request. The "policy" was rejected and Development Support Services was requested to provide a copy of its standard personnel package which was applicable to all employees and all work performed by Development Support Services.

After negotiations and discussions, per diem rates for Development Support Services were established. Based upon the audit findings, it appears that these policies were not always followed.

Auditee Comments

During the IQC, the issue of per diem policy of Development Support Services was never resolved with USAID. It was only in January 1993 after the end of the IQC, that a rate of Z$140 for accommodation and Z$60 for subsistence was

made. However, given the higher costs of accommodation in most hotels in Zimbabwe, the figure of Z$140 became unrealistic. The excess claim of Z$601 in exhibit 3, is therefore, mainly attributed to higher accommodation costs, which was a factor beyond Development Support Services control.

Auditor's Response

The finding and recommendation stand.

Duplicate Per Diem Claims

Finding No. 3

Our audit test revealed that duplicate per diem cost claims had been submitted for reimbursement by DSS to USAID/Zimbabwe. Duplicate cost claims are not allowable.

We have classified the following duplicate per diem claims as ineligible costs for reimbursement under the two contracts:

- IQC Z$1,291 (US$230). See Exhibit 3.
- Cost Reimbursement Contract Z$1,521 (US$243). See Exhibit 8.

Recommendation No. 3

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the duplicate per diems claimed of Z$1,291 (US$230) under the IQC and Z$1,521 (US$243) under the Cost Reimbursement Contract.

Mission Comments

No specific comments were received from the Mission on this finding.

Auditee Comments

The duplicate per diem claim of Z$1,291 was an oversight.

Auditor's Response

The finding and recommendation stand.

Per Diems not Supported by Adequate Documentation

Finding No. 4

The IQC and Cost Reimbursement Contracts both state that the Contractor shall only be reimbursed for actual costs incurred. The Federal Acquisition Regulations (52.216-7) state the following: "the term costs includes only those recorded costs that at the time of reimbursement the Contractor has paid by cash, check or other form of actual payment".

4.1 We noted that DSS had submitted per diem subsistence claims to USAID/Zimbabwe which were based on the standard number of days the employees were contracted to be in the field. However, there was no documentary evidence that DSS had actually incurred the per diem subsistence cost or had made a payment of a per diem allowance to its employees. The following unsupported per diem subsistence claims have been questioned as unsupported costs as DSS could not provide any documentary evidence in support of payment:

- IQC Z$16,530 (US$2,952). See Exhibit 4.
- Cost Reimbursement Contract Z$51,028 (US$8,135). See Exhibit 9.

4.2 We noted that DSS had submitted per diem claims to USAID/Zimbabwe for reimbursement for which they could not provide proof of actual payment for accommodation. Without proof of payment such as a receipt from a hotel or acknowledgement of payment or returned bank stamped check we were unable to determine whether payment had actually been made based on the hotel's

invoices. We have questioned the following per diem payments as unsupported costs as proof of payment could not be provided:

- IQC Z$14,837 (US$2,648). See Exhibit 5.
- Cost Reimbursement Contract Z$9,080 (US$1,447). See Exhibit 10.

4.3 We noted that DSS had submitted claims for per diem (subsistence) to USAID/Zimbabwe against which it had not yet paid the lodging establishment. The Contractor can only claim and shall only be reimbursed for actual costs incurred. Since DSS had not yet made payment to the establishments, the costs cannot be claimed as incurred by the Contractor. We have questioned the following per diem claims as ineligible costs since payment at the time of our audit is known to not yet have been made by DSS to the establishments.

- Cost Reimbursement Contract Z$26,226 (US$4,183). See Exhibit 8.

Recommendation No. 4

4.1 We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed which were not supported by adequate documentation of Z$16,530 (US$2,952) under the IQC and Z$51,028 (US$8,135) under the Cost Reimbursement Contract.

4.2 We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed for which there was no evidence of payment made of Z$14,837 (US$2,648) under the IQC and Z$9,080 (US$1,447) under the Cost Reimbursement Contract.

4.3 We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed which have not yet been paid of Z$26,226 (US$4,183) under the Cost Reimbursement Contract.

Mission Comments

In numerous examples, the auditors found "paid" hotel bills submitted by staff, but for which Development Support Services had not reimbursed the traveller. These costs are properly classified as questioned as Development Support Services has not incurred the expense.

Development Support Services was provided numerous opportunities to support expenditure claims, including the Price Waterhouse auditor returning to Development Support Services after the audit de-briefing. At that time, Development Support Services was still unable to substantiate the unsupported per diem claims.

USAID will sign a follow-on contract with Price Waterhouse under our IQC to review any further documentation which Development Support Services wishes to provide. We are not optimistic that this will lead to any further resolution of the questioned costs.

Auditee Comments

Most hotel vendors listed in the exhibits are either small country hotels or do not keep adequate accounting receipts. Development Support Services has revisited most of them to re-confirm amounts outstanding, if any. Most of them have, been paid, as given by the attached letters from them.

The country hotels were paid in cash by the team leaders, from the petty cash given to them by Development Support Services. For these hotels, the auditors can re-verify this with the two team leaders who were responsible for making these payments.

Exhibit 4 is rather misleading since the figure (A) Z$27,180 is the actual cost Development Support Services incurred with the hotels on subsistence. Since the food allowance of Z$60 had not yet been finalized, the Development Support Services personnel as far as possible, booked for both food and accommodation in most hotels.

If payment from USAID had not been suspended in April 1993 most of the hotel vendors would by now have been paid. However, Development Support Services has made arrangements to clear the bills in the next three months.

The most important aspect to note on per diem during the IQC is that, in the absence of finalization of a policy, Development Support Services incurred actual expenses on accommodation and food costs for its employees who were on the USAID funded project. Development Support Services would therefore request USAID to re-consider its position on this issue for the IQC period.

Auditor's Response

We were unable to examine any further documentation supporting payments submitted by Development Support Services since as noted in the Mission comments they were given numerous opportunities during the course of the audit and at the audit de-briefing to support expenditure claims. We concur with the Mission comments. The recommendation stands.

Per Diem Claimed by Non-Contract Staff

Finding No. 5

We noted that DSS had submitted per diem claims to USAID/Zimbabwe for reimbursement in respect of its administration staff.

The Cost Reimbursement Contract in the budget states that per diem can only be claimed by "field staff operators" and no provision is made in the budget for per diem claims by administration staff.

We have, therefore, questioned the following per diem claim as ineligible for reimbursement by USAID/Zimbabwe:

- Cost Reimbursement Contract Z$88 (US$14) paid to Cecil Hotel May 27, 1993.

Recommendation No. 5

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed in respect of administrative staff employed of Z$88 (US$14) under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Unable to Support Number of Days

Finding No. 6

Our audit tests revealed several instances where, based on the supporting documentation available, we were unable to determine the number of days in respect of which the per diem cost had been incurred. For example, the hotel invoice would only provide the hotel cost but would give no indication of the number of people and the number of nights spent at the hotel. Without this information we were unable to determine whether the actual cost was allowable in terms of the authorized per diem daily rates.

We have questioned the following costs which have been reimbursed by USAID\Zimbabwe as unsupported expenses as the number of days could not be supported:

- IQC Z$4,091 (US$730). See Exhibit 5.

Recommendation No. 6

We recommend that the Mission determine the allowability and recover as appropriate the costs from Development Support Services of the per diems claimed and reimbursed where the number of days spent in the field by the employees could not be supported of Z$4,091 (US$730) under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

The item "unable to support number of days" in exhibit 5, covers the following:

- Nyamhando Investments - 8 enumerators slept there for one night and the two amounts cover food and accommodation paid in cash;
- Maderia - 5 enumerators had lunch here for Z$72;
- Rainbow - at Murombedzi Growth Point, was for accommodation and food for 8 enumerators; and
- Kwane - Sanyati Growth Point, was for accommodation and food for 8 enumerators for two days.

Auditor's Response

We are unable to accept the above explanations without adequate verifiable evidence of the number of days spent in the field. The recommendation stands.

No Supporting Documentation for Per Diem Claims

Finding No. 7

DSS could not provide original or duplicate documentation to support the following accommodation and subsistence expenditure claims for reimbursement from USAID/Zimbabwe:

- Cost Reimbursement Contract Z$1,877 (US$299). See Exhibit 10.

The Cost Reimbursement Contract only allows costs that are "reasonable, allocable and necessary" for reimbursement. Without supporting documentation of paid accommodation or proof of subsistence payments to employees, we were unable to make a determination on the allowability of the costs charged. These costs have not yet been reimbursed by USAID\Zimbabwe.

Recommendation No. 7

We recommend that the Mission continue to withhold the reimbursement of Z$1,877 (US$299) in respect of unsupported per diem claims until Development Support Services is able to provide adequate supporting documentation.

Mission Comments

Development Support Services was provided with numerous opportunities to support the expenditure claims, including the Price Waterhouse auditor returning to Development support Services after the audit de-briefing. At that time, Development Support Services was still unable to substantiate the unsupported costs.

Auditee Comments

No comments were received from the auditee on this finding.

Auditor's Response

We concur with the Mission comments. The finding and recommendation stand.

Salaries Claimed but not yet Paid

Finding No. 8

We noted that DSS had submitted claims to USAID/Zimbabwe for the reimbursement of salaries of contract staff which it had not yet paid to the contract staff.

