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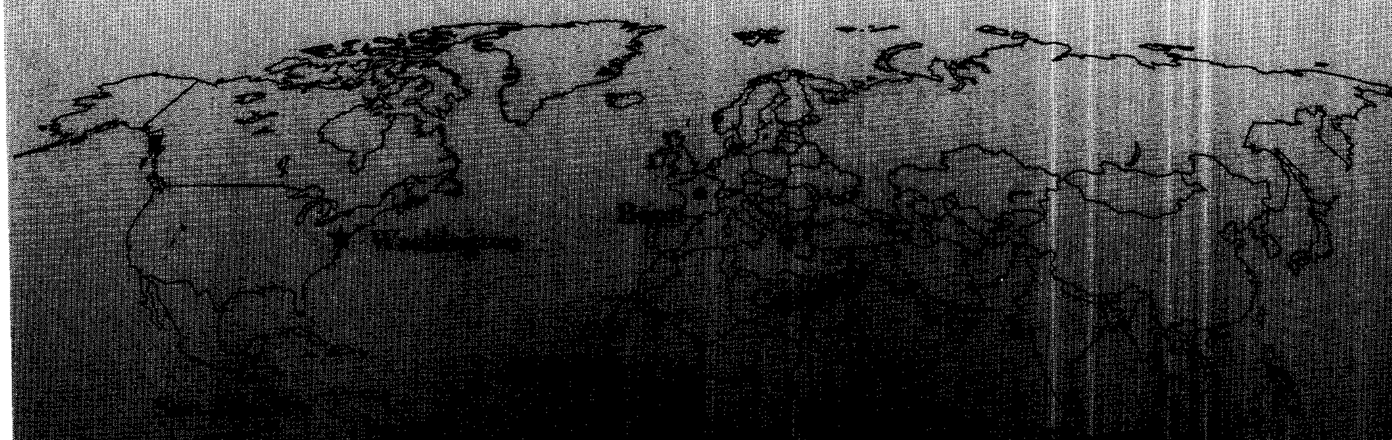
Regional Inspector General for Audit
Nairobi, Kenya

Audit of USAID/Mozambique's Management of P.L. 480 Title III Program

Report No. 3-656-96-003
February 9, 1996



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

February 9, 1996

MEMORANDUM

Regional Inspector General for Audit/Nairobi

TO: Director, USAID/Mozambique, Roger D. Carlson

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

SUBJECT: Audit of USAID/Mozambique's Management of the P.L. 480 Title III Program, Report No. 3-656-96-003

Enclosed are five copies of the final report on the subject audit. We considered your comments to the draft report in preparing the final report. Also, we have included your comments in their entirety as Appendix II.

The report contains five recommendations. Based on your comments and actions, we consider Recommendations 1.1, 1.2, 3 and 4 resolved and Recommendation No. 2 closed.

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

P.O. BOX 30261, NAIROBI, KENYA • PHONE: (254) 2-211436 • FAX: (254) 2-213551

EXECUTIVE SUMMARY

Background

Mozambique gained independence in 1975 after almost 500 years of colonial rule when years of fighting ended between the Mozambican Liberation Front (FRELIMO) and the Portuguese. A civil war then ensued which lasted 16 years, causing more than 1 million deaths and forcing 1.6 million people to flee into the neighboring countries. As many as another 4 million people were forced from their homes and farms by the fighting inside the country. A peace accord between the warring parties brokered by the United Nations was signed in October 1992 and first-ever multi-party elections held in October 1994. Unfortunately, the civil war devastated the country's economy and infrastructure. According to 1991 World Bank statistics, Mozambique is classified as the poorest country in the world with a per capita income of $80. This is the backdrop under which the P.L. 480 Title III Program was established and continues to operate.

The P.L. 480 Title III Program agreement was signed with the Government of Mozambique on July 1, 1991, and was designed to address the liberalizing of commodity markets and the reduction of urban poverty. For fiscal years 1991 through 1994, the United States Government donated to Mozambique 458,242 metric tons of commodities under the program, which cost approximately $50.3 million for the commodities and $38 million in freight and bagging charges. All commodities provided under the agreement are sold by the Government of Mozambique (Government). The local currency generated is used primarily for general budget support of various Government ministries, although 10 percent is allocated for support of local private voluntary organizations (PVO).

Audit Objectives

This audit was designed to answer the following questions:

Did USAID/Mozambique establish and implement a monitoring system to ensure that P.L. 480 Title III commodities were received, stored, and sold by grantees in accordance with USAID policies and procedures?

Did USAID/Mozambique ensure that all local currency deposits were made and withdrawals used only for intended purposes?

The audit was conducted from May 25 through August 2, 1995, in Maputo, Mozambique. A discussion of the audit's scope and methodology is included in Appendix I.

Summary of Audit Findings

Regarding the first objective, our audit found that USAID/Mozambique established and implemented a monitoring system to ensure P.L. 480 Title III commodities were received and sold in accordance with USAID policies and procedures. Since the commodities were generally sold to and delivered directly to consignees at the ports, we did not focus on the storage, distribution, and transport of the commodities. However, we noted significant problems concerning the pilferaging of food at Mozambican ports and poor quality of the food shipped from the United States.

With respect to the second objective, USAID/Mozambique ensured that timely local currency deposits were made for fiscal years 1991 and 1992 Title III commodity deliveries. Although there were significant delays in the deposit of local currency relating to 1993 deliveries, the Government recently paid the fiscal year 1993 account in full, and made a substantial deposit into the fiscal year 1994 account.

USAID/Mozambique also ensured local currency was withdrawn for agreed-upon purposes based on implementation letters authorized jointly by USAID/Mozambique and the Ministry of Finance. However, since an updated general assessment of the Government's financial system, due in 1993, had not been completed nor had any financial audits been made of local currency expenditures, we had no basis for concluding that the local currencies were used only for intended purposes.

