

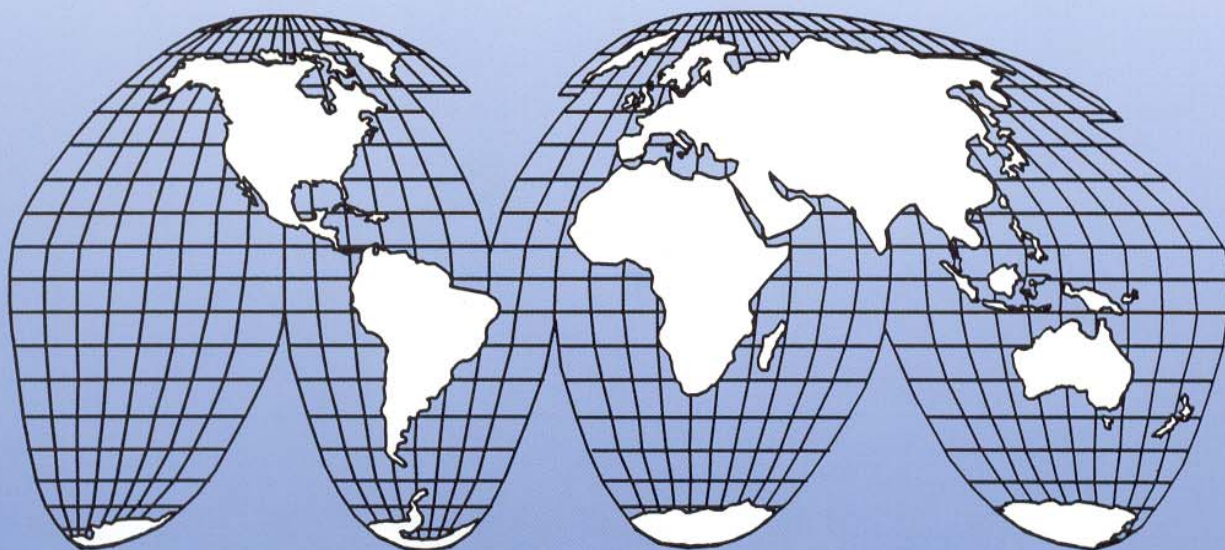
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Mozambique's Performance Monitoring of Railroad Rehabilitation under the Southern Africa Floods Supplemental Appropriations

Audit Report No. 4-656-05-001-P

November 4, 2004



PRETORIA, SOUTH AFRICA



November 4, 2004

MEMORANDUM

FOR: USAID/Mozambique Mission Director, Jay L. Knott

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/

SUBJECT: Audit of USAID/Mozambique's Performance Monitoring of Railroad Rehabilitation under the Southern Africa Floods Supplemental Appropriations (Report No. 4-656-05-001-P)

This memorandum is our report on the subject audit for your review and comment. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II in this report.

This report has one recommendation. In response to the draft report, USAID/Mozambique concurred with the recommendation, took action to complete a formal evaluation and is planning to conduct a final evaluation after the end of the contract. Therefore, we consider that a management decision has been reached for the recommendation. Please provide the Bureau for Management, Office of Management Planning and Innovation with evidence of final action in order to close the recommendation.

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

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Summary of Results

In the year 2000, a series of tropical cyclones struck southern Africa, and, as a result, the countries in this region experienced the worst flooding in a century. These storms hit Mozambique the hardest. To help alleviate problems caused by the storm-related damage, the U.S. Congress passed supplemental appropriations totaling \$160 million. USAID/Mozambique obligated \$55 million of these supplemental appropriations to restore 525 kilometers of the Limpopo Rail Line—a major domestic and regional transport artery. (See pages 5-6.)

The objective of this audit was to determine whether USAID/Mozambique implemented and monitored its railroad reconstruction activities under the Southern Africa Floods Supplemental Appropriations in accordance with USAID policies and procedures. (See page 7.)

The audit showed that USAID/Mozambique implemented and monitored its railroad reconstruction activities in accordance with USAID policies and procedures. For example, the Mission ensured that the contractors were performing in accordance with the contract terms, reviewed and approved performance reports, and maintained adequate documentation of the activities. As a result, the Mission was successful in the reconstruction of the 525-kilometer Limpopo Rail Line. (See page 8.)

However, despite USAID/Mozambique's successful implementation and monitoring efforts, the Mission did not perform annual contractor performance evaluations as required by USAID's Automated Directives System (ADS). As a result, vital information on the engineering consulting firm's performance was not officially documented. (See pages 10-11.)

This report contains one recommendation that USAID/Mozambique evaluate and document the performance of the engineering consulting firm. (See page 11.)

In response to the draft report, USAID/Mozambique concurred with the recommendation. In addition, the Mission on October 20, 2004, took action to complete a formal performance evaluation and is planning to conduct a final evaluation after the end of the contract. Therefore, we consider that a management decision has been reached on the recommendation upon final report issuance. (See page 15.)