The Federal Acquisition Regulations (52.216-7) entitled "allowable cost and payment", which are part of the Cost Reimbursement Contract state the following in Section (b): "For the purpose of reimbursing allowable costs ..... the term cost includes only those recorded costs that at the time of reimbursement the Controller has paid cash, check of other form of actual payment". DSS can only therefore claim from USAID/Zimbabwe salaries actually paid or where payment will be made in the "ordinary course of business". The salaries claimed from USAID/Zimbabwe in April 1993 in respect of February 1993 and March 1993 were only paid to the employees by DSS on May 25, 1993 while the salaries for May 1993 were still unpaid at the time of our audit.

We also noted that the salaries claimed by DSS from USAID/Zimbabwe, although in line with the contract budget, were less than the actual payments made by DSS to its employees.

We have therefore questioned the following costs as ineligible being the difference between the actual salaries paid by DSS to its employees up to June 30, 1993 and the amount of salaries claimed in their request for reimbursement submitted to USAID/Zimbabwe. USAID/Zimbabwe have not yet reimbursed Development Support Services for this amount.

- Cost Reimbursement Contract Z$293,970 (US$46,867). See Exhibit 7.

Recommendation No. 8

We recommend that the Mission continue to withhold reimbursement of Z$293,970 (US$46,687) until Development Support Services is able to provide evidence that it has paid its employees.

Mission Comments

The employees of Development Support Services had contacted the Mission regarding the non-payment of salaries and per diems. Our review of Development Support Services claim therefore led us to believe that the claim was not substantiated as the costs invoiced had not yet been paid.

Auditee Comments

All employees of Development Support Services were paid for up to April 1993 on amounts based on what was due to them after tax obligations. This seems to have created some misunderstanding in the audit report, and also with the employees themselves. To resolve this aspect, Development Support Services is going to pay the remaining salary of May 1993 to all employees and claim this amount from USAID. However, for tax obligation purposes, each employee would now have to pay directly their own income tax based on the amount actually received from Development Support Services. Tax certificates in this regard will be issued to each ernployee by the company once payments in full have been made.

Since Mr Chinhori is a working director of Development Support Services he is therefore an employee of the company, and is paid by the company on the profits and/or fees he makes for the company. Mr Chinhori makes monthly drawings of Z$12,000 per month, to cover his gross salary. However, these drawings are only made as and when the company is financially sound, which means that the drawings can be in arrears.

Auditor's Response

We have noted the auditee's comments, however, the audit finding still stands

as it was based on the actual salary payments made by Development Support Services. In addition, since Development Support Services had, at the time of our review, not yet made payments of tax deducted from the employees salaries over to the revenue authorities only the net salary payments made to the employees were considered to be allowable costs. Payment of the salary claimed by Mr Chinhori could not be substantiated as these were made in the form of cash drawings without an adequate record being kept. The recommendation therefore still stands.

Incorrect Labor Category Claimed

Finding No. 9

During our review of the payroll records we noted that DSS had claimed under the Cost Reimbursement Contract the same employee under two different labor categories. The employee had charged time under the labor category "enumerator" and under the category "data processor" as illustrated below:

	Enumerator Days	Data Processor Days	Total Days
April	20	15	35

We were unable to determine which was the correct labor category of the employee as the employee cannot charge the same time to both labor categories in the contract in the same month. The financial effect of this finding is accounted for in the ineligible costs as described in finding number 8.

Recommendation No. 9

We recommend that Development Support Services not submit claims to USAID/Zimbabwe for salary costs of employees under more than one labor category.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Transportation Claimed in Excess of Budget

Finding No. 10

We noted that DSS had claimed and been reimbursed for transportation costs in excess of the IQC contract budget. This is illustrated as follows:

	Original Contract	Contract Amendment	Total	Actual	Ineligible	Ineligible
	US$	US$	US$	US$	US$	Z$
Transportation	10,000	3,000	13,000	15,336	2,336	13,081

The contract budget can only be varied by the USAID/Zimbabwe Contracting Officer and no prior written approval was obtained from the Contracting Officer to increase the contract budget for transportation costs.

Recommendation No. 10

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the transportation costs claimed in excess of budget of Z$13,081 (US$2,336).

Mission Comments

We have difficulty in understanding why a contract amendment was not sought at the time the expenses incurred exceeded the budget.

Auditee Comments

The claim in excess of the contract budget was not intentional by Development Support Services. When a contract amendment was made and approved, it was meant to cover the higher costs for using four by four trucks during the rainy season to the remote areas. Development Support Services requests USAID to be sympathetic on this issue since there was no time available to request a third contract amendment after the end of the IQC.

Auditor's Response

The finding and recommendation stand.

Transportation Costs Claimed but not yet Paid

Finding No. 11

We noted that DSS had submitted claims to USAID/Zimbabwe for transportation costs in respect of car rental which had not yet actually been paid to the car rental vendor.

The Federal Acquisition Regulations (52.216-7) entitled "allowable cost and payment" state the following in Section (b): "For the purpose of reimbursing allowable costs .... the term cost includes only those recorded costs that at the time of reimbursement the Contractor has paid cash, check of other form of actual payment." The IQC and Cost Reimbursement Contracts therefore only allow DSS to submit claims for reimbursement in respect of transportation costs actually incurred and where payment has been made to the vendor or where payment will be made in the "ordinary course of business".

Under the IQC car rental was claimed in November 1992 but the vendor was still unpaid as of June 30, 1993 while under the Cost Reimbursement Contract car rental was claimed in April 1993 and May 1993 and was still unpaid as of June 30, 1993.

We have questioned the following transportation costs as ineligible for reimbursement as payment had not yet been made by DSS to the vendor:

- IQC Z$4,782 (US$854). See Exhibit 6.
- Cost Reimbursement Contract Z$73,740 (US$11,756). See Exhibit 6.

The car rental costs under the Cost Reimbursement Contract have not yet been reimbursed by USAID\Zimbabwe while those under the IQC have been reimbursed.

Recommendation No. 11

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unpaid transportation costs of Z$4,782 (US$854) under the IQC. We further recommend that the Mission continue to withhold reimbursement of Z$73,740 (US$11,756) under the Cost Reimbursement Contract until Development Support Services is able to provide evidence that it has paid the car rental company.

Mission Comments

The vehicle suppliers have contacted USAID on numerous occasions, both during the contract period and afterwards, to complain that Development Support Services had not paid them for services rendered. In fact, prior to our discussions with the suppliers, we had requested Development Support Services to provide USAID with evidence that the car rental company had been paid as the supporting documentation submitted with the Development Support Services claim did not always reflect such. We have therefore difficulty in understanding why these charges have not been paid.

Auditee Comments

Development Support Services has already entered into an agreement with the car rental company to periodically redeem the debt. If payment had not been suspended by USAID, this vendor would have been paid.

Auditor's Response

The finding and recommendation stand.

<u>No Mileage Logs to Support Fuel Claims</u>

Finding No. 12

We noted that DSS had submitted claims for fuel costs in respect of vehicles which were not rented specifically for the purpose of the contract and for which no mileage logs had been maintained.

In order for costs to be allowable, the contracts require that DSS maintain adequate records to support claims submitted to USAID/Zimbabwe. We have questioned the following fuel cost claimed as unsupported costs as we were unable to obtain sufficient evidence that the vehicles had been used for contract related work.

- Cost Reimbursement Contract Z$1,854 (US$296). See Exhibit 11.

These costs claimed have already been reimbursed by USAID\Zimbabwe.

Recommendation No. 12

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unsupported fuel cost claims of Z$1,854 (US$296) under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Overdue Interest Claimed

Finding No. 13

We noted that DSS had claimed, under the Cost Reimbursement Contract, the following interest on overdue car rental accounts:

	Invoice	Date	Z$	US$
National Car Hire	445	May 17, 1993	2,526	402

Interest paid is not an allowable expenditure for reimbursement under the Office for Management Budget Rules OMB No. A-122. The contract states that only allowable expenditure is eligible for reimbursement by USAID/Zimbabwe.

These costs have not yet been reimbursed by USAID\Zimbabwe.

Recommendation No. 13

We recommend that the Mission continue to disallow interest costs of Z$2,526 (US$402) claimed for reimbursement by Development Support Services under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Damages to Motor Vehicles Claimed

Finding No. 14

We noted that the following damages to a rental car had been claimed under the Cost Reimbursement Contract by DSS from USAID/Zimbabwe:

	Invoice	Date	Z$	US$
National Car Hire	489	April 26, 1993	789	126

The office for Management Budget Rules OMB No. A-122 states that "actual losses which could have been covered by reimbursable insurance are unallowable". Damages to motor vehicles is therefore not an allowable expense for reimbursement. These costs have not yet been reimbursed by USAID\Zimbabwe

Recommendation No. 14

We recommend that the Mission continue to disallow the motor vehicle damage costs of Z$789 (US$126) claimed for reimbursement by Development Support Services under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Underpayment of Rental Agreement

Finding No. 15

We noted that DSS had paid an amount of Z$554 (US$88) to National Car Hire in respect of an underpayment on rental agreement number 768 for a Nissan with registration No. 545-6318. We were, however, unable to obtain any evidence such as the original rental contract for that rented car with that registration number. The rented car was also not supported by the mileage logs maintained by DSS.
In order for a cost to be reimbursable under the contract it must be "reasonable, allocable and necessary". We were, due to the absence of supporting documentation and insufficient explanations given, unable to determine whether this rental payment was "reasonable, allocable and necessary".