Summary of Recommendations

We recommended USAID/Mozambique:

- Advise the GRM in writing that future shipments of P.L. 480 Title III commercial food aid will be conditioned on implementation of significant improvements in port security, warehouse facilities, and operating procedures for the handling of bulk grain;

- Procure technical assistance to perform a detailed assessment of the adequacy of port security improvements and operating procedures taken at Maputo;

- Ensure the Government of Mozambique deposits into the special accounts local currency totaling $1.5 million for fiscal year 1994 food deliveries;

- Update the Mission's 1988 general assessment of the Government's financial systems to confirm that accounting systems and financial controls are still adequate to account for the use of P.L. 480 Title III local currencies; and

- Ensure that audits of P.L. 480 Title III local currency generations deposited into the P.L. 480 Title III Special Accounts for fiscal years 1991 through 1994 are completed and action taken on any recommendations.

Management Comments and Our Evaluation

USAID/Mozambique concurred with all of the recommendations.

Office of the Inspector General

Office of the Inspector General
February 9, 1996

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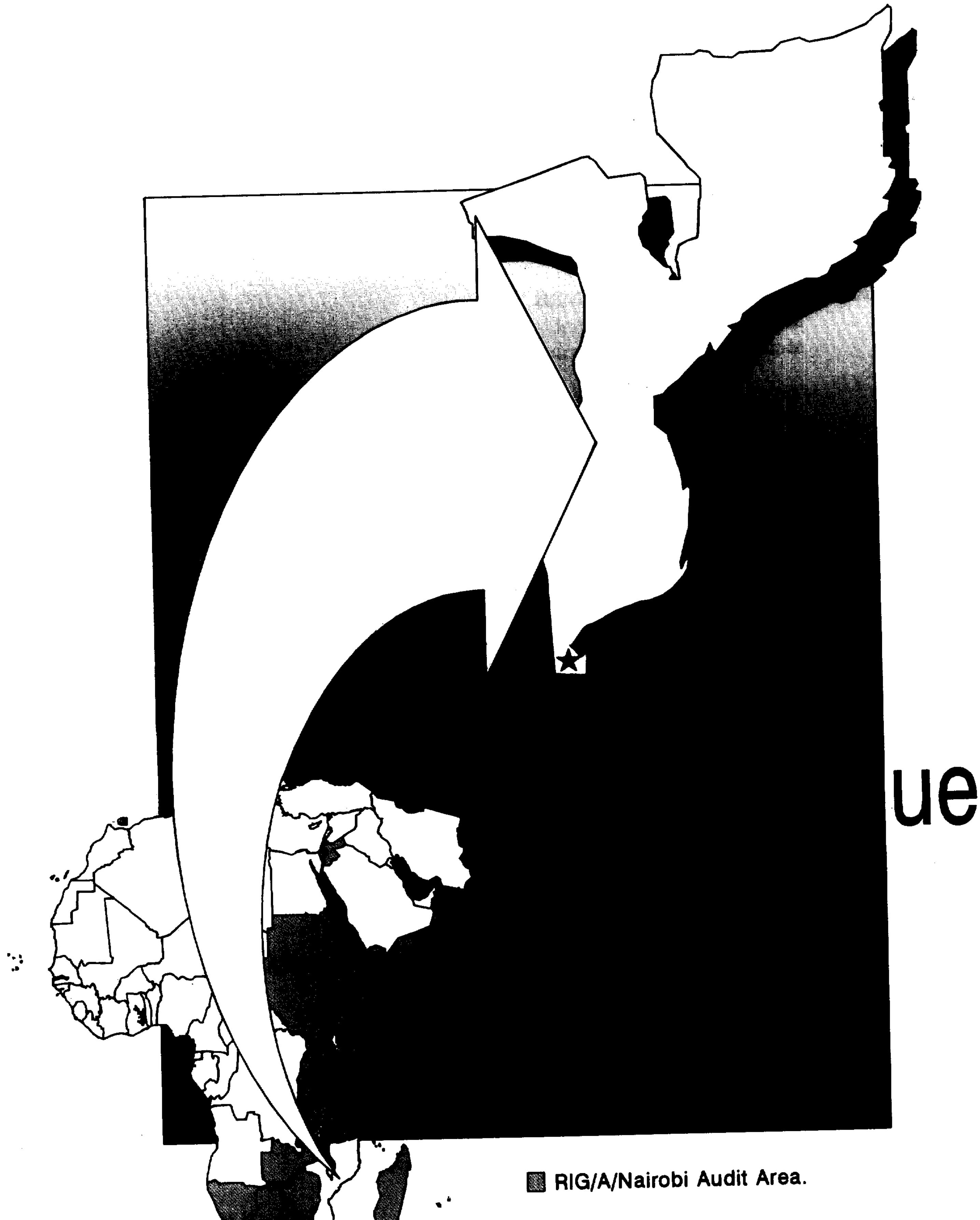

RIG/A/Nairobi Audit Area.

INTRODUCTION

Background

Mozambique gained independence in 1975 after almost 500 years of colonial rule when years of fighting ended between the Mozambican Liberation Front (FRELIMO) and the Portuguese. A civil war ensued between the Marxist-oriented FRELIMO and the Mozambican National Resistance (RENAMO), which was initially trained and supported by Rhodesia (now Zimbabwe). After Zimbabwe's independence in 1980, RENAMO was supported by the South African government. The civil war lasted 16 years, causing more than 1 million deaths and forcing 1.6 million people to flee into neighboring countries. As many as another 4 million people were forced from their homes and farms inside the country because of the fighting. A peace accord brokered by the United Nations was signed in October 1992 by the warring factions and multi-party elections were held in October 1994. Unfortunately, the long civil war devastated the country's economy and infrastructure. Based on 1991 World Bank statistics, Mozambique is classified as the poorest country in the world with a per capita income of $80. This is the backdrop under which USAID/Mozambique's P.L. 480 Title III Program was established and continues to operate.