Background

From February through May 2000, southern Africa experienced its worst flooding in a century—caused by three cyclones. Hardest hit was the country of Mozambique. To provide assistance for southern African countries affected by these storms, the U.S. Congress appropriated \$25 million in fiscal year 2000 for the Southern Africa Flood Reconstruction Program. The following year, Congress appropriated an additional \$135 for a total of \$160 million. Of these amounts, USAID/Mozambique received \$132 million, of which \$55 million was obligated for reconstruction of the damaged Limpopo Rail Line. The remaining

\$77 million was programmed for other emergency uses, including road rehabilitation.

To fund the railroad reconstruction, USAID/Mozambique entered into a grant agreement with the Government of Mozambique. The Mozambican Railway Company also known as Portos e Caminhos de Ferro de Mocambique E.P. (CFM) was the primary implementer and beneficiary of the project to fully restore the track of the Limpopo Rail Line. CFM was a Government of Mozambique parastatal company operating under the authority of the Ministry of Transport and Communications. To carry out reconstruction of the Limpopo Rail Line, CFM entered into a host country contract with a joint venture construction firm. USAID/Mozambique contracted directly with an engineering consulting firm to provide technical design and supervision services to CFM.

The Limpopo Rail Line was a major domestic and regional transport artery which was severely damaged by the cyclones and the subsequent flooding. During the initial work on the Limpopo Rail Line, which began on March 1, 2002, 225 kilometers from Maputo to the north side of the Limpopo River at Macarretane was reconstructed. In addition to fully restoring the track and line, repairs were made to the associated infrastructure (station houses, communication infrastructure, bridges, etc.). This work, known as Phase I, was completed by March 31, 2004. The Phase I reconstruction costs were \$39.9 million and oversight costs were \$6.3 million.

The Government of Mozambique then proposed extending the work on the Limpopo Rail Line from the Limpopo River to Chicualacuala (on the Mozambique/Zimbabwe border). USAID/Mozambique agreed, and this activity, known as Phase II, began in March 2004. This phase involved heavy maintenance (track alignment and earth work) and extended the rehabilitation effort an additional 300 kilometers at an estimated cost of \$5.5 million. Oversight costs for Phase II are estimated at \$1.4 million. Phase II is expected to be completed by the September 30, 2004 deadline. Phases I and II will result in total costs of approximately \$53.1 million, including costs for reconstruction and oversight.



This map of Mozambique illustrates locations of Phase I of the Limpopo Rail Line reconstruction from Maputo to Macarretane and Phase II from Macarretane to Chicualacuala. (Source:http://www.lib.utexas.edu/maps/africa/mozambique_po195.jpg)

Audit Objective

This audit was conducted at USAID/Mozambique as part of Regional Inspector General/Pretoria’s annual audit plan. The audit answered the following question:

- Did USAID/Mozambique implement and monitor its railroad reconstruction activities under Southern Africa Floods Supplemental Appropriations funding in accordance with USAID policies and procedures?

Appendix I contains a discussion of the audit's scope and methodology.

**Audit
Finding**

USAID/Mozambique implemented and monitored its railroad reconstruction activities under Southern Africa Floods Supplemental Appropriations in accordance with USAID policies and procedures. However, the Mission had not performed contractor performance evaluations as required by USAID's Automated Directives System (ADS) section 302.5.9.

In accordance with the requirements of ADS 202.3.6.1, USAID/Mozambique:

- reviewed and approved deliverables and performance reports;
- maintained a Cognizant Technical Officer's work file;
- reported variations, proposed substitutions, and problems;
- recommended modifications;
- analyzed financial reports; and
- approved interim payments.

In addition, USAID/Mozambique conducted regular site visits to the railroad to observe progress and participated in monthly meetings with the engineering consulting firm and representatives from the Mozambican Railway Company also known as Portos e Caminhos de Ferro de Mocambique E.P. (CFM). Furthermore, USAID/Mozambique regularly communicated with the various officials involved with the project. With the assistance of the implementing partners, the Limpopo Rail Line reconstruction is scheduled to be completed in September 2004. As a result of USAID/Mozambique's implementation and monitoring efforts, the Mission ensured that the contractors performed in accordance with the contract terms, and it appears all 525 kilometers will be completed without exceeding the \$55 million which was obligated for reconstruction of the damaged Limpopo Rail Line.



Photograph showing damage to the Limpopo Rail Line at Macarretane caused by flooding in 2000. (Photo courtesy of USAID/Mozambique.)



Photograph showing the same portion of the Limpopo Rail Line supported by the reconstructed bridge in 2004. (Photo courtesy of USAID/Mozambique.)

