



OFFICE OF INSPECTOR GENERAL for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION (MCC) RESOURCES MANAGED BY MILLENNIUM CHALLENGE ACCOUNT- TANZANIA (MCA-TANZANIA), UNDER THE COMPACT AGREEMENT BETWEEN THE MCC AND THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA FROM JULY 1, 2010 TO DECEMBER 31, 2010

AUDIT REPORT NO. M-000-12-013-N
March 20, 2012

WASHINGTON, DC

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.



*Office of Audit
for the Millennium Challenge Corporation*

March 20, 2012

Mr. Patrick Fine
Vice President, Department of Compact Operations
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account-Tanzania (MCA-Tanzania) Under the Compact Agreement between the MCC and the Government of the United Republic of Tanzania from July 1, 2010 to December 31, 2010 (Report No. M-000-12-010-N)

Dear Mr. Fine:

Attached is the subject audit report prepared by the independent audit firm, Innovex. The audit was contracted by Millennium Challenge Account – Tanzania (MCA-Tanzania) and covered compact expenditures totaling \$83,501,036 for the period from July 1, 2010 to December 31, 2010.

The U.S. Government acting through the Millennium Challenge Corporation (MCC) signed a five-year compact with the Government of the United Republic of Tanzania for approximately \$698 million. The United Republic of Tanzania established MCA-Tanzania to implement and manage the programs described in the signed compact. The purpose of the compact is to reduce poverty and stimulate economic growth through investments in the transportation, energy, and water sectors.

We have reviewed the report and accepted it as meeting the reporting requirements of the *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* issued by USAID's Office of Inspector General. However, the auditors, Innovex, disclosed that they did not fully comply with U.S. Generally Accepted Government Auditing Standards (GAGAS) since they did not have an external quality control review by an unaffiliated audit organization, as required by Chapter 3, paragraph 3.55 of U.S. Government Auditing Standards, as no such program is offered by professional organizations in Tanzania. Innovex also did not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. Our review was limited to an examination of the audit report. We did not conduct a quality control review of the audit working paper documentation.

The audit included (a) expressing an opinion on MCA-Tanzania's fund accountability statement, (b) determining whether cost-sharing contributions were provided and accounted for with the terms of the compact and supplemental agreements, (c) evaluating and obtaining an understanding of MCA-Tanzania's internal control structure, and (d) determining MCA-Tanzania's compliance with the compact terms and applicable laws and regulations.

The auditors reported that the Fund Accountability Statement presented fairly, in all material respects, program revenues and costs incurred for the period audited. However, the auditors identified significant deficiencies pertaining to internal controls and material weaknesses related to compliance with laws and regulations. These issues are discussed below.

Internal Control

- Bank Statements were not reviewed monthly

The auditors noted that MCA-Tanzania's management was not reviewing and reconciling monthly bank statements. The monthly bank statements must be reviewed and approved by management after they are reconciled as required in the Fiscal Accountability Plan (FAP) guidelines.

Recommendation 1: We recommend that MCC request MCA-Tanzania's management to perform a monthly review and reconciliation of the bank statements in accordance with FAP guidelines.

- Vehicle Log Books were not properly reviewed or authorized (Repeat finding)

The auditors noted instances where vehicle usage lacked proper authorization. The auditors further noted that a lack of review of the vehicle log books was not performed. The FAP guidelines state that the driver must complete a fuel requisition form and forward a copy of it to the Human Resource Officer together with the vehicle log book showing kilometers driven and when the vehicle was last refueled.

Recommendation 2: We recommend that MCC request MCA-Tanzania to ensure that all logbooks are periodically reviewed by a senior official and that responsible officials authorize the trips.

- Discrepancies were noted in the vehicle's fuel consumption readings (Repeat finding)

The auditors found discrepancies in the fuel consumption levels in vehicles STK5529, STK5530, and STK5532 and reported differences between the actual and expected consumption. The FAP guidelines state that the Director of Finance and Administration must establish a weekly allocation of fuel for each vehicle.

This condition had been identified in a previous audit report¹. Therefore, we are not making a new recommendation at this time.