The P.L. 480 Title III Program is a bilateral grant program whereby the United States Government donates agricultural commodities to least-developed, food-insecure countries. A country is considered least developed and eligible for donation of food under this program if the country:

- Meets the poverty criteria established by the World Bank for providing financial assistance; or

- Is a food deficit country characterized by high levels of malnutrition among significant numbers of its population.

To qualify for food donations under a Title III program, a country must also be committed to policies which promote food security and have a long-term plan for broad-based, equitable, and sustainable development. Mozambique has met all these criteria.

USAID/Mozambique's P.L. 480 Title III Program agreement was signed on July 1, 1991, and designed to address the liberalizing of commodity markets and the reduction of urban poverty. To do this, the Program encourages greater use of the private sector in food distribution and targets subsidies to the most disadvantaged and vulnerable groups of people. The Program's three objectives were to:

- Improve the food security of vulnerable groups;
- Strengthen competitive markets, liberalize trade, and increase the potential for long-term increases in agricultural productivity; and
- Improve public sector management of food aid.

For fiscal years 1991 through 1994, the U.S. Government donated 458,242 metric tons of grain and other commodities to Mozambique under the Title III Program at a cost of approximately $50.3 million for the commodities and $38 million in freight and bagging charges. All commodities provided under the agreement are sold by the Government of Mozambique (Government). The local currency generated from the sale of these commodities is used primarily for general budget support of various Government ministries, including the Ministries of Health and Education. Ten percent of the local currency generated by this Program is to be allocated for the support of private voluntary organizations' (PVOs) activities, such as health care, the resettling of refugees, etc.

Audit Objectives

The Office of the Regional Inspector General for Audit in Nairobi, Kenya, audited USAID/Mozambique's Management of the P.L. 480 Title III Program to answer the following questions:

> Did USAID/Mozambique establish and implement a monitoring system to ensure that P.L. 480 Title III commodities were received, stored, and sold by grantees in accordance with USAID policies and procedures?
>
> Did USAID/Mozambique ensure that all local currency deposits were made and withdrawals used only for intended purposes?

The audit was conducted from May 25 through August 2, 1995, in Maputo, Mozambique. A discussion of the audit's scope and methodology is included in Appendix I.

REPORT OF AUDIT FINDINGS

Did USAID/Mozambique establish and implement a monitoring system to ensure that P. L. 480 Title III commodities were received, stored, and sold by grantees in accordance with USAID policies and procedures?

Our audit found that USAID/Mozambique established and implemented a monitoring system to ensure P.L. 480 Title III commodities were received and sold in accordance with USAID policies and procedures. Since the commodities were generally delivered directly to consignees at the ports, we did not focus on the storage, distribution, and transport of the commodities. Two problems detected during the audit concerned the theft of commodities at the Maputo port and the poor quality of food shipped from U.S. ports to Mozambique.

With regard to the Maputo port, we are recommending that USAID/Mozambique (1) procure technical assistance to perform a detailed assessment of the commodity pilferaging problem to identify ways in which it can be minimized and (2) initiate action to include a condition in future Title III agreements that a portion of local currency generated from the sale of commodities shall be used to augment security at the port. Food quality was also a serious problem during the earlier phases of the Program, but recent food shipments indicate the quality has improved. No recommendation was deemed necessary, but we do suggest the Mission contact the Regional Agricultural Attache when shipments arrive to perform commodity spot checks and report those findings to the USDA Grain Inspection Service.

Monitoring/Management Measures Were Implemented

A.I.D. Handbook 3, Chapter 11, defines monitoring as observations and tracking of the program environment and its activities. Monitoring requires the timely gathering of information regarding inputs, outputs, and actions critical to program success. According to Handbook 3, the primary responsibility for monitoring lies with the program manager, who should utilize such tools as project agreement and project implementation letters, program work plans, the program management information/scheduling system, consultation with program participants, financial reports, audits, site visits, and program review meetings to manage the program efficiently and effectively.

To monitor the flow of Title III commodities, USAID/Mozambique set up a monitoring system which included:

- Developing project implementation reports reflecting the Program's progress and problems;

- Maintaining commodity shipment files;

- Encouraging the Government of Mozambique (the Government) to develop a consignee selection process which fosters transparency in the sale and distribution of commodities; and

- Tracking the deposit and withdrawal of the Program's local currency.

Project Implementation Reports

The Mission's Project Implementation Reports (PIR) highlighted significant problems and issues, such as the food quality issue. The PIR for the period October 1, 1993, through March 31, 1994, pointed out that food delivered in fiscal year 1993 food was either too humid or contained too many broken kernels and foreign matter. The report recommended the yellow maize moisture content and the amount of broken kernels be lowered and shipments be fumigated in-transit with recirculation equipment. The PIR for April 1, 1994, through September 30, 1994, reported that action had been taken to improve food quality. Tougher specification standards concerning moisture content, amount of broken kernels, and fumigation in-transit were made as a result of the Mission's response to the first PIR. Following this, no objections were received from either the receivers, millers, or retailers concerning food quality.

Commodity Files

USAID/Mozambique maintained comprehensive commodity shipment files, which included individual files for each shipment during the four fiscal years (1991-1994) audited. The files contained most or all basic documentation, such as the Bill of Lading, the Port Survey/Inspection Report, a List of Consignees and Quantities Received, Local Currency Advice of Charge (showing amount of local currency to be deposited and by what date), a Phytosanitary Certificate, a U.S. Grain Inspection Certificate, and documentation consigning the commodities to the Bank of Mozambique. Also correspondence concerning vessel arrival, quality of the commodities, and port operation concerns were included in the files. The files were maintained by the Mission's full-time Food for Peace Monitor with the assistance of two support staff. The Program Manager supervised the three individuals and was responsible for the overall maintenance of these files.

Consignee Selection

A consignee selection process developed by the Ministry of Commerce enabled the Mission to monitor whether consignees chosen by the Government to buy Title III commodities had been selected fairly. In an interview, the Government's National Director of Internal Trade for the Ministry of Commerce explained the pre-qualification process utilized to select consignees. To prequalify, the consignee must: be licensed; have transport and storage facilities with a minimum capacity of 100 metric tons (mts); be financially capable as confirmed by their bank; not owe money to the Ministry of Finance for previous transactions; present evidence of regular dealings with Customs; and be registered with the Ministry of Commerce.