Recommendation No. 15

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unsupported rental cost claim of Z$554 (US$88) under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Questioned Fixed Fee

Finding No. 16

DSS is, under its Cost Reimbursement Contract with USAID/Zimbabwe, entitled to a 8% fixed fee based on costs. The contract under Section B.4 "Payment of

Fixed Fee" states the following: "at the time of each payment to the Contractor, on account of allowable dollar costs, the Contractor shall be paid a dollar amount which is in the same ratio to the total fixed fee as the related payment being made on account of allowable dollar costs is to the total estimated cost".

We have questioned that portion of the fixed fee claimed by DSS that relates to the questioned costs which are not allowable for reimbursement by USAID/Zimbabwe. (See Section 2.3.2)

Recommendation No. 16

We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the proportion of the fixed fee of Z$38,300 (US$6,106) that relates to the questioned costs under the Cost Reimbursement Contract.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Price Waterhouse Meyernel
Chartered Accountants (SA)
Geokwoedende Rekenmeesters (SA)

Member firm of Coopers & Lybrand
Price Waterhouse

90 Rivonia Road
Sandown 2196
PO Box 783227
Sandton 2146
Johannesburg
South Africa

Rivoniaweg 90
Sandown 2196
Posbus 783227
Sandton 2146
Johannesburg
Suid-Afrika

☎ 730-2000
FAX 730-2534

Price Waterhouse Meyernel

3. INTERNAL CONTROL STRUCTURE

3.1 Independent Auditor's Report

We have audited the Fund Accountability Statements of Development Support Services under the USAID/Zimbabwe Indefinite Quantity Contract No. 613-0510-C-00-2017 for the period from October 1, 1992 to June 30, 1993 and Cost Reimbursement Contract No. 613-0510-C-00-3024 for the period from February 15, 1993 to June 30, 1993.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our reports on the Fund Accountability Statements) we conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statements are free of material misstatement.

In planning and performing our audit of the DSS Fund Accountability Statements for the periods ending June 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statements and not to provide assurance on the internal control structure.

The management of Development Support Services is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the Fund Accountability Statements in accordance with the basis of accounting described in Section 2.2.3 to the Fund Accountability Statements. Because of inherent limitation in any internal control

Senior Partner/Senior Vennoot: [illegible] Deputy Senior Partner/Adjunk-Senior Vennoot: [illegible] Managing Partner/Bestuurende Vennoot: [illegible]
Partner-in-charge/Vennoot-in-beneer: [illegible] Local Partners/Plaaslike Vennote: [illegible]

structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

CONTROL ENVIRONMENT

- Familiarity with USAID Rules.
- Personnel Policies and Practices.
- Financial Management Capabilities.
- Management Control Methods.
- Understanding of Terms and Conditions of Contracts.

ACCOUNTING SYSTEMS

- General Record Keeping.
- Reporting to USAID.
- Disbursement of Funds.
- Claiming from USAID.

CONTROL PROCEDURES

- Recording of Transactions and Activities.
- Written Procedures.
- Bank Accounts.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statements.

The following reportable conditions were observed:

- Inadequate accounting and control systems;
- Incomplete documentation to support payments;
- Time sheets were not prepared;
- Failure to maintain a bank check account;
- Incomplete expense claim documentation;
- Incomplete personnel records.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure 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 Fund Accountability Statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe the following reportable conditions are material weaknesses:

- Inadequate accounting and control systems;
- Incomplete documentation to support payments.

This report is intended for the information of Development Support Services management and the US Agency for International Development. However, this restriction is not intended to limit the distribution of the report, if a matter of public record.

Price Waterhouse Management

September 17, 1993

3.2 Introduction

3.2.1 Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- the control environment;
- the accounting system;
- control procedures.

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

3.2.2 Work Performed

Our review of the internal control structure was directed towards those elements which relate to the nature of project funding arrangements. The review encompassed the following:

CONTROL ENVIRONMENT

- Familiarity with USAID Rules.
- Personnel Policies and Practices.
- Financial Management Capabilities.
- Management Control Methods.
- Understanding of Terms and Conditions of Contracts.

ACCOUNTING SYSTEMS

- General Record Keeping.
- Reporting to USAID.
- Disbursement of Funds.
- Claiming from USAID.

CONTROL PROCEDURES

- Recording of Transactions and Activities.
- Written Procedures.
- Bank Accounts.

3.3 Findings and Recommendations

Inadequate Accounting and Control Systems

Finding No. 17

We noted that DSS did not have an adequate accounting and control system that would provide assurance that transactions are executed in accordance with the terms and conditions of contracts. DSS do not maintain an adequate set of books and records such as a cash book and general ledger to record, accumulate and report revenue and expenditure transactions. All revenue and expenditure transactions are summarized on loose sheets of paper and are not supported by books of prime entry. However, the scope and complexity of transactions such as per diem expense claims overwhelm the capacity of this system to function effectively.

For profit contractors who do business with the U.S. Government are expected to have accounting systems that can support claims submitted on U.S. Government contracts.

Recommendation No. 17

We recommend that Development Support Services implement an adequate accounting and control system to ensure that transactions are executed in accordance with the terms and conditions of the contract.

Mission Comments

No financial systems were in place to track expenditures nor ensure that suppliers and employees were paid.

Auditee Comments

No comments were received from the auditee on this finding.

Incomplete Documentation to Support Payments

Finding No. 18

During the course of our audit of the Fund Accountability Statements we noted that DSS did not maintain adequate documentation to support per diem claims paid to its employees.

The maintenance of adequate supporting documentation is an integral part of an effective internal control system which is necessary to ensure that all transactions are documented and supported for reimbursement from USAID/Zimbabwe.

Recommendation No 18

We recommend that Development Support Services maintain adequate documentation to support all per diem claims submitted to USAID/Zimbabwe for reimbursement.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Failure to Complete Time sheets

Finding No. 19

We noted that time sheets were not used to record time charged by the Contractor and the Contractor's employees for the entire duration of the IQC contract and for the month of May 1993 under the Cost Reimbursement Contract. We were therefore not able to determine the appropriateness of the salary claims submitted to USAID/Zimbabwe for reimbursement and whether all the time claimed had been incurred on performance under the contract.

Recommendation No. 19

We recommend that time sheets be prepared by the Contractor and the employees of the Contractor in order to substantiate all salary claims of days spent on performance under the contracts. The time sheets should be signed by the employees and by management to indicate review and approval thereof.

Mission Comments

Salaries claimed and paid must be supported by time sheets reflecting actual hours worked by all employees.

Auditee Comments

Time sheets were only kept for the second contract for each employee.

Auditor's Response

We concur with the Mission's comments. The recommendation therefore stands.

Failure to Maintain a Check Account

Finding No. 20

We noted that DSS only maintained a savings account. This savings account was totally inadequate for the purpose of making payments to both employees and vendors of goods or services, and for establishing an audit trail. All payments had to be made in cash which is a highly risky form of transacting business. In addition, in many of the cases we noted that DSS were unable to prove cash payment as cash receipts were frequently not obtained from the vendors of goods or services.

No records were maintained of the cash payment made out of the savings account which could be used to support payment. In terms of the U.S. Government Federal Acquisition Regulations proper records should be maintained by the Contractor to support payment by "check, cash or other means".

Recommendation No. 20

We recommend that Development Support Services open up a check account with a local bank. This will improve accounting and control over cash payments, provide a better audit trail and reduce the risk of theft.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Incomplete Personnel Records

Finding No. 21

We noted that DSS failed to maintain a complete set of personnel records for all of its personnel employed for the purpose of the USAID/Zimbabwe grain monitoring contracts. The contract requirements in respect of personnel compensation state the following: "Salaries and wages payable to Contractor's employees may not exceed the Contractor's established policy and practices". Without adequate personnel records, we were unable to determine whether the salaries paid to the Contractor's employees were in accordance with the Contractor's established policy and practices.

Personnel records are necessary to support the Contractor's personnel policies and procedures and should contain items such as letters of engagement, employee time sheets, tax status, relevant experience and qualifications. This information was not available for several of the employees of the Contractor.

Recommendation No. 21

We recommend that Development Support Services maintain a complete and up to date set of personnel records for all of its employees.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Incomplete Expense Claim Documentation

Finding No. 22

We noted that DSS had not implemented an adequate accounting and control system in respect of per diem and travel expense claims received from its employees. No audit trail was available which could satisfactorily support these expense claims as "allowable costs" for reimbursement by USAID/Zimbabwe in terms of the contracts.

Due to the absence of an adequate accounting and control system which records expenses claimed and advances and the subsequent liquidation of advances it was not possible for us to place reliance on the employee per diem and travel expense claims submitted for reimbursement to USAID/Zimbabwe.

The result of this is that unresolved discrepancies exist between the Contractor and the employees is that employees claimed expenses which they stated were never reimbursed by DSS while DSS maintain that the employees were adequately reimbursed.

Recommendation No. 22

We recommend that Development Support Services implement an accounting and control system to adequately monitor and control per diem and travel expense claims.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Price Waterhouse Meyernel
Chartered Accountants (SA)
Geskatte Rekenmeesters (SA)

Member firm of the international
Price Waterhouse

90 Rivonia Road
Sandown 2196
PO Box 783027
Sandton 2146
Johannesburg
South Africa

Rivoniaweg 90
Sandown 2196
Posbus 783027
Sandton 2146
Johannesburg
Suid-Afrika

☎ 780-2000
FAX 780-2534

Price Waterhouse Meyernel

4. COMPLIANCE WITH THE CONTRACT REFERENCED LAWS AND REGULATIONS

4.1 Independent Auditor's Report

We have audited the Fund Accountability Statements of Development Support Services under the USAID/Zimbabwe Indefinite Quantity Contract No. 613-0510-C-00-2017 for the period from October 1, 1992 to June 30, 1993 and Cost Reimbursement Contract No. 613-0510-C-00-3024 for the period from February 15, 1993 to June 30, 1993.