Although USAID/Mozambique implemented and monitored the railroad reconstruction activities in accordance with USAID policies and procedures, it did not conduct annual contractor performance evaluations as required. To date, the Mission only performed one evaluation, while the ADS requirement called for at least three. Thus, we are making a recommendation, provided in the following section that will address this problem.

Evaluation of Contractor's Performance Needs to Be Conducted and Documented

Summary: USAID/Mozambique did not, in accordance with USAID and Mission policy, conduct an annual contractor performance evaluation or prepare an annual contractor performance report for the engineering consulting firm that supervised the reconstruction contractor. This requirement, to evaluate and document the performance of the firm, was overlooked by USAID/Mozambique officials. As a result, vital information on the contractor's performance had not been officially documented. This practice could result in the future selection of contractors with poor past performance.

According to ADS 302.5.9,

It is USAID policy that contracts in excess of \$100,000, including individual task orders under indefinite quantity contracts, must be evaluated at least annually (for contracts exceeding one year in duration) and upon completion of activities, as required by FAR 42.1502.... More frequent evaluation may be conducted if the Contracting Officer and Cognizant Technical Officer determine them to be in the best interests of the activity.

Additional guidance is provided in ADS 202.3.6.1, which states that Cognizant Technical Officers' (CTOs) responsibilities for monitoring contractor performance may include, in part, "preparing annual Contractor Performance Reports for contracts that have a value of more than \$100,000, and submitting them to the Contracting Officer." Finally, USAID/Mozambique's Mission Order 302, which addresses *Contractor Past Performance Evaluations*, states, "For applicable contracts with a period of performance of one year or less, the evaluation will be conducted immediately after completion. For multi-year contracts, the evaluation will be conducted annually immediately after each anniversary date of the contract."

USAID/Mozambique awarded a contract on October 13, 2000 to an engineering consulting firm to provide design and supervision services for the reconstruction of the Limpopo Rail Line financed under the supplemental appropriations funding. This contract exceeded the dollar threshold specified in the ADS for requiring annual performance evaluations. In July 2003, USAID/Mozambique completed a performance evaluation for the contractor covering the period January 20, 2001 to October 31, 2002, but this evaluation was for a 21-month period instead of the required two evaluations for each 12-month period of the contract. In the evaluation, USAID/Mozambique reported dissatisfaction in one area that it rated. At the time of the audit, USAID/Mozambique had not conducted any evaluations for the subsequent 22-month period after October 31, 2002. Thus, USAID/Mozambique had completed only one performance evaluation for this contractor while the ADS required at least three.

The CTO responsible for monitoring this project said that he had not provided a performance evaluation report to the Procurement Management Unit because he was waiting for the Unit to request this information. According to a Procurement Management Unit official, that office had planned a final evaluation in 2003, believing that the reconstruction work would be completed by that time. However, the period for completing the work was extended, and the Mission subsequently overlooked the need to conduct a performance evaluation for that period. This is not the first instance of USAID/Mozambique being made aware of problems related to its handling of contractor performance evaluations. In January 2003, the Office of Inspector General issued Audit Report No. 4-656-03-001-P, which reported that USAID/Mozambique had not conducted annual performance evaluations for two engineering consulting firms who were providing design and supervision services for the repair and reconstruction of road segments and bridges. A recommendation was made for the Mission to conduct a performance evaluation of the two firms.

Performance evaluation is an important management tool. It documents contractor performance in areas such as quality, cost control, and timeliness. USAID should use these evaluations to support future award decisions. In this case, performing a timely performance evaluation was important in light of the problem identified in the one and only evaluation conducted, since a subsequent evaluation could have served as a means to identify whether the engineering consulting firm's performance had improved in that area. Moreover, such evaluations may be used by other agencies in the U.S. Government when considering procurement decisions with USAID contractors. Not having this information available for other agencies to review could result in the inefficient use of U.S. Government resources.

To ensure that the performance of the engineering consulting firm is documented in accordance with USAID policy, we make the following recommendation.

Recommendation No. 1: We recommend that USAID/Mozambique conduct a current performance evaluation of the engineering consulting firm that provided design and supervision services for the railroad rehabilitation funded under the Southern Africa Floods Supplemental Appropriations and prepare a contractor performance report documenting the results of the evaluation.

**Evaluation of
Management
Comments**

In response to our draft report, USAID/Mozambique management concurred with Recommendation No. 1. According to Mission Management, the Cognizant Technical Officer completed a performance evaluation of the engineering consulting firm on October 20, 2004, and is planning to perform a final evaluation after September 30, 2005. Therefore, we consider that a management decision has been reached upon final report issuance.

**Scope and
Methodology****Scope**

The Regional Inspector General/Pretoria conducted this audit in accordance with generally accepted government auditing standards. The audit covered the period from August 2000 through the end of our fieldwork on August 27, 2004, and assessed USAID Mozambique's implementation and monitoring of its railroad reconstruction activities under the Southern Africa Floods Supplemental Appropriations in accordance with USAID policies and procedures.