Once a consignee is prequalified, the actual selection to participate in buying P.L. 480 Title III food is done by a committee consisting of representatives from the Ministry of Finance, Ministry of Commerce, and the Bank of Mozambique (the country's central bank). In selecting the final list of participating consignees, the committee considered the shipment schedule, the consignee's location, and whether a consignee was an industrial entity (i.e., a miller, which received preference) or a basic transporter. The Director of Internal Trade also said the Government would have preferred an auction system, but conceded it would not have been practical since the prevailing poverty level in the country necessitated that basic food prices be kept low.

Two consignees interviewed by the auditors expressed satisfaction with how the program operated. A third consignee expressed dissatisfaction with the amount of food his company was being allocated under the current system. He felt for the size of his business he should be receiving a larger percentage of the P.L. 480 Title III commodities delivered.

Local Currency

USAID/Mozambique's Office of Financial Management (OFM) in the Controller's Office prepared summary reports which showed local currency deposits, bank balances, commitments, and disbursements. It also received and reviewed bank statements. Through this monitoring process the program manager was kept apprised of any discrepancies or problems concerning the local currency special accounts. Additionally, using Project Implementation Letters (PILs) authorized jointly by USAID/Mozambique and the Government, OFM monitored how the local currency was utilized.

As a result of USAID/Mozambique's monitoring activities, the Mission was able to track losses, primarily due to shipping, handling, and theft, of 12,869 mts, valued at $1,376,378, or 2.7% of the total value of commodities. (See Appendix III for listing of port commodity losses.) Additionally, the Mission's monitoring activities brought the Project Officer's attention to the quality of the food shipped to Mozambique, which was so poor that a substantial portion of it was declared unfit for human consumption. These problems are discussed below.

Commodities Were Pilfered At the Ports

USAID Handbook 1, Chapter 24, states that for USAID assistance to be used effectively, commodities financed by USAID must reach the ultimate user on time, in a usable condition, and must be used for the purposes intended. To this end, assistance agreements should require the borrower/grantee to ensure commodities are effectively used for the purpose for which they were made available. Handbook 1 further requires missions to evaluate borrower/grantee systems for arrival, disposition, and utilization of commodities, and, if it detects any problems in these systems, to consult with the borrower/grantee.

Section C4.1 of the Title III Program agreement between USAID/Mozambique and Government states:

> " .. *if the cooperating country.., causes loss or damage to a commodity or local currency proceeds through any act or omission or fails to provide proper storage, care, and*

handling, the cooperating country shall pay the value of the commodities or local currency proceeds lost, damaged, or misused.., unless it is determined by USAID that such.. loss or damage, could not have been prevented by the proper exercise of responsibility under the terms of the agreement."

However, it also cautions that, in determining whether loss, damage, or misuse could have been prevented, consideration should be given to the difficulties inherent in distributing agricultural commodities in less developed countries.

A thorough examination of the Mission's P.L. 480 Title III shipment files, in addition to information obtained from interviews with port inspection personnel revealed that security at the Port of Maputo is a serious problem. The following are examples from the Mission's files of some of the pilferage losses at the port involving Title III commodities.

Lash Atlantico

Officers of the Lash Atlantico, a ship delivering P.L. 480 Title III commodities in August 1992, estimated they lost 1,024 mts of corn and 58,000 empty food bags to theft during the unloading of the ship's cargo. According to Lash Atlantico officers, the theft of empty bags and bagged grain went on in plain view of port security guards, who made little effort to stop the theft. The thieves appeared to be well-organized gangs who had the cooperation of the bagging crews.

Additionally, when Lash Atlantico personnel attempted to stop the pilferaging, one employee was struck on the leg by a metal object thrown by one of the would-be thieves, and another ship employee was hit on the head by a metal object wielded by one of a group of men attempting to steal bags from the bagging machine. In another reported incident, a total of five gunshots were fired over the head of a technician as he repaired the discharge equipment. The technician judged that this was not done to injure him, but rather as a warning to cease trying to stop the pilferaging.

Ashley Lykes

The November 1991 inspection report from the vessel Ashley Lykes reported excessive and uncontrolled theft of commodities on shore and from receiver's trucks. The theft was witnessed by the ship's officers and crew.

When the Ashley Lykes returned in September 1992, the inspection report cited various ploys used by port laborers to steal rice. The pilferaging was taking place in full view of all present. The Port Authority was made aware of this situation and, although security guards were present on the wharf, no action was taken to prevent the thefts.

Meezan I

The Meezan I which arrived in August 1992, lost 1,560 mts of corn to pilferaging that took place during discharge. Not only was food stolen, but thieves also took bales of empty bags. The shipping company had to buy about 120,000 bags to replace those stolen.

George Lyras

In October 1992, the George Lyras arrived in port and reported 1,200 mts of corn was stolen by the laborers standing around the wharf as the corn was off-loaded. Pilferaging was conducted in full-sight of the security guards present, but they made no effort to stop it. This situation was reported to the Port Authority and, again, no action was taken

Kansas Trader

After the audit field work was completed, the Mission reported on December 19, 1995, that 1,400 mts of maize discharged at the Port of Maputo in October 1995 from the cargo ship, Kansas Trader, and stored in the Port Authority Warehouse was unaccounted for and presumed stolen. The stolen grain was valued at $281,552, and represents about 11 percent of the corn originally discharged at the port from the Kansas Trader in October 1995. The missing 1,400 mts would fill 94 trucks loaded with 15 mts each, so removal from the port area would not likely be unnoticed.

The USAID/Mozambique Director said that the apparent theft is a reminder that in spite of security improvements at the port in Leased Sections, security in other areas of the port, such as the grain receiving area, remains lax and will continue to pose a serious problem. Because of concern about port security, USAID diverted a shipment of 18,000 mts already in route to Maputo. Future shipments are being held until the security problem is addressed.