Except for not conducting an external quality control review by an unaffiliated audit organization (as described in our reports on the Fund Accountability Statements) we conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statements are free of material misstatement.

Compliance with the terms of the agreement and referenced laws and regulations is the responsibility of Development Support Services management. As part of obtaining reasonable assurance about whether the Fund Accountability Statements are free of material misstatement, we performed tests of Development Support Services' compliance with certain provisions of agreement terms and referenced laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements, or violations of agreement terms and referenced laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statements. The results of our tests of compliance disclosed the following material instances of non-compliance:

Senior Partner Senior Vennoot [illegible] Deputy Senior Partner Adjunk-Senior Vennoot [illegible] Managing Partner Bestuurende Vennoot [illegible]
Partner-in-charge Vennoot-in-beheer [illegible] Local Partners Plaaslike Vennote [illegible]

65

- failure to understand the contract terms and conditions and the Federal Acquisition Regulations (FAR);

- failure to maintain records to support payment of cost claims.

We considered these material instances of non-compliance in forming our opinion on whether Development Support Services Fund Accountability Statements are presented fairly, in all material respects, in conformity with the basis of accounting described in Section 2.2.3 to the Fund Accountability Statements. In our opinion this report does affect our report on the Fund Accountability Statements dated September 17, 1993.

Except as described above, the results of our tests of non-compliance indicate that, with respect to the items tested, Development Support Services complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Development Support Services had not complied, in all material respects with those provisions.

This report is intended for the information of Development Support Services and the US Agency for International Development. However, this restriction is not intended to limit the distribution of the report, if a matter of public record.

Price Waterhouse Bermuda

September 17, 1993

4.2 Introduction

USAID requires all grantees regardless of the country or legal entity to comply with the terms and conditions included in the contract, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by mission or by AID/Washington.

Steps performed in this audit to test compliance with the agreement and related provisions included:

- a review of contract provisions and related regulations to identify those provisions and regulations which could have a material affect on the financial statements;

- audit procedures including detailed testing to evaluate compliance with these provisions and regulations.

4.3 Findings and Recommendations

<u>Failure to Understand the Contract Terms and Conditions and the Federal Acquisition Regulations (FAR)</u>

Finding No. 23

The primary reason for the large amount of ineligible and unsupported costs reflected in the Fund Accountability Statements can be ascribed to an inadequate understanding by DSS of the terms and conditions of the contracts and the associated USAID contracting rules.

The terms and conditions of both of the contracts state that in order for costs to be reimbursable by USAID/Zimbabwe "costs allowable under the contract shall be limited to reasonable, allocable and necessary costs".

DSS in particular failed to adhere to the terms and conditions of the contracts with regard to the claiming of costs for reimbursement from USAID/Zimbabwe. This resulted in a significant amount (US$106,689) of questioned costs being

reported in the Fund Accountability Statements. Without adequate documentation supporting the costs such as a complete set of time sheets, mileage logs and expense claims, we were unable to determine whether the costs were reasonable, allocable and allowable for reimbursement.

Recommendation No. 23

We recommend that Development Support Services familiarize themselves with the terms and conditions of the contracts and fully understand the USAID contracting rules and regulations before submitting claims for reimbursement.

Mission Comments

Mr Chinhori , formerly worked for USAID as a PSC and as a manager of a USAID funded contract in Zimbabwe. His understanding and background of USAID accounting requirements should have been sound. It is clear from this audit that Development Support Services did not utilize any form of accounting system nor were they concerned about accountability for contract resources.

Auditee Comments

No comments were received from the auditee on this finding.

Claiming Reimbursable Costs which had not yet been Paid

Finding No. 24

Contrary to the terms and conditions of the contract, DSS claimed costs for reimbursement from USAID/Zimbabwe which had not yet actually been paid by DSS to the vendor of the goods or services.

The Federal Acquisition Regulations (52.216-7) state the following: "the terms cost includes only those costs that at the time of reimbursement the Contractor has paid in cash check or other form of actual payment".

The IQC and Cost Reimbursement contracts are both subject to the Federal Acquisition Regulations which require the Contractor to have made payment or that payment will be made in the "ordinary course of business" before the costs can be reimbursed by USAID/Zimbabwe. The "ordinary course of business" is defined in the Prompt Payment Act as within 30 days after receipt of payment from USAID for such costs. As noted in our findings on the Fund Accountability Statements, DSS had submitted claims for reimbursement in February, March and April 1993 which had not been paid by June 30, 1993.

Recommendation No. 24

We recommend that Development Support Services not claim costs for reimbursement from USAID/Zimbabwe unless those costs have been paid or will be paid in the ordinary course of business.

Mission Comments

Our review of Development Support Services claims led us to find that the claim was not substantiated as the costs invoiced had not yet been paid.

Auditee Comments

No comments were received from the auditee on this finding.

Failure to Maintain Records to Support Payment of Cost Claims

Finding No. 25

We noted that in many instances DSS failed to maintain adequate records and documentation to support payments made to vendors of goods or services. As a result it was not possible for us to determine whether payment had been made.

In order for a cost to be allowable for reimbursement under the terms and conditions of the contracts the contract requires the Contractor to be able to

provide supporting documentary evidence such as receipts to prove that payment was made to vendors of goods or services.

Recommendation No. 25

We recommend that Development Support Services maintain adequate documentary evidence in support of payment and endeavour to provide proof of payment to USAID/Zimbabwe in respect of the questioned costs.

Mission Comments

Development Support Services did not utilize any form of accounting system nor were they concerned about accountability for contract resources.

Auditee Comments

No comments were received from the auditee for this finding.

Contract Employees

Finding No. 26

We noted that under the IQC the Contractor failed to make use of the persons identified in their proposal submitted to USAID/Zimbabwe. Of the twelve people identified in all the labor categories in their proposal, DSS only made use of one person.

The IQC contract states that the Contractor shall make "a reasonable effort to have persons identified in the contract available to USAID/Zimbabwe for performance under the delivery orders".

It is evident that DSS did not succeed in making the identified persons available for performance under the delivery orders.

Recommendation No. 26

We recommend that Development Support Services ensure that it makes a more reasonable effort to ensure that persons identified for its contract with USAID/Zimbabwe are available for performance under the delivery orders.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

Failure to Submit Biodata Sheets and Personnel Policies on Time

Finding No. 27

We noted that DSS initially failed to submit to USAID/Zimbabwe biodata sheets on its employees and its personnel policies as was required by the IQC. The contract was signed in February 1992 - the first Delivery Order was issued in September 1992 but DSS only provided USAID/Zimbabwe with biodata sheets and its personnel policy in late December 1992. This was after numerous written requests from the USAID/Zimbabwe Executive Officer.

We could not obtain evidence that DSS had submitted to USAID/Zimbabwe biodata sheets for four of its employees under IQC and for four of its employees under the Cost Reimbursement Contract.

In addition, in most cases where biodata sheets were submitted, they were found to be incomplete and none of them had been signed by the Contractor. The proposed salary and position under the contract of the Contractor's employees were also not indicated on the biodata sheet.

We were unable to determine whether the proposed salary payable to the

Contractor's employees was in line with the Contractor's personnel policy and practices.

Recommendation No. 27

Development Support Services should learn the rules pertaining to Biodata Sheets and apply them on a timely basis on any future USAID work orders.

Mission Comments

No comments were received from the Mission on this finding.

Auditee Comments

No comments were received from the auditee on this finding.

EXHIBIT 1

LIST OF REPORT RECOMMENDATIONS

Number	Recommendation
1	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unsupported salary costs of Z$ 89,152 (US$ 15,920).
2	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed in excess of the authorized rates of Z$601 (US$107) under the IQC and Z$5,923 (US$945) under the Cost Reimbursement Contract.
3	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the duplicate per diems claimed of Z$1,291 (US$230) under the IQC and Z$1,521 (US$243) under the Cost Reimbursement Contract.
4.1	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed which were not supported by adequate documentation of Z$16,530 (US$2,952) under the IQC and Z$51,028 (US$8,135) under the Cost Reimbursement Contract.
4.2	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed for which there was no evidence of payment made of Z$14,837 (US$2,648) under the IQC and Z$9,080 (US$1,447) under the Cost Reimbursement Contract.
4.3	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed which have not yet been paid of Z$26,226 (US$4,183) under the Cost Reimbursement Contract.
5	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the per diems claimed and reimbursed in respect of administrative staff employed of Z$88 (US$14) under the Cost Reimbursement Contract.
6	We recommend that the Mission determine the allowability and recover as appropriate the costs from Development Support Services of the per diems claimed and reimbursed where the number of days spent in the field by the employees could not be supported of Z$4,091 (US$730) under the Cost Reimbursement Contract.