The scope of the audit included approximately \$55 million of supplemental appropriations funding that USAID/Mozambique obligated to reconstruct the Limpopo Rail Line from Maputo to Chicualacuala, bridges, and other associated infrastructure damaged by floods. In planning and performing the audit, we tested and assessed internal controls for USAID/Mozambique related to its monitoring of the contractors associated with the project.

In planning and performing the audit, we obtained an understanding of USAID/Mozambique's management controls, specifically regarding the implementation and monitoring activities of the Limpopo Rail Line and efforts to keep the project on time and within budget. For example, we examined and assessed whether USAID/Mozambique had (1) developed a monitoring plan for tracking inputs and outputs, (2) established and maintained a separate work file for documents and correspondence, (3) conducted site visits to evaluate progress, (4) documented significant actions, meetings, or conversations with contractors, (5) monitored funds closely on a regular basis, and (6) ensured the accuracy of reports submitted by the contractors.

The types of evidence examined during the audit included—but were not limited to—the Mission's implementation and monitoring of the railroad reconstruction activities, including internal documents and external correspondence with major stakeholders. Such evidence included contracts and related documents, progress reports, meeting minutes, analysis of the reconstruction activities and progress, and financial analyses and records. We did not verify cost data used in this report.

There were no prior audit findings affecting this area of review. We conducted the audit at USAID/Mozambique in Maputo, Mozambique from August 16 to 27, 2004. The audit also included a field visit to observe 225 kilometers of the completed Phase I section of the rail line.

Methodology

To gain an understanding of USAID/Mozambique's implementation and monitoring efforts, we held discussions with officials from the Mission and the contractors. We also reviewed relevant project documentation.

To accomplish the audit objective, we developed an audit program and performed the following tasks:

- Reviewed applicable laws, regulations, and USAID policy and guidance related to the audit objective.
- Gained an understanding of USAID/Mozambique's implementation and monitoring of rail reconstruction and repair by reviewing and analyzing applicable documentation such as—but not limited to—contracts, work plans, trip reports, progress reports, minutes of meetings, and financial reports.
- Reviewed the financial data—specifically vouchers submitted by the engineering consulting firm—to determine whether USAID/Mozambique had reviewed them for accuracy and paid them in a timely manner.
- Conducted a site visit of the rail line between Maputo and Macarrantane, Mozambique to observe the completed work and to interview contractor personnel.

We did not set a materiality threshold for this audit as the nature of the audit did not lend itself to the establishment of such a threshold. However, we designed the audit to address potential concerns such as:

- Inadequate oversight of reconstruction activities that might increase the likelihood of contracting irregularities.
- Inaccurate reporting on the status of contract activities.
- Lack of awareness of existing problems at the construction site.
- Payment made for services not rendered.

Management Comments



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT USAID MISSION TO MOZAMBIQUE

JAT Complex
Rua 1231, No. 41
Bairro Central "C"
Maputo, Mozambique

Phone: 258 1 352-000
Fax: 258 1 352-100

U.S.A Postal Address:
2330 Maputo Place
U.S. Department of State
Washington, D.C. 20521-2330

Department Fax Numbers

Director:	258 1 352-099
Executive Officer:	258 1 352-130
Controller:	258 1 352-140
S01/SPU:	258 1 352-085
S02/S03:	258 1 352-086
SPO/PDO:	258 1 352-148
PMU:	258 1 35-2149

MEMORANDUM

To: Jay Rollins
Regional Inspector General/Pretoria

From: Jay L. Knott /s/
Mission Director, USAID/Mozambique

Date: October 29, 2004

Subject: Draft Report on Audit of USAID/Mozambique's Performance Monitoring of Railroad Rehabilitation under the Southern Africa Floods Supplemental Appropriations, Dated: September 30, 2004

Recommendation No. 1 of the referenced report is as follows:

We recommend that USAID/Mozambique conduct a current performance evaluation of the engineering consulting firm that provided design and supervision services for the railroad rehabilitation funded under the Southern Africa Floods Supplemental Appropriations and prepare a contractor performance report documenting the results of the evaluation.

USAID concurs with this recommendation and has the following response:

This potential recommendation was identified during the Audit Exit Conference held on August 27, 2004, following the conclusion of the field work by RIG/Pretoria staff. On August 31, 2004 the project CTO requested that the Procurement Management Unit (PMU) initiate a formal performance evaluation. The CPS system evaluation cycle was such that this could only be done in October. The CTO completed the evaluation on October 20, 2004.

It is now envisioned that this contract will be extended through to September 30, 2005 to enable final inspections during the railroad reconstruction defect's liability period. A final audit will be performed at the completion of the contract, per USAID policy.