The port inspection officials we interviewed put the situation at the port in perspective by stating that Mozambique was an extremely poor country and that poverty breeds this kind of activity. When the economy improves, the situation at the port, hopefully, will also improve, they said.

However, although socioeconomic factors are an important consideration, the magnitude of the losses warrant that active discussions be initiated with the Government to address the situation. We believe there are significant economic benefits to be derived from an improved port operation. Commodity inspection and consignee officials we interviewed suggested the use of private stevedoring companies to unload the food and the payment of an incentive (bonus) to stevedores based on quantities discharged. This is a suggestion worth looking at. Further, local currencies generated by the sale of the commodities can be used to augment security measures at the port and procure technical assistance to perform a detailed assessment of the problem. The study should be made in consultation with other food aid donors.

Recommendation No. 1: We recommend USAID/Mozambique:

1.1 **Advise the GRM in writing that future shipments of P.L. 480 Title III commercial food aid will be conditioned on implementation of significant improvements in port security, warehouse facilities, and operating procedures for the handling of bulk grain;**

1.2 **Procure technical assistance to perform a detailed assessment of the adequacy of port security improvements and operating procedures taken at Maputo.**

Poor Quality of Title III Food Aid Commodities

USAID Handbook 1, Chapter 24, states that for USAID assistance to be used effectively, commodities financed by USAID must reach the ultimate user in a usable condition.

The quality of P.L. 480 Title III food shipped to Mozambique was so bad it prompted the U.S. Ambassador to report the situation to USAID/Washington and the U.S. Department of Agriculture (USDA). In a January 1994 cable, the Ambassador said the Title III food had been shipped with a higher moisture content than allowed under regulations, which led to 4,958 mts of corn being declared unfit for human consumption. One cargo arrived with such serious insect infestation that the entire cargo had to be fumigated twice and one ship hold fumigated three times. According to his cable, this situation was reported by an influential local newspaper, which prompted consignees–citing the poor condition of the commodities–to refuse to take delivery of the corn.

In the cable, the Ambassador further stated that in addition to Title III, Title II and Section 416B commodities also had serious quality problems. In all, of the total of 143,000 mts of yellow corn imported into Mozambique under the three U.S. food aid programs, about 33,700 mts had been declared unfit for human consumption. The loss to the U.S. taxpayer amounted to $8 million in the purchase, transport, and disposal of the unfit commodities, the Ambassador's cable stated.

USAID/Washington and USDA responded to the Mission's repeated complaints about the quality of the Title III commodities by indicating that floods in the Mississippi watershed had reduced overall commodity quality. Nevertheless, they contended that corn shipped to Mozambique had been consistent with standard PL-480 specifications for corn and that it had been inspected and cleared on that basis. They suggested the Mission consider upgrading the specifications for the corn requested and apply more rigid transport specifications from U.S. ports to Mozambique. This is advice the Mission has taken. The most recent food shipments indicate that the quality of the food has improved as a result of the Mission's actions. Based on these actions, we are not making a formal recommendation in this area. However, we suggest the Mission contact the Regional Agricultural Attache when commodities arrive, so that he/she can personally observe and document the status of the commodities and report the findings to the USDA Grain Inspection Service.

Did USAID/Mozambique ensure that all local currency deposits were made and withdrawals used only for intended purposes?

USAID/Mozambique ensured that timely local currency deposits were made for fiscal year 1991 and 1992 Title III commodity deliveries. Although there were significant delays in the deposit of local currency relating to 1993 deliveries, the Government recently paid the fiscal year 1993 account in full, and made a substantial deposit into the fiscal year 1994 account.

USAID/Mozambique also ensured that local currencies were *withdrawn* for agreed-upon purposes based on implementation letters authorized jointly by USAID/Mozambique and the Ministry of Finance. However, without an updated general assessment of the Government's financial system and audits of local currency expenditures provided for general support, we had no basis for concluding that the local currencies were *used* only for intended purposes.

LOCAL CURRENCY DEPOSITS

Local Currency is Owed
to the Special Accounts

Implementation guidance for P. L. 480 and Section 416(b) programs included in Policy Determination No. 18 requires local currency generated under food aid programs to be deposited into separate, interest-bearing accounts. Further, a Memorandum of Agreement (MOA) signed October 18, 1988, (as amended) between USAID and the Government requires the Government to deposit into a special account the local currency equivalent of the food delivered within 180 days of the vessel's berthing at the port of discharge. As of August 2, 1995, the Government owed the P.L. 480 Title III special accounts 14.486 billion meticais, or the equivalent of $1.5 million[1]. According to Ministry of Finance officials, delays in receiving promised donor funds impeded the Government's ability to make timely deposits into the special accounts. As a result of these shortfalls, one private voluntary organization (PVO) had to postpone programmed activities. (PVOs are entitled to use 10 percent of the project's locally-generated currency.)

> **Recommendation No. 2:** We recommend USAID/Mozambique ensure that the Government of Mozambique deposit into the P. L. 480 Title

[1] At the prevailing exchange rate of 9,606 meticais/$1.

III special accounts local currency arrears for fiscal year 1994 food deliveries totaling meticais 14.486 billion (about $1.5 million) as of August 2, 1995.

The procedures for the deposit, allocation, disbursement, accounting, and use of local currency generated under USAID-financed programs were established in a Memorandum of Agreement (MOA) signed October 18, 1988, (as amended) between USAID and the Government. The Mission's Title III agreement, originally signed on July 1, 1991, and amended every year thereafter, incorporated all the provisions of the MOA by reference. The agreement requires the Government to deposit into a special, non-interest bearing account[2] the local currency equivalent of the food delivered within 180 days of the vessel's berthing at the port of discharge. The amount deposited is determined by translating the commodity's free alongside ship (FAS) value into meticais, the Mozambique currency. The exchange rate used to calculate the local currency value was the rate in effect on the day the ship berthed.