¹ Report on the Audit of the Millennium Challenge Corporation (MCC) Resources Managed by Millennium Challenge Account-Tanzania (MCA-Tanzania), Under the Compact Agreement Between the MCC and the Government of the United Republic of Tanzania from January 1, 2010 to June 30, 2010, p. 35 March 8th, 2012.

Compliance

- Procurement implementation plan was not implemented

The auditors reported findings in the project procurement implementation plan. The project procurement implementation plan was not implemented as required in paragraph P.2.2 of the MCC Program Procurement Guidelines and Section 4 of the Procurement Operations Manual.

Recommendation 3: *We recommend that MCC request MCA–Tanzania to implement the procurement implementation plans as required under paragraph P.2.2 of the MCC Program Procurement Guidelines.*

- Compact funds are not utilized in accordance with budgeted funds (Repeat finding)

The auditors identified a repeat finding in the utilization of compact funds. Specifically, the auditors noted a trend indicating an underutilization of budgeted funds which was hindering the timeliness of activity implementation.

Recommendation 4: *We recommend that MCC request MCA–Tanzania to ensure that budgeted compact funds are utilized in accordance with the detailed financial plans submitted.*

- Implementation of project activities is inconsistent with actual budget

The auditors reported a finding in non-implementation of planned project activities. The auditors further reported that actual expenditures were lower than the amount actually budgeted. As a result, detailed financial plans are inconsistent with the reported budget funds and activities.

Recommendation 5: *We recommend that MCC request MCA-Tanzania to implement a control mechanism designed to improve MCA-Tanzania's cash projections that will present a more accurate detailed financial plan.*

This report is being transmitted to you for your action. Please advise me within 30 days of this letter the action planned or taken to implement the recommendations. Refer questions concerning this report to Fred Jones, Director of Financial Audit at (202) 216-6963.

Sincerely,



Mark S. Norman
Acting Assistant Inspector General
for Audit
Millennium Challenge Corporation

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MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

AUDIT OF THE FUND ACCOUNTABILITY STATEMENT OF MILLENNIUM CHALLENGE CORPORATION (MCC) RESOURCES MANAGED BY MILLENNIUM CHALLENGED ACCOUNT-TANZANIA (MCA-TANZANIA) UNDER THE COMPACT AGREEMENT DATED FEBRUARY 17, 2008 BETWEEN MCC AND THE GOVERNMENT OF UNITED REPUBLIC OF TANZANIA FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010



TABLE OF CONTENTS	Page
Transmittal Letter	1
Summary	
Background	2
Objectives of the Audit	2
Scope of the Audit	3 - 4
Results of the Audit	5 - 7
Fund Accountability Statement	
Independent Auditor's Report	8 - 9
Fund Accountability Statement	10-12
Notes to the Fund Accountability Statement	13-18
Internal Control	
Independent Auditor's Report on Internal Control	19 -20
Compliance with Terms of the Compact, other agreements and Applicable Laws and Regulations	
Independent Auditor's Report on Compliance	21-22
Schedule of audit findings	23 -31

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23 February 2012

The Governing Board
Millennium Challenge Account -Tanzania
Development House
Kivukoni Front/Ohio Street
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Dar es Salaam
Tanzania

Audit of the Fund Accountability Statement of the Millennium Challenge Corporation (MCC) resources managed by Millennium Challenge Account (MCA)-Tanzania under the Compact Agreement dated February 17, 2008 between MCC and the Government of the United Republic of Tanzania for the period from July 1, 2010 to December 31, 2010

Dear Sirs,

We are pleased to present our report on the Fund Accountability Statement which includes the results of the financial audit, the report on internal control and the report on compliance with laws and regulations applicable to the Millennium Challenge Account (MCA)-Tanzania, for the implementation of the Millennium Challenge Account Program to advance economic growth and poverty reduction in Tanzania for the period from July 1, 2010 to December 31, 2010. The actual cost incurred and audited for the period July 1, 2010 to December 31, 2010 is \$83,501,036 for the Compact.

Yours sincerely

**INNOVEX Auditors**

Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: 23 February 2012

BACKGROUND

On February 17, 2008 the Millennium Challenge Compact was signed between the Government of the United Republic of Tanzania and the Government of the United States of America, acting through the Millennium Challenge Corporation (MCC) – a United States Government Corporation. The objective of the agreement is to advance economic growth and poverty reduction in Tanzania through strategic investments in transportation, energy and water infrastructure. The total value of the Compact is US\$ 698 million over a five year period.