Number	Recommendation
7	We recommend that the Mission continue to withhold the reimbursement of Z$1,877 (US$299) in respect of unsupported per diem claims until Development Support Services is able to provide adequate supporting documentation.
8	We recommend that the Mission continue to withhold reimbursement of Z$293,970 (US$46,687) until Development Support Services is able to provide evidence that it has paid its employees the money.
9	We recommend that Development Support Services not submit claims to USAID/Zimbabwe for salary costs of employees under more than one labor category.
10	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the transportation costs claimed in excess of budget of Z$13,081 (US$2,336).
11	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unpaid transportation costs of Z$4,782 (US$854) under the IQC. We further recommend that the Mission continue to withhold reimbursement of Z$73,740 (US$11,756) under the Cost Reimbursement Contract until Development Support Services is able to provide evidence that it has paid the car rental company.
12	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unsupported fuel cost claims of Z$1,854 (US$296) under the Cost Reimbursement Contract.
13	We recommend that the Mission continue to disallow interest costs of Z$2,526 (US$402) claimed for reimbursement by Development Support Services under the Cost Reimbursement Contract.
14	We recommend that the Mission continue to disallow the motor vehicle damage costs of Z$789 (US$126) claimed for reimbursement by Development Support Services under the Cost Reimbursement Contract.
15	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the unsupported rental cost claim of Z$554 (US$88) under the Cost Reimbursement Contract.
16	We recommend that the Mission determine the allowability and recover as appropriate from Development Support Services the proportion of the fixed fee of Z$38,300 (US$6,106) that relates to the questioned costs under the Cost Reimbursement Contract.

Number	Recommendation
17	We recommend that Development Support Services implement an adequate accounting and control system to ensure that transactions are executed in accordance with the terms and conditions of the contract.
18	We recommend that Development Support Services maintain adequate documentation to support all per diem claims submitted to USAID/Zimbabwe for reimbursement.
19	We recommend that time sheets be prepared by the Contractor and the employees of the Contractor in order to substantiate all salary claims of days spent on performance under the contracts. The time sheets should be signed by the employees and by management to indicate review and approval thereof.
20	We recommend that Development Support Services open up a check account with a local bank. This will improve accounting and control over cash payments, provide a better audit trail and reduce the risk of theft.
21	We recommend that Development Support Services maintain a complete and up to date set of personnel records for all of its employees.
22	We recommend that Development Support Services implement an accounting and control system to adequately monitor and control per diem and travel expense claims.
23	We recommend that Development Support Services familiarize themselves with the terms and conditions of the contracts and fully understand the USAID contracting rules and regulations before submitting claims for reimbursement.
24	We recommend that Development Support Services not claim costs for reimbursement from USAID/Zimbabwe unless those costs have been paid or will be paid in the ordinary course of business.
25	We recommend that Development Support Services maintain adequate documentary evidence in support of payment and endeavour to provide proof of payment to USAID/Zimbabwe in respect of the questioned costs.
26	We recommend that Development Support Services ensure that it makes a more reasonable effort to ensure that persons identified for its contract with USAID/Zimbabwe are available for performance under the delivery orders.
27	Development Support Services should learn the rules pertaining to Biodata Sheets and apply them on a timely basis on any future USAID work orders.

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 2

INDEFINITE QUANTITY CONTRACT UNSUPPORTED SALARY COST

Labor Category	Employee	Days Ordered	Days Supported	Days Unsupported	Unsupported Cost Z$	Unsupported Cost US$
Senior Level Consultant	A. Chinhori	60	0	60	60,480	10,800
Junior Level Consultant	M. Mambo	33	33	0	0	0
Enumerators	B. Mudzinganyama	0	20	(20)*	(8,960)	(1,600)
	P.Magenga	50	51	(1)*	(448)	(80)
	S. Hawadi	50	50	0	0	0
	G. Faruwinga	50	44	6	2,688	480
	M. Makombe	50	45	5	2,240	400
	S. Chidara	50	28	22	9,856	1,760
	G. Chawanda	50	35	15	6,720	1,200
	G. Gotora	50	34	16	7,168	1,280
	B. Mudzinganyama	50	29	21	9,408	1,680
		400	336	64	28,672	5,120
				TOTAL	89,152	15,920

* These additional days worked by enumerators were offset against the unsupported days of other enumerators. (refer 2.3.1)

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 3

INDEFINITE QUANTITY CONTRACT INELIGIBLE PER DIEM

Date	Hotel	Actual Number of Man Days	Actual Cost Accomodation	Actual Cost Subsistence	Allowable Cost Accomodation	Allowable Cost Subsistence	Ineligible Cost In Excess of Daily Rate	Ineligible Cost Duplicate Claim
			Z$	Z$	Z$	Z$	Z$	Z$
18-Oct-92	Flamboyant Hotel	5	975	122	700	122	275	
27-Oct-92	Kadoma Ranch Hotel	1	198	0	140		58	
28-Oct-92	Orange Grove Motel	1	202	0	140		62	
03-Nov-92	Karoi Hotel	9	867	743	1,260	540	203	
01-Dec-92	Kadoma Ranch Hotel	0	0	350	0			350
01-Dec-92	Kadoma Ranch Hotel	0	0	941	0			941
14-Dec-93	Karoi Hotel	19	1,469	1,143	2,660	1,140	3	
						TOTAL Z$	601 (refer 2.3.1)	1,291 (refer 2.3.1)
						TOTAL US$	107	230

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 4

INDEFINITE QUANTITY CONTRACT UNSUPPORTED SUBSISTENCE CLAIMS

Claimed By Development Support Services	Z$	
October 1992	5,820	
November 1992	10,920	
December 1992	10,440	
Total Net Claim	27,180	(A)

Description	Number of Man Days Supported	Actual Cost Subsistence Z$	Allowable Cost Subsistence Z$	
Employee Supported Claims:				
Masvingo	5	275	275	
Zwimba/Makonde	4	0	0	
Masvingo	45	1,612	1,612	
Chiredzi	25	680	680	
Masvingo	36	985	985	
Kadoma/Chegutu	9	283	283	
Mashonaland West	18	568	568	
Gutu	9	300	300	
DSS Supported Claims:				
Flamboyant Hotel	5	122	122	
Orange Grove Motel	1	15	15	
Kadoma Ranch Hotel	9	398	398	
Karoi Hotel	9	743	540	
Orange Grove Hotel	25	962	962	
T P Rukawo	11	781	660	
T P Rukawo	12	264	264	
T P Rukawo	13	511	511	
T P Rukawo	13	530	530	
Madondo	20	805	805	
Karoi Hotel	19	1,143	1,140	
TOTAL SUPPORTED	288	10,977	10,650	(B)

		Z$	
TOTAL UNSUPPORTED Z$	(A – B)	16,530	(Refer2.3.1)
TOTAL UNSUPPORTED US$		2,952	

-19

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 5

INDEFINITE QUANTITY CONTRACT UNSUPPORTED PER DIEM CLAIMS

Date	Hotel	Actual Cost	Allowable Cost	Unsupported Cost	
				Unable to Support Payment	Unable to Support Number Of Days
		Z$	Z$	Z$	Z$
19-Oct-92	Nyamhando Investments	327	327		327
20-Oct-92	Nyamhando Investments	279	279		279
28-Oct-92	Orange Grove Motel	90	90	90	
02-Nov-92	Orange Grove Motel	1563	1563	1563	
03-Nov-92	Karoi Hotel	1,610	1,407	1,407	
05-Nov-92	Mbongowa Hotel	490	490	490	
09-Nov-92	T.P Rukawo Hotel	2,072	2,072	2,072	
10-Nov-92	T.P Rukawo Hotel	2,091	2,091	2,091	
11-Nov-92	T.P Rukawo Hotel	2,102	2,102	2,102	
11-Nov-92	Orange Grove Motel	198	198	198	
12-Nov-92	T.P Rukawo Hotel	264	264	264	
16-Nov-92	Madeira Fish & Chips	72	72		72
21-Nov-92	Madeira Fish & Chips	700	700	700	
01-Dec-92	Kadoma Ranch	1340	1340	1340	
22-Dec-92	Rainbow Country Hotel	1,154	1,154		1,154
06-Dec-93	Kwane Enterprises	2,259	2,259		2,259
18-Dec-93	Madando Travel	2,520	2,520	2,520	
	TOTAL Z$			14,837 (refer 2.3.1)	4,091 (refer 2.3.1)
	TOTAL US$			2,648	730

INDEFINITE QUANTITY CONTRACT INELIGIBLE TRANSPORT

Date	Vendor	Rental Agreement Number	Unpaid as at 30 June 1993 Z$	
12-Nov-92	Royal Car Hire	Various	4,782	
		TOTAL Z$	4,782	(refer 2.2.5)
		TOTAL US$	854	

COST REIMBURSEMENT CONTRACT INELIGIBLE TRANSPORT

Date	Vendor	Rental Agreement Number	Unpaid as at 30 June 1993 Z$	
18-Mar-93	National Car Hire	A00452	34,271	
29-Mar-93	National Car Hire	A00647	2,904	
20-Apr-93	National Car Hire	A00676	2,750	
26-Apr-93	National Car Hire	A00683	514	
28-Apr-93	National Car Hire	A00193	10,216	
05-May-93	National Car Hire	A00210	2,655	
06-May-93	National Car Hire	A00211	1,035	
10-May-93	National Car Hire	A00214	3,360	
10-May-93	National Car Hire	A00462	9,765	
10-May-93	National Car Hire	A00214	364	
17-May-93	National Car Hire	A00449	3,803	
17-May-93	National Car Hire	A00229	2,103	
		TOTAL Z$	73,740	(refer 2.3.2)
		TOTAL US$	11,756	