USAID/Mozambique's Title III agreement allows the Government of Mozambique to sell the donated commodities to the private sector. The commodities have been sold to consignees at a subsidized price (lower than FAS value) because of Mozambique's difficult economic situation. However, the Government is required to deposit into the special accounts the FAS value and not the amount paid by consignees. The Ministry of Finance is responsible for making the deposits. USAID/Mozambique's Controller's Office monitors the deposit process and prepares a summary report each month showing deposits, bank balances, commitments, and disbursements. This report shows clearly any amounts owed the special account.

As of August 2, 1995, the Government of Mozambique owed the P.L. 480 Title III special accounts 14.486 billion meticais, or the equivalent of $1.5 million. This amount related to fiscal year 1994 food deliveries made between November 1994 and January 1995. Local currency from commodities donated in fiscal years 1991 and 1992 were deposited in a timely manner. There were significant delays in the deposit of fiscal year 1993 local currency, but the Government has recently paid the overdue fiscal year 1993 amounts

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[2] According to Mission officials, an interest-bearing account was not established because the Central Bank of Mozambique does not pay interest on government accounts, and local currency is not in the special accounts long enough to earn interest.

in full. The Government has also made a deposit of 30 billion meticais (about $3.12 million) into the fiscal year 1994 special account.

The Ministry of Finance officials we talked to attributed the delays to the fact that government revenues only cover 46 percent of government expenditures. The balance is funded from donor funds. According to the officials, promised donor funds in 1994 and 1995 were not distributed on time, which affected the government's ability to make timely deposits.

Under the P.L. 480 Title III agreement, PVOs are entitled to 10 percent of the amount deposited into the special accounts. Due to the Government's inability to deposit the local currency for fiscal years 1993 and 1994 on time, some PVOs had to postpone implementation of planned activities.

LOCAL CURRENCY WITHDRAWALS

Following the Memorandum of Agreement dated October 18, 1988, local currency was withdrawn from the special accounts for agreed upon purposes based on implementation letters authorized jointly by USAID/Mozambique and the Ministry of Finance. However, without an updated general assessment of the Government's financial system and audits of local currency expenditures, we had no basis for concluding the local currency was used only for intended purposes.

Mission Has not Updated General Assessment

USAID's supplemental guidance on programming and managing host country-owned local currency (State 204855, dated June 21, 1991) states that to program local currency for general budget support, missions should have a high degree of confidence the host country can adequately meet the reporting standards for budget allocation and expenditures. The guidance further states that a general assessment of the accountability environment in the host country is the basis for determining that degree of confidence. Such an assessment is required at least once every five years.

USAID/Mozambique conducted a general assessment of the financial control system of a number of Government ministries in 1988. The Mission determined that the existing budget, accounting, and reporting system utilized to account for and control the central budgets of the Ministry of Health, Ministry of Agriculture, Ministry of Education, and Department of Prevention and Combat of Natural Calamities (DPCCN) was adequate. Based on the assessment, the Mission decided local currency would be used to support the

Ministries' budgets. However, an updated assessment was not performed in 1993.

According to Mission officials, an updated assessment was delayed because, with the signing of Mozambique's UN-brokered peace accord in October 1992, and the first multi-party elections planned for October 1994, a general assessment in 1993 would not have been as relevant. Plans are currently underway to do an updated assessment. The Mission sent a letter to the Ministry of Finance stating that it wished to complete the assessment by April 1996. The Mission was awaiting the Ministry's concurrence at the end of our audit field work. In the absence of an updated assessment, we had no basis for determining whether the Government's current financial system is adequate to ensure P.L. 480 Title III money is being expended only for intended purposes.

> **Recommendation No. 3:** **We recommend USAID/Mozambique update its 1988 general assessment of the Government of Mozambique's financial systems to confirm that accounting systems and financial controls are still adequate to account for the use of P.L. 480 Title III local currency.**

Local Currency Expenditures Have not Been Audited

Amendment No. 1 to the P.L. 480 Title III agreement dated January 29, 1992, required the Government do annual financial audits of the Program. The audits were to be completed by either the Government's principal audit agency or another audit agency or firm acceptable to USAID. The purpose of the audits was to, among other things, determine whether local currency proceeds had been used in accordance with the Title III agreement.

We found no audits of P.L. 480 Title III local currency expenditures had been made. USAID/Mozambique officials said audits had not been performed because the Government's principal audit agency is currently in a state of development. Supplemental guidance on programming and managing host country-owned local currency (State 204855, dated June 21, 1991) suggests that to ensure appropriate audit coverage, missions may decide to reserve funds in the special account to cover the costs of independent audits. If the principal audit agency is not in a position, or is not capable, of conducting these audits, USAID/Mozambique needs to develop other alternatives. At present, in the absence of financial audits, we had no basis to conclude that the local currencies given for general budget support were used only for intended purposes.

<u>Recommendation No. 4</u>: We recommend USAID/Mozambique ensure that audits of P.L. 480 Title III local currency generations deposited into P.L. 480 Title III Special Accounts for fiscal years 1991 through 1994 are completed and action taken on any recommendations.

MANAGEMENT COMMENTS AND OUR EVALUATION

The following is a summary of USAID/Mozambique's comments on the draft report and our evaluation of the comments. The complete text of Mission comments is included as Appendix II to this report.

Mission officials concurred with all 5 recommendations. Recommedations 1.1, 1.2, 3 and 4 are resolved and recommendation no. 2 is closed upon issuance..

APPENDICES

SCOPE AND METHODOLOGY

Scope

We audited USAID/Mozambique's management of the P.L. 480 Title III Program in accordance with generally accepted government auditing standards. The audit was conducted from May 25 through August 2, 1995, in Maputo, Mozambique.

Our audit covered the management of food deliveries for fiscal years 1991 through 1994. The commodities were sold by the Government of Mozambique to consignees who took delivery at the ports. Thus, we did not focus on the storage, distribution, and transport of the commodities. The audit also covered the management of local currencies generated from the sale. We encountered no scope limitations in the conduct of this audit.