The Government of the United Republic of Tanzania established Millennium Challenge Account (MCA)-Tanzania, an independent accountable entity through Government Notice No. 202 of September 21, 2007 to oversee and administer the implementation of the compact. The MCA - Tanzania program audited is Compact to fund implementation of program activities of MCA-Tanzania which started on March 1, 2008. The audit covered the period from July 1, 2010 to December 31, 2010.

OBJECTIVES OF THE AUDIT

We have been contracted to conduct a financial audit of the MCC resources managed by MCA-Tanzania under the Compact, pre-Compact and/or supplemental agreement between the Millennium Challenge Corporation, representing the U.S. Government, and the Government of Tanzania from July 1, 2010 to December 31, 2010 in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States and the Office of Inspector General for the Millennium Challenge Corporation “Guidelines for Financial Audits Contracted by The Millennium Challenge Corporation’s Accountable Entities” (Revision dated August 3, 2007).

The Fund Accountability Statement (FAS) is the basic financial statement to be audited that presents MCA-Tanzania’s revenues, costs incurred and cash balance of MCC-provided funds.

Specifically, we have been required to:

- Express an opinion on whether the Fund Accountability Statement for the MCC-funded programs presents fairly, in all material respects, revenues received and costs incurred for the period audited in conformity with the terms of the Compact, pre-Compact and/or supplemental agreement and related ancillary agreements and Generally Accepted Accounting Principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis), including supplemental schedules to reflect accruals for items, such as accounts payable and other related expenses.
- Evaluate and obtain a sufficient understanding of MCA -Tanzania’s internal controls related to the MCC-funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost-sharing contributions (if applicable).
- Perform tests to determine whether MCA-Tanzania complied, in all material respects, with the Compact, pre-Compact and/or supplemental agreement, and applicable laws and regulations related to MCC-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to required cost-sharing contributions, if applicable. Specifically, the auditor shall perform tests to determine whether MCA-Tanzania complied, in all material respects, with the Procurement Agreement and the Fiscal Accountability Plan in effect during the audit period.
- Determine if MCA-Tanzania has taken adequate corrective action on the prior audit report recommendations.

SCOPE OF THE AUDIT

The scope of work included the following procedures as the basis for the audit programs and the review. They are not considered all-inclusive or restrictive in nature and do not relieve the auditor from exercising due professional care and judgment. We modified the procedures to fit local conditions and specific contract design, implementation procedures and agreement provisions. The limitation of scope explained in this section was communicated to the appropriate MCC office. The audit procedures included the following:

- I. We reviewed the Program documents including the Compact, Program Implementation Agreement (PIA), Compact Implementation Funds (CIF) agreements, The Fiscal Accountability Plan, Procurement Guidelines, service contracts and Implementing Entity agreements among others.
- II. We selected a sample of costs incurred by the Program and reimbursed by MCC and costs incurred, but not yet reimbursed, examined supporting documentation, verifying whether disbursements are backed up with adequate documentation, and if they are reasonable and allowable under the terms of the Compact and applicable laws and regulations.
- III. On a sample basis, a review of the general and program ledgers was done to determine whether costs incurred were properly recorded.
- IV. We reviewed the procedures used to control the funds including those for channeling them to contracted financial institutions (Bank of Tanzania) or other implementing entities.
- V. Reviewed the bank accounts and the controls on those bank accounts including bank reconciliation. We confirmed bank balances, as required.
- VI. Tested a sample of the expenses submitted in requests for disbursements to MCC and any MCA-Tanzania advances of funds to sub-implementing entities to ensure documentation support, including reconciliations of funds advanced, disbursed, and available.
- VII. We verified whether all funding received by MCA-Tanzania from MCC was appropriately recorded in MCA-Tanzania's accounting records and that those records were periodically reconciled with information provided by MCC.
- VIII. Determined whether program income was added to the funds used to further eligible program objectives, to finance the non-MCC share of the program, or deducted from program costs, in accordance with the terms of the Compact and related agreements.
- IX. We reviewed procurements to establish whether best practices including competition, reasonable prices and adequate controls over the qualities and quantities received exist. Compliance with the Procurement Guidelines, approved Procurement Plan, and the Fiscal Accountability Plan was also tested.
- X. On a sample basis we reviewed salary rates for staff to determine the reasonableness of salary charges compared to those approved by MCC, and checked whether they were supported by appropriate payroll records.

**SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

- XI. Tested the overtime charged to the program including whether it is allowable under the terms of the Compact and related agreements. The same test covered allowances and fringe benefits received by employees to establish compliance with the agreements and applicable laws and regulations.
- XII. Examined on a sample basis, travel and transportation charges to establish whether they are adequately supported, approved and in accordance with the compact, other agreements and regulations.
- XIII. We audited a sample of assets acquired by MCA-Tanzania by verifying their physical existence, checked if they are properly safeguarded and examined whether they are used wholly and exclusively for the Program activities in accordance with the compact and related agreements.
- XIV. We reviewed on a sample basis technical assistance and services costs to assess whether they have been used for the intended objectives as per the terms of the Compact and related agreements.
- XV. Reviewed payments made to non-US consultants for technical assistance and services contracted by MCA-Tanzania. This included a review of the contracts for compliance, allowability, allocability and reasonableness.
- XVI. We obtained an understanding and assessed the internal control structure of the Program and evaluated its ability to record, process and report financial information required for the preparation of the Fund Accountability Statement.
- XVII. We checked compliance of MCA-Tanzania with the terms of the Compact and applicable laws and regulations.

SCOPE LIMITATIONS

Our continuing education program may not fully satisfy the requirements set forth in Chapter three, paragraph 3.46 of U.S. Government Auditing Standards, since not all auditors involved in the engagement's planning, directing, performing field work and reporting have completed at least 24 hours every two years of continuing education directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. However, the firm's current continuing education program provides for at least 120 hours of continuing education and training every three years.

We did not have an external quality control review conducted by an unaffiliated audit organization as required by Chapter three, paragraph 3.55 of U.S. Government Auditing Standards, since no such program is offered by any professional organization in Tanzania. Nevertheless, we believe that the effects of this departure from U.S. Government Auditing Standards are not material, because we are subject to external review by the regulatory body National Board of Accountants and Auditors (NBAA) in Tanzania.

SUMMARY RESULTS OF THE AUDIT

Fund Accountability Statement

The MCA-Tanzania Fund Accountability Statement has been prepared on a cash basis of accounting. Income and assets were recognized when received rather than when earned, and expenses when paid for rather than when incurred.

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the period from July 1, 2010 to December 31, 2010 in accordance with the terms of Compact Agreement and in conformity with the cash basis of accounting as described in Note 1 in the Fund Accountability Statement.

Internal Controls

Our approach to audit the Fund Accountability Statement considered MCA-Tanzania Internal Control Structure to obtain sufficient understanding of their design and operation. The understanding enabled us to determine the nature, timing and extent of tests to be performed, and evaluate the inherent and control risks, so as to express an appropriate opinion on the Fund Accountability Statement.

Our assessment identified two significant deficiencies and no material weaknesses that could adversely affect MCA-Tanzania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Generally Accepted Accounting Principles. These findings are described on pages 21 to 28 of this report.

Compliance with Agreement Terms and Applicable Laws and Regulations

To determine whether the Fund Accountability Statement does not contain material omissions and errors, we reviewed MCA-Tanzania compliance with the Compact, pre-Compact, Procurement Agreement and Procurement Guidelines, Fiscal Accountability Plan, other agreements and applicable laws and regulations related to MCC-funded projects. However, our objective was not to express an opinion on MCA-Tanzania general compliance with the above provisions.

Common Payment System

We have reviewed all payment ledgers via Common Payment System (CPS) and payment detail reports to determine those payments made in accordance with policies and procedures for CPS. Also, all payment request forms have been reviewed regarding those requests made, and approved by authorized persons who are stated in Fiscal Accountability Plan, and payment amounts have been reconciled with the vendor's invoices and payment detail reports. We have scrutinized amounts in payment detail reports with the accounting records of the MCA-Tanzania and assessed the MCC payment deadline.