EXHIBIT 7

DEVELOPMENT SUPPORT SERVICES

COST REIMBURSEMENT CONTRACT INELIGIBLE SALARY COST

Labor Category	Employee	Salary Per Contract US$	Salary Claimed Z$	Salary Paid Z$	Ineligible Cost Z$
Senior Level Consultant	A. Chinhori	4,800	30,107	0	30,107
Middle Level Consultant	M. Mambo	2,800	17,562	6,680	10,882
Junior Level Consultant	P. Magenga	3,990	25,026	3,946	21,080
	S. Hawadi	3,990	25,026	5,050	19,976
	T. Mhlanga	3,990	25,026	5,250	19,776
Enumerators	P. Makuyana	2,940	18,441	3,800	14,641
	K. Ndebele	2,940	18,441	2,000	16,441
	B. Mudzinganyama	2,940	18,441	3,240	15,201
	V. Ngwenya	2,940	18,441	2,000	16,441
	C. Mhlope	2,940	18,441	2,300	16,141
	G. Gotora	2,940	18,441	4,800	13,641
	M. Dhlandlara	2,940	18,441	4,800	13,641
	T. Gona	2,940	18,441	4,800	13,641
	R. Masaya	2,940	18,441	4,800	13,641
	G. Nyamukondiwa	2,940	18,441	4,800	13,641
	M. Matanda	2,940	18,441	4,800	13,641
	V. Mutsau	2,940	18,441	2,043	16,398
Data Processors	S. Meda	1,344	8,430	1,420	7,010
	O. Chirikeni	1,344	8,430	400	8,030
	TOTAL	57,538	360,899	66,929	293,970

(refer 2.3.2)

DEVELOPMENT SUPPORT SERVICES

COST REIMBURSEMENT CONTRACT INELIGIBLE PER DIEM

EXHIBIT 8

Date	Hotel	Actual Number of Man Days	Actual Cost Accomodation	Actual Cost Subsistence	Allowable Cost Accomodation	Allowable Cost Subsistence	Ineligible Cost: In Excess of Daily Rate	Ineligible Cost: Payment Not Yet Made	Ineligible Cost: Duplicate Claim
			Z$	Z$	Z$	Z$	Z$	Z$	Z$
02-Mar-93	Holiday Inn Bulawayo	6	1,076	456	840	360	330		
03-Mar-93	Holiday Inn Bulawayo	4	985	208	560	208	425		
08-Mar-93	Karoi Hotel	6	633	634	633	360	274		
09-Mar-93	Christmas Pass Hotel	10	1,500	906	1,400	600	406		
11-Mar-93	Holiday Inn Bulawayo	8	1,432	734	1,120	480	566	1,600	
16-Mar-93	Zimbabwe Sun	25	3,570	0	3,500	0	70	3,500	
22-Mar-93	Christmas Pass Hotel	5	322	0	300	0	22		
23-Mar-93	Chimaimani Hotel	5	790	413	700	300	203		
31-Mar-93	Kadoma Ranch Motel	5	1,150	136	700	136	447		
31-Mar-93	Kadoma Ranch Motel								90
01-Apr-93	Rufaro Hotel	1	340	0	340	0		340	
02-Apr-93	Kadoma Ranch Motel								160
20-Apr-93	TP Rukawo								1,271
21-Apr-93	TP Rukawo	5	650	300	650	300		950	
21-Apr-93	TP TP Rukawo	5	650	274	650	274		924	
21-Apr-93	Nyamhando Investments	5	900	0	700	0	200		
22-Apr-93	TP Rukawo	5	650	271	650	271		921	
26-Apr-93	TP Rukawo	9	1,170	360	1,170	360		1,530	
27-Apr-93	TP Rukawo	9	1,170	360	1,170	360		1,530	
29-Apr-93	Golden Mile Hotel	2	361	123	260	120	84		
04-May-93	Crocodile Hotel	34	3,526	1,690	3,526	1,690		5,216	
06-May-93	Hotel Rio	1	145	92	140	60	37	20	
12-May-93	Peter's Motel	10	722	856	722	600	256	1,322	
13-May-93	Zimbabwe Sun	5	902	357	700	300	259	1,000	
14-May-93	Hwange Lodge	12	3,352	449	1,680	449	1,672	2,129	
16-May-93	JM Mondaba	5	545	128	545	128		673	
18-May-93	Zimbabwe Sun	10	1,627	948	1,400	600	575	2,000	
21-May-93	Nyazura	5	752	300	700	300	52	1,000	
22-May-93	TP Rukawo	4	360	49	360	49		409	
27-May-93	Caves Motel	6	802	405	802	360	45	1,162	
						TOTAL Z$	5,923 (refer 2.3.2)	26,226 (refer 2.3.2)	1,521 (refer 2.3.2)
						TOTAL US$	945	4,183	243

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 9

COST REIMBURSEMENT CONTRACT UNSUPPORTED SUBSISTENCE CLAIMS

CLAIMED BY DEVELOPMENT SUPPORT SERVICES	Z$
February/ March 1993	22,800
April 1993	18,900
May 1993	18,900
TOTAL CLAIM	60,600

SUPPORTED BY DEVELOPMENT SERVICES	
Subsistence costs supported by hotel invoices	9,572
TOTAL SUPPORTED SUBSISTENCE	9,572

	Z$	
TOTAL CLAIMED	60,600	
TOTAL SUPPORTED	9,572	
TOTAL UNSUPPORTED Z$	51,028	(refer 2.3.2)
TOTAL UNSUPPORTED US$	8,135	

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 10

COST REIMBURSEMENT CONTRACT UNSUPPORTED PER DIEM CLAIMS

Date	Hotel	Actual Cost	Allowable Cost	Unsupported Cost: Unable to Support Payment	Unsupported Cost: Unable to Support Claim
		Z$	Z$	Z$	Z$
08-Mar-93	Christmas Pass Motel	2,406	2,000	2,000	
09-Mar-93	Karoi Hotel	1,267	993	993	
15-Mar-93	JM Mancaba	149	149		149
15-Mar-93	Zimbabwe Restaurant	13	13		13
16-Mar-93	Belingwe Rural Council	35	35		35
17-Mar-93	Wimpy	15	15		15
17-Mar-93	Siyabalandela Store	15	15		15
18-Mar-93	Lyons Super Chef	15	15		15
18-Mar-93	Lupane Supermarket	31	31		31
18-Mar-93	Triangle Country Club	83	83		83
18-Mar-93	ADA Hotel	48	48	48	
18-Mar-93	Triangle Hotel	502	502	502	
18-Mar-93	M M K. Butchery	10	10		10
19-Mar-93	Eland Grey Hotel	640	640	640	
19-Mar-93	Triangle Country Club	63	63		63
19-Mar-93	Tivoli Restaurant	22	22		22
19-Mar-93	Kimberly Reef Hotel	64	64		64
19-Mar-93	Steak House	18	18		18
22-Mar-93	Christmas Pass Hotel	322	300	300	
22-Mar-93	Maphosa Booksellers	15	15		15
22-Mar-93	Maphosa Booksellers	120	120		120
23-Mar-93	Zama..Dry Canteen	20	20		20
23-Mar-93	Maphosa Booksellers	150	150		150
23-Mar-93	National Trust	110	110		110
23-Mar-93	Chimaimani Hotel	1,203	1,000	1,000	
23-Mar-93	Zama..Dry Canteen	7	7		7
23-Mar-93	Zimplant	12	12		12
23-Mar-93	Maphosa Booksellers	15	15		15
24-Mar-93	Nyamhondo Invest	625	625		625
24-Mar-93	Lupane Supermarket	22	22		22
25-Mar-93	Zororo Hotel	133	133		133
25-Mar-93	Howard & Lees	14	14		14
25-Mar-93	Mama Hotel	35	35		35
26-Mar-93	Lupane Supermarket	36	36		36
29-Mar-93	Wimpy	30	30		30
29-Mar-93	Marondera Hotel	709	709	709	
29-Mar-93	Gurwe Hotel	754	754	754	
31-Mar-93	Kadoma Ranch	1283	836	836	
01-Apr-93	Eland Grey Hotel	160	160	160	
01-Apr-93	Marondera Hotel	568	568	568	
05-Apr-93	Eland Grey Hotel	160	160	160	
05-Apr-93	Eland Grey Hotel	160	160	160	
06-Apr-93	Tandabantu Hotel	100	100	100	
20-Apr-93	Tandabantu Hotel	150	150	150	
			TOTAL Z$	9,080	1,877
				(refer 2.3.2)	(refer 2.3.2)
			TOTAL US$	1,447	299

DEVELOPMENT SUPPORT SERVICES

EXHIBIT 11

COST REIMBURSEMENT CONTRACT UNSUPPORTED TRAVEL COSTS

Date	Supplier	Vehicle registration	Unsupported Cost Not supported by Mileage Logs Z$
13-Mar-93	Lyndale Service Station	467-540N	79
16-Mar-93	Ranch Service Station	527-236G	103
16-Mar-93	Ranch Service Station	527-236G	80
17-Mar-93	Ranch Service Station	527-236G	115
18-Mar-93	Zhombe Mission	527-236G	30
19-Mar-93	Buchwa C. Garage	527-236G	30
19-Mar-93	Trevlaw Motors	527-236G	70
20-Mar-93	Ranch Service Station	527-236G	114
22-Mar-93	Sunridge Service Station	527-236G	20
23-Mar-93	Enterprise Road Serv. Station	527-236G	15
23-Mar-93	Chisipite Service Station	527-236G	50
24-Mar-93	Enterprise Road Serv. Station	527-236G	60
26-Mar-93	Peacock Road Serv. Station	527-236G	50
06-Apr-93	Club Service Station	545-631B	20
06-Apr-93	Second Street Service Station	545-631B	80
07-Apr-93	Chirhayi Service Station	545-631B	30
07-Apr-93	P. S. Station	466-341R	30
07-Apr-93	Warren Park Service Station	545-631B	20
07-Apr-93	Narimba Service Station	545-631B	40
07-Apr-93	Warren Park Service Station	545-631B	15
08-Apr-93	(no name on invoice)	545-631B	110
13-Apr-93	P. S. Station	545-631B	100
14-Apr-93	National Car Hire	545-631B	555
16-Apr-93	Ivichemeke Service Station	545-631B	30
16-Apr-93	Acme Service Station	466-341R	10
	TOTAL Z$		1,854
	TOTAL US$		296

(refer 2.3.2)

APPENDIX I

MISSION COMMENTS

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO ZIMBABWE

INTERNATIONAL MAIL
1 Pascoe Avenue
P.O. Box 6988
Harare, Zimbabwe

UNITED STATES MAIL
Agency for International Development
Harare (ID)
Washington DC 20521-2180
U.S.A.