The audit evidence gathered included verbal explanations and documentation provided by USAID/Mozambique, Government of Mozambique officials, private sector consignees and port inspection officials. This evidence is described in more detail under the methodology section of each audit objective. In addition, we reviewed a USAID Inspector General's audit report on Food Monetization in Mozambique conducted by RIG/A/Nairobi in fiscal year 1992 (Audit Report No. 3-656-92-02).

In addition to the methodology described in the following section, we obtained a written representation letter from USAID management confirming information we considered essential for answering our audit objectives and for assessing internal controls and compliance. We also obtained and reviewed USAID/Mozambique's management control certification for 1994.

Methodology

The methodology for each objective follows.

Audit Objective One

The purpose of the first objective was to determine whether USAID/Mozambique established and implemented a monitoring system to track P.L. 480 Title III commodities. To answer this objective, we collected and analyzed plans, reports, evaluations, and commodity shipment files from both the P.L. 480 Title III project office and the Controller's office. We also interviewed the Project Officer, the Food for Peace Monitor, and Controller personnel to determine the extent of their monitoring responsibilities.

Additionally, we interviewed the Government's National Director of Internal Trade at the Ministry of Commerce to find out how the consignee selection process operated. We visited three consignees to get their views on the process. To better understand how the port of Maputo operated, we interviewed knowledgeable port inspection officials.

Audit Objective Two

The purpose of the second objective was to determine whether USAID/Mozambique ensured all local currency deposits were made and withdrawals were used only for intended purposes. To answer this objective, we analyzed debit advices prepared by the Mission showing the computation of deposits, monthly Controller Office local currency reports, and implementation letters signed jointly by USAID/Mozambique and Government officials which authorized withdrawal of funds and bank statements.

We also interviewed:

- Controller Office officials to clarify the local currency monitoring system;
- Ministry of Finance officials to determine why the Government had been late making local currency deposits for fiscal year 1993 and fiscal year 1994 food deliveries; and

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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID MISSION TO MOZAMBIQUE

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MEMORANDUM

TO	**:**	**RIG/A/Nairobi, Everette Orr**
FROM	**:**	**USAID Mozambique, Roger Carlson** **Mission Director**
SUBJECT	**:**	**Mission Response to PL480 Title III Draft Audit**
REFERENCE	**:**	**USAID/919/95/mk**
Date	**:**	**February 7, 1996**

We have completed our review of the subject draft report and provide the following comments for your consideration when issuing the final report:

Audit Recommendation No. 1.

We recommend USAID/Mozambique:

1.1 Advise the GRM in writing that future shipments of PL 480 Title III commercial food aid will be conditioned on implementation of significant improvements in port security, warehouse facilities, and operating procedures for the handling of bulk grain.

1.2 Procure technical assistance to perform a detailed assessment of the adequacy of port security improvements and operating procedures taken at Maputo.

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Comment: We concur in this recommendation.

Immediately, after being advised by the GRM that 1400 tons of corn was missing from the Kansas Trader, USAID/Mozambique informed the GRM that before approving another Title III commercial food shipment to Mozambique, they would have to make substantial progress toward: 1) identifying the person(s) responsible for this theft and bringing them to justice, 2) locating the stolen corn, and; 3) improving significantly port security and bulk grain handling procedures to minimize the opportunity for such thefts in the future. USAID also has suspended a shipment of 18,000 tons of corn, and will not be approving another shipment until action is taken to improve port security per the above recommendations. A letter requesting compensation to the USG for the loss is now being drafted.

Audit Recommendation No. 2:

We recommend USAID/Mozambique ensure that the Government of Mozambique deposit into the P.L. 480 Title III special accounts local currency arrears for fiscal year 1994 food deliveries totalling meticais 14.486 billion (about $1.5 million) as of August 2, 1995.

Comment:

Recommendation No. 2: The Mission concurs in this recommendation and has already provided documentation which demonstrates that funds have been deposited in full by the GRM for the FY'94 P.L. 480 Title III Program. Based on these deposits by the GRM, the Mission requests that this recommendation be closed upon issuance of the final audit report.

Audit Recommendation No. 3:

We recommend USAID/Mozambique update its 1988 general assessment of the Government of Mozambique's financial systems to confirm that accounting systems and financial controls are still adequate to account for the use of P.L. 480 Title III local currency.

Comment:

The Mission concurs in this recommendation and has provided a copy of the scope of work for the planned General Assessment. As noted during the conduct of the audit, the Mission delayed the Assessment until National elections could be completed and the new government installed. Based on documentation provided to date, the Mission requests this recommendation be closed upon issuance of the final audit report.

USAID/Mozambique also concurs in audit recommendation 4, which is:

Audit Recommendation No. 4:

We recommend USAID/Mozambique ensure that audits of PL 480 title III local currency generations deposited into the PL 480 Title III Special Accounts for fiscal years 1991 through 1994 are completed and action taken on any recommendations.

Comment:

Given the audit capacity of the GRM's principal audit agency, the Mission has, since inception of the program, closely monitored the Special Account activities. This monitoring includes a monthly reconciliation by Mission staff of the Special Account bank statements to ensure that each deposit and withdrawal is supported by properly authorized documentation. While the Mission believes our monitoring has provided an acceptable alternative to audit of the special accounts, we do agree that an audit of the Special Accounts at this time is appropriate.

Therefore, the Mission concurs with Recommendation Number 4 and will proceed immediately to contract with an independent audit firm to conduct an audit of the PL 480 Title III Special Accounts for fiscal years 1991 through 1994.