November 19, 1993

Doug Franke
Client Service Partner
Price Waterhouse Meyernel
90 Rivonia Road
Sandown 2196
R.S.A.

Subject: **Agency-Contracted audit of Development Support Services Contract No. 613-0510-C-00-3024 and IQC No. 613-0510-C-00-2017 dated September 17, 1993**

Dear Mr. Franke:

Mission appreciates the thoroughness and responsiveness of Price Waterhouse in performing the subject audit. They have audited those expenditures which the Mission had identified as "potential problems" and substantiated our concerns regarding the allowability of certain costs. This was not an easy audit, but Price Waterhouse has audited almost 100% of claimed expenditures and given the auditee many opportunities to provide the required supporting documentation, exhibiting a high level of patience and tenacity in trying to finish the audit in a constructive, professional manner. We commend them on a job well done.

Following are our Mission comments.

Salaries:

Salaries claimed and paid must be supported by timesheets reflecting actual hours worked by all employees. Payment advice slips were located to support time charges for most employees, excluding Mr. Chinhori. As Mr. Chinhori is a working director of DSS, time sheets are critical to substantiate actual charges to this contract versus supervision versus administration versus overhead. It appears that DSS has charged the number of days ordered as opposed to days worked in most cases. This is not acceptable as DSS is responsible for ensuring documentation is maintained to support all contract charges.

Phones 720630 720739 720757
Country Code 263, City Code 4
Telex No. 24428 ZW
Fax No. 722418

Junior Level Consultant:

Charges for B. Mudzinganyama and M. Mambo exceed authorized days. The total amount is correctly classified by the auditors as unsupported.

Per Diem:

Mission attempted many times to obtain DSS's personnel policy. When a copy of the "policy" was received, it was clear that it was written in response to USAID's request. The "policy" was rejected and DSS was requested to provide a copy of its standard personnel package which was applicable to all employees and all work performed by DSS.

After negotiations and discussions, per diem rates for DSS were established. Based upon the audit findings, it appears that these policies were not always followed.

The audit also found that DSS did not always reimburse its employees and staff for per diem costs which they incurred. In numerous examples, the auditors found "paid" hotel bills submitted by staff, but for which DSS had not reimbursed the traveler. These costs are properly classified as unsupported as DSS has not incurred the expense. That is, the traveler incurred the hotel cost, paid the hotel from his own resources, but was not reimbursed for these expenses by DSS.

DSS was provided numerous opportunities to support expenditure claims, including the Price Waterhouse auditor returning to DSS after the audit de-briefing with Mr. Chinhori. At that time, DSS was still unable to substantiate the unsupported per diem costs.

USAID will sign a follow-on contract with Price Waterhouse under our IQC to review any further documentation which DSS wishes to provide. We are not optimistic that this will lead to any further resolution of the unsupported costs.

Transportation:

The vehicle suppliers have contacted USAID on numerous occasions, both during the contract period and afterwards, to complain that DSS had not paid them for services rendered. In fact, prior to our discussions with the suppliers, we had requested DSS to provide USAID with evidence that the car rental company had been paid as the supporting documentation submitted with the DSS claims did not always reflect such. We therefore have difficulty in understanding why these charges have not been paid nor why a contract amendment was not sought at the time expenses incurred exceeded the budget.

Mr. Chinhori, formerly worked for USAID as a PSC and as a manager of a USAID funded contract in Zimbabwe. His understanding and background of USAID accountability requirements should have been sound. It is clear from this audit that DSS did not utilize any form of accounting system nor were they concerned about accountability for contract resources. No financial systems were in place to track expenditures nor ensure suppliers and employees were paid.

All payments made to date to DSS comply with Prompt Payment Guidelines. DSS had submitted another invoice in May, 1993. This was not paid given USAID's concerns regarding DSS's accountability. Both suppliers and employees of DSS had contacted USAID regarding non-payment of invoices, salaries, per diems, etc. Our review of DSS's claim therefore led us to find that the claim was not substantiated as the costs invoiced had not been paid by DSS.

In summary, the award of an IQC to DSS should not have been made until a pre-award survey had been done. Such a survey would have identified the weaknesses of DSS prior to any contract award. USAID did move DSS to a cost-reimbursement contract following the identification of our concerns under the IQC. It is clear though that DSS still did not take the financial and managerial responsibilities seriously given the even higher level of unsupported and ineligible expenses identified by the audit.

The Mission has implemented a policy of performing a pre-award survey for all contracts in excess of $25,000 with new firms contracted by AID unless the contract is fixed price. All the new IQC firms selected must demonstrate their financial viability and undergo a pre-award survey prior to award of an IQC.

Mission appreciates Price Waterhouse's assistance in this audit. Clearly the audit findings demonstrated weaknesses in our own contracting system which USAID has taken steps to rectify. USAID did identify the need for an audit of these two contracts, and therefore has minimized to a large extent the financial vulnerability of the U.S. Government at an early stage.

	IQC	Cost Reimb.
Total paid to DSS	70,390	33,625
Accepted Costs	44,608	35,657
Over (Under) Payments	25,782	(2,032)
Total Expenditures reported by DSS	**70,390**	**116,564**

We have also attached the response from Development Support Services for your use in finalizing the subject report.

Thank you for all your work in performing the subject audit. If you do have any questions, please do not hesitate to contact me.

Sincerely,

Ted D. Morse
Director

APPENDIX 2

DEVELOPMENT SUPPORT SERVICES COMMENTS

DEVELOPMENT SUPPORT SERVICES (PVT) LTD

(Consulting Economists & Planners)

Tel. 263-4-729502
708121/2138

Box 4605
Harare
Zimbabwe

Fax 263-4-702006
Telex: 26535 ZW

FAX MESSAGE

RECEIVED
NOV 12 1993
USAID/HARARE

Date: 10/11/93

Time:

To:

Attention:

Message:

DATE		
	ACTION	INFO
DIR		
SD		
~~PSM~~		
CONT		
GDO		
PDIS		
EXO		
LB		
CHRON		
RF		
DUE DATE	11-18-93	
ACTION TAKEN		
INITIALS/DATE		

Dear Mr Lewellen;
(CONTROLLER/USAID.)

RE: DSS COMMENTS ON AUDIT REPORT.

PLEASE FIND HEREWITH OUR SUBJECT REPORT.

MANY THANKS.

ACCDON CHINHORI.

I QUESTIONED COSTS : IQC : OCTOBER - DECEMBER 1992
(Section 2.2.5)

A) SALARIES : (Exhibit 2)

1) Senior Level Consultant (A Chinhori)

The extra ordinary item on this account is the salary related to the Senior Level Consultant (Accdon Chinhori) Z$60 480, for the 60 days allowed in the contract. This full amount is being rejected by USAID for lack of timesheets. It should be noted that for the whole IQC, the issue of timesheets was never implemented for all categories of staff.

For both the two contracts, Mr Chinhori was employed in the role of team leader, which involved both management and participation in project work. Of the total 60 days ordered in the IQC, the first ten (10) days were devoted to preparatory work, methodology design, selection and training of enumerators, introductions to and meetings with government's national provincial and district project officers. Mr Chinhori spent these ten days on this project work.

During weeks 3 and 4, Mr Chinhori led the entire team of enumerators in the Masvingo Province, where work was with the Provincial Social Welfare Office, and the eight districts in the province. Mrs Murungu of the Masvingo PSWO can confirm this. Similarly weeks 5 and 6 was devoted to work and introductions in Mashonaland West Province, and Mr Chinhori accompanied the team to this province. Ms Chizarura of DSW can confirm this participation, since she was the provincial SWO responsible to accompany DSS personnel.

During week 7 through week 12, the DSS survey group was divided into two teams, going to the respective provinces of Masvingo and Mashonaland West.

One team was being led by Mr Chinhori and the other by the Junior Level Consultant. Again the enumerators can confirm this. For instance, in week 9, Mr Chinhori spent that time in the Karoi and Kariba districts of Mashonaland West Province, following some disturbing reports about food distribution in the Kariba district. It was this time when the DSS team, led by Mr Chinhori, had the opportunity to meet with the DSW/USAID team, which comprised of:

Mr R Mudzidzwa - The National Transport Co-ordinator, DSW
Mr Yusuf - The Drought Relief Advisor, DSW
Mr C Chihera - USAID, of the GDO

and other Provincial Officers, to verify the food distribution system.

Similarly, Mr Chinhori went back to Masvingo Province, for Mwenezi and Chibi districts specifically, during week 11 to verify other reported news on food distribution.

During the IQC period, the contract required that weekly reports be prepared and submitted to both USAID and DSW. This was done by DSS, and the GDO of USAID can confirm this. Within DSS, it was the responsibility of both the Junior Level Consultant and Mr Chinhori had the added responsibility of submitting and discussing these weekly reports with both DSW national office and the GDO/FA of USAID.