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Commodity Arrivals and Losses in Mozambique Ports (Unaudited)

FOOD SHIPMENTS IN FISCAL YEAR 1991

Ship	Port	Commodity	Quantity (MTs)	FAS[1] Value $	Local Currency Generated (in millions meticais)	Local Currency Deposited (in millions meticais)	Over/ (Under) Deposited	Commodity Loss[2] (MTs)	Commodity Loss Value $
Pride of Texas	M	Corn	10,012	1,397,711	2,454	2,454	0	222	30,992
"	M	Rice	4,990	1,400,383	2,431	2,431	0	167	46,867
"	B	Corn	4,997	697,632	1,244	1,244	0	3	419
"	B	Wheat	9,968	1,498,119	2,673	2,673	0	1	150
Ashley Lykes	M	Corn	8,003	1,031,995	1,831	1,831	0	62	7,995
LeLaps	M	Corn	23,631	2,411,486	4,444	4,444	0	(705)[3]	(71,944)
"	B	Corn	3,800	387,778	550	550	0	751[3]	76,637
Majorie Lykes	M	Corn	7,006	903,395	1,600	1,600	0	***	0
TOTAL			72,407	9,728,499	17,227	17,227	0	501	91,116

[1] Free Alongside Ship
[2] Losses include pilferage and shipping & handling
[3] Net loss 46 MTs. 705 MTs initially meant for Maputo port was discharged at Beira port.
*** Inspection report not on file

FOOD SHIPMENTS IN FISCAL YEAR 1992

Ship	Port	Commodity	Quantity (MTs)	FAS[1] Value $	Local Currency Generated (in millions meticais)	Local Currency Deposited (in millions meticais)	Over/ (Under) Deposited	Commodity Loss (MTs)	Commodity Loss Value $
OMI Missouri	M	Corn	47,250	5,520,213	12,985	12,985	0	55	6,426
George Lyras	M	Corn	29,963	2,913,574	5,267[1]	8,368	3,101	1,605	156,069
Lash Atlantico	M	Corn	22,500	2,557,556	7,538	7,538	0	104	11,822
Lash Atlantico	B	Corn	10,455	1,188,490	3,454	3,454	0	0	0
Meezan 1	M	Corn	30,333	3,460,154	9,534	9,534	0	1,559	177,838
Stella Lykes	M	Corn	13,999	1,591,359	4,549	4,549	0	1,593	181,087
Ashley Lykes	M	Rice	5,000	1,168,570	3,260	3,344	84	125	29,214
Lash Atlantico	M	Corn	32,999	3,208,802	9,589	9,589	0	4,510	438,550
Missouri/ Argo	M/B	Corn	47,249	4,594,498	8,259[2]	6,132	(2,127)	1,267	123,203
John Lykes	M	Corn	5,999[3]	583,429	0	1,666	1,666	0	0
None	None	Corn			382[4]		(382)	0	0
TOTAL			245,747	26,786,645	64,817	67,159	2,342	10,818	1,124,209

[1] Generations exclude 9,300MTs loaned to WFP and subsequently forgiven
[2] Generations exclude 10,847MTs loaned to WFP and 6,498MTs loaned to CARE
[3] Entire consignment loaned to WFP and subsequently forgiven
[4] Refund by WFP to Government of Mozambique of 1,300MTs.

Commodity Arrivals and Losses in Mozambique Ports (Unaudited)

FOOD SHIPMENTS IN FISCAL YEAR 1993									
Ship	Port	Commodity	Quantity MTs	FAS[1] Value $	Local Currency Generated (in millions meticais)	Local Currency Deposited (in millions meticais)	Over /(Under) Deposited	Commodity Loss (MTs)	Commodity Loss Value $
Sue Lykes	M	Corn	17,665	1,937,485	10,065	10,065	0	141	15,465
General Jasinski	M	Corn	1,970	216,093	1,152	1,152	0	0	0
General Jasinski	B	Corn	15,617[1]	880,717	0	0	0	0	0
Inger	M	Corn	20,658	2,240,834	12,150	12,150	0	22	2,386
Louise Lykes	M	Corn	8,599[2]	932,786	1,657	1,657	0	173	11,785
Ashley Lykes	M	Corn	5,401[1]	585,798	0	0	0	145	25,042
TOTAL			69,910	6,793,713	25,024	(25,024)[3]	0	481	54,678

[1] Shipment loaned to WFP and subsequently forgiven

[2] 5649MTs was loaned to WFP and subsequently forgiven

[3] Deposit of 25.024 billion meticais made June 14, 1995

FOOD SHIPMENTS IN FISCAL YEAR 1994									
Ship	Port	Commodity	Quantity (MTs)	FAS Value $	Local Currency Generated (in millions meticais)	Local Currency Deposited (in millions meticais)	Over/ (Under) Deposited	Commodity Loss (MTs)	Commodity Loss Value $
Lash Atlantico	M	Corn	15,000	1,495,007	9,813	9,813	0	418	41,661
NIMY	M	Corn	8,010	800,917	5,081	5,081	0	275	27,497
NIMY	B	Corn	2,670	266,972	1,777	1,777	0	0	0
Doris Gunther	M	Corn	14,500	1,426,314	9,519	9,519	0	289	28,428
Ukrasea	M	Corn	14,999	1,515,227	10,077	3,810	(6,267)	87	8,789
Overseas Harriette	M	Corn	6,999	704,967	5,061	0	(5,061)	0	0
Overseas Harriette	B	Corn	8,000	805,755	5,500	0	(5,500)	0	0
TOTAL			70,178	7,015,159	46,828	30,000[1]	(16,828)	1,069	106,375

[1] Deposit of 30 billion meticais made August 1, 1995.

LOCAL CURRENCY GENERATION AND DEPOSITS FISCAL YEARS 1991 - 1994			
Fiscal Year	Generations (in millions meticais)	Deposits (in millions meticais)	Over/(Under) (in millions meticais)
1991	17,227	17,227	0
1992	64,817	67,159	2,342
1993	25,023	25,023[1]	0
1994	46,828	30,000[2]	(16,828)
TOTALS	153,895	139,409	(14,486)[3]

[1] Deposit of 25.024 billion meticais made June 14, 1995
[2] Deposit of 30 billion meticais made August 1, 1995
[3] The GOM owes the special account the equivalent of $1.5 million at the August 2, 1995 exchange rate of 9,606 meticais/$1.00

Regional Inspector General for Audit, Nairobi, Kenya

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