This was indeed done on every week during the IQC. Both Ms C Tobaiwa of DSW head office and the then GDO/FA at USAID, Dr Eric Witt can confirm this arrangement.

With this background, Mr Chinhori spent most of the 60 days ordered, if not all, on project work, rather than administration, DSS would therefore, request that USAID reconsider this issue to at least compensate Mr Chinhori's active participation in the monitoring of food distribution during the IQC period. Although timesheets were not prepared, Mr Chinhori actively participated in the project to ensure its success.

Actually, without his participation and direction, the entire exercise would not have been possible. Another point to note is that the nature of the monitoring exercise of food was hectic, involving action rather than desk work. DSS would provide that about ten (10%) percent of the 60 days ordered for Mr Chinhori was devoted to administrative duties, with the rest being project work.

2) Junior Level Consultant

According to the delivery order 1 of the IQC, this post was allowed a total of 33 days. However, DSS experienced problems in filling up this position, given the staff change identified in the IQC. The initial person identified could not take it up, because he was now employed elsewhere. DSS replaced this post with yet another person, whose performance was later questionable, and therefore, had to be replaced. Finally an appropriate candidate was found, Mr Bernard Mudzinganyama. However, he later resigned to take up a new post and was therefore, replace by Mr M Mambo. The audit report lists Mr Bernard Mudzinganyama as another enumerator. The IQC only allowed 8 not 9 enumerators. The days ordered for both Mambo and Mudzinganyama should not exceed 33. The auditors should therefore rectify this.

3) Enumerators

As indicated above, 8 enumerators were required in the IQC, with each allowed 50 days participation. There was no way Mr Magenga could work 5 days. Except for a few days when some enumerators went off sick, DSS fails to understand why Messrs Chidora, Chawanda, Gatora and Basil Mudzinganyama (exhibit 2) have such a big shortfall. The auditors need to re-verify this with these enumerators.

B) PER DIEM

During the IQC, the issue of per diem policy of DSS was never resolved with USAID. It was only in January 1993 after the end of the IQC, that a rate of $140 accommodtion and $60 food was made. However, given the higher costs of accommodation in most hotels in Zimbabwe, the figure of $140 became unrealistic. The excess claim of Z$601 in exhibit 3, is therefore, mainly attributed to higher accommodation costs, which was a factor beyond DSS's control. The duplicate claim $1 291 is an oversight.

Most hotel vendors listed in exhibit 5 are either small country hotels or do not keep adequate accounting receipts. DSS has re-visited most of them to re-confirm amounts outstanding, if any. Most of them have been paid, as given by the attached letters from them.

The country hotels such as Mtongerwa, Nyamhando, Madeira, Kwane, Madondo and Rainbow were paid cash by the team leaders, from the petty cash given to them by DSS. For these hotels, the auditors can re-verify this with Mr P Magenga or M Mambo, the two leaders who were responsible for making these payments on behalf of DSS.

Exhibit 4 is rather misleading since the figure A $27 180 is the actual cost DSS incurred with the hotels on subsistence. Since the food allowance of $60 had not yet been finalised, the DSS personnel as far as possible, booked for both food and accommodation in most hotels.

The item "unable to support number of days" in Exhibit 5, covers the following:

a) Nyamhando Investments - 8 DSS enumerators slept therefor one night and the two amounts over food and accommodation paid in cash.

b) Madeira - 5 DSS enumerators had lunch here for $72.

c) Rainbow - at Murombedzi Growth Point, was for accommodation and food for 8 DSS enumerators for two (2) days.

d) Kwane - Sanyati Growth Point, was for accommodation and food for 8 DSS enumerators for two (2) days.

The most important aspect to note on per diem during the IQC is that, in the absence of a finalization of a policy, DSS incurred actual expenses on accommodation and food for its employees who were on the USAID funded project. DSS would therefore request USAID to re-consider its position on this issue for the IQC period.

C) TRANSPORTATION

The claim in excess of contract budget was not intentional by DSS. When a contract amendment was made and approved, it was meant to cover the higher costs for using 4 x 4 trucks during the rainy season to the remote areas. Two such vehicles were hired from Avis and Echo respectively, through Executive Travel, for the last two weeks of the project. However, DSS only received the bill and paid for it after three (3) weeks from the end of the contract. There was no way DSS could monitor the cost on these trucks, when the bill was only received late.

DSS requests USAID to be sympathetic on this issue since there was no time available to request a thrid contract amendment after the end of the IQC. The outstanding car hire bill in the IQC is being settled with the vendor concerned. Again the vendor never informed DSS about this bill, otherwise it would have been long settled.

II) COST REIMBURSEMENT CONTRACT (CRC) FEBRUARY-MAY 1993: QUESTIONED COSTS

A) SALARIES

i) A CHINHORI : As indicated above in the IQC period, Mr Chinhori was once again an active participant in the monitoring of grain exercise.

This time the exercise was national, rather than only 2 provinces as in the first case. While this time, time sheets were kept for every employee, the audit report seems to suggest that DSS did not pay Mr Chinhori. Mr Chinhori is a working director of DSS. He is therefore an employee of the company, and is paid by the company on the profits and/or fees he makes for the company. Mr Chihori makes monthly drawings of Z$12 000 per month, to cover his gross salary. However, these drawings are only made as and when the company is financially sound, which means that drawings can be in arrears.

In the CRC, Mr Chinhori was contributing an average of 10 days to the project per each month. The salary per contract therefore would go towards Mr Chinhori's salary.

ii) OTHER EMPLOYEES - All employees of DSS were paid for up to April, 1993 amounts based on what is due to them after tax obligations. This seems to have created some misunderstanding in the audit report, and also to the employees themselves. To resolve this aspect, DSS is going to pay the remaining salary of May 1993, to all employees, and claim this amount from USAID. However, for tax obligation purposes, each employee would now have to pay directly own income tax based on the amount actually received from DSS. Tax certificates in this regard will be issued to each employee by DSS once payments in full have been made.

Already three (3) employees have been paid up to May 1993 in full. DSS will endeavour to clear all salary payments to the others as soon as possible. A claim to USAID would then be made for the full amounts.

B) PER DIEMS

Exhibit 8 contains the actual accommodation and food costs incured by DSS with the various hotels. Again, the accommodation costs far exceed the $140 allowable in the personnel policy. DSS would request USAID to re-consider compensation of the excess accommodation. The hotel expenses in exhibit 10 were all paid for by the respective team leaders from the cash given to them by DSS. If payment from USAID had not been suspended in April, 1993 most of the hotel vendors would by now have been paid. However DSS has made arrangements to clear the bills in the next three (3) months.

C) TRANSPORTATION

The most extraordinary item here is the outstanding bill to the car hire company. DSS has already entered into an agreement with the vendor company to periodically redeem the debt. Again, if payment had not been suspended by USAID, this vendor would have been long paid.

iii SOME GENERAL OBSERVATIONS

The foregoing is DSS explanation of the questioned costs in the audit report. However, it is important to mention some key factors which may have contributed to some of these problems:

a) Lack of start-up capital - DSS did not get any up-front payment to start a project of this magnitude. While it is USAID policy not to provide profit-organizations with this, it is equally important to realise the tight financial situation in the country which makes credit for working capital from banks to service organisations, such as consultants, difficult.

b) Reimbursements from USAID - While the contract provided for monthly billing and reimbursement, DSS got reimbursed months after each month. For instance, the first cheque (for October) only came in the first week of December, while the cheque for Feb/March 1993 was given on May 20 1993. At this rate of reimbursement, cash flow problems occured for DSS.

c) Rumours/Gossip etc - Indeed rumours and gossip played a significant part in this whole saga, particularly within the DSS personnel. While the DSS directors went at length to explain to staff working conditions, etc, on the project, it seems some ringleaders with hidden agendas, played a part to discredit the organisation, DSS. DSS never, and could never, send its vendors, staff, etc to our clients. Indeed, if the concerned staff had, working conditions problems, there are appropriate channel to follow within the Government of Zimbabwe.

iv CONCLUSION

DSS would kindly request USAID to consider the audit report with these additional comments in order that the outstanding monies are resolved promptly. DSS, being an indegenous small company, went at length to deliver the goods as required by the two contracts. This was within a harsh economic and financial environment.

Finally, DSS, kindly requests USAID to re-examine the financial figures again to determine what can be paid immediately to DSS for the latter to pay-off outstanding vendors. In the absence of this, DSS would further request more time, say 3 months, for us to clear our vendors from work-in-progress. At 8% rate of profit on the CRC, its prohibitive to borrow at over 30% current bank rate.

ATTACHMENT II

REPORT DISTRIBUTION

U.S. Ambassador to Zimbabwe	1
A/AID	1
Mission Director, USAID/Zimbabwe	5
AA/AFR	2
AA/M	1
AA/OPS	1
LPA/XA/PR	1
M/FA/FM	1
LPA/LEG	1
GC	1
AFR/SA/ZSM	1
POL/CDIE/DI, Acquisitions	2
M/FA/MCS	1
REDSO/ESA	1
REDSO/ESA/RCO	1
REDSO/ESA/RFMC	1
REDSO/ESA/Library	1
IG	1
AIG/A	1
IG/A/FA	1
IG/A/PSA	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
IG/RM/GS (Unbound)	1
AIG/I&S	1
IG/I/NFO	1
RIG/A/Bonn	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/EUR/W	1
RIG/A/Singapore	1
RIG/A/San Jose	1