Follow-up of Prior Audit Recommendations

As part of our audit procedures, we have reviewed the status of actions taken on findings and recommendations included in the independent Auditor's Report on the fund accountability statement for the period from September 1, 2007 to June 30, 2010, Independent Auditor's Report on internal controls and Independent Auditor's Report on compliance. We report on status of the corrective actions below:

**SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

Reported issues for Prior period for the period ended 30 June 2010

S/n	Type	Issue	Status	Open or Closed
1	Internal Control	Improper retirement of imprest and non updating of the imprest register	Implemented	Closed
2	Internal Control	Abnormal fuel consumption (Repeat Finding, page 24)	Partially implemented Vehicles STK 5532, 5530, and 5529 are still having abnormal consumption of fuel.	Open
3	Internal Control	Non completion of leave return forms	Implemented	Closed
4	Internal Control	Incomplete information on vehicle daily registers to show the purpose of travel (repeat Finding, page 22)	Not implemented Details of the trip and authorization signature is still missing on the Vehicle daily register	Open
5	Internal control	Non examination of petty cash on a weekly basis (Management Letter Item)	Implemented	Closed

Reported issues for Prior period for the period ended 31 December 2009

S/n	Type	Issue	Status	Open or Closed
1	Internal Control	Non completion of leave return forms	Implemented	Closed
2	Internal Control	Improper retirement of imprest and non updating of the imprest register	Implemented	Closed
3	Internal Control	Abnormal fuel consumption	Partially implemented Vehicle STK 5529 is still having abnormal consumption of fuel.	Open

**SUMMARY OF THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

Reported issues for period ended 30 June, 2009

S/n	Type	Issue	Status	Open or Closed
1	Internal Control	Non completion of leave return forms	Implemented	Closed
2	Internal Control	Late retirement of imprest	Implemented	Closed

Reported issues for period ending 31 December 2008

	Type	Issue	Status	Open or Closed
1	Internal Control	Partial Address of the Epicor accounting system to MCA-Tanzania's information requirements	Implementation in progress. Epicor 9.1 will be able to produce Fund Accountability Statement and Budget Execution Report automatically by the end of 30/09/2010 and assets by 01/11/2010	Open
2	Internal Control	Accounting for Imprest.	Implemented. Staff members are still taking a long time to retire imprest after returning from official trips	Closed



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INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

23 February 2012

The Governing Board
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P.O. Box 8327
Dar es Salaam
Tanzania

We have audited the Fund Accountability Statement of Millennium Challenge Account (MCA)-Tanzania for the period from July 1, 2010 to December 31, 2010. The Fund Accountability Statement is the responsibility of Millennium Challenge Account (MCA)-Tanzania's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit of the Fund Accountability Statement in accordance with U.S. Government Auditing Standards 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 do not have a continuing education program that fully satisfies the requirements set forth in Chapter 3, paragraph 3.46 of U.S. Government Auditing Standards. However, our current program provides for at least 120 hours of continuing education and training every three years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.55 of the U.S. Government Auditing Standards, since no such program is offered by professional organizations in Tanzania. We believe that the effect of this departure from U. S. Government Auditing Standards is not material, because quality

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

INDEPENDENT AUDITORS' REPORT TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD FROM JANUARY 1, 2010 TO JUNE 30, 2010

control reviews however, are conducted by a Regulatory body, the National Board of Accountants and Auditors in Tanzania.

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by Millennium Challenge Corporation (MCC) for the period from July 1, 2010 to December 31, 2010 in accordance with the terms of Compact Agreement and in conformity with the cash basis of accounting as described in Note 1(a) in the Fund Accountability Statement.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated September 2, 2011, on our consideration of MCA-Tanzania's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

This report is intended for the information of MCA-Tanzania and Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.



INNOVEX Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: 23 February 2012

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

MCA-TANZANIA
609g FUNDING STATEMENT
July 1, 2010 to December 31, 2010

	<u>Budget</u>	<u>ACTUAL COSTS</u>		<u>Cumulative</u>	<u>Questioned Costs</u>		<u>Notes</u>
		<u>Prior Period</u>	<u>Current Period</u>		<u>Ineligible</u>	<u>Unsupported</u>	
REVENUE	\$0	\$889,247	\$0	\$ 9,800,000			
	\$0	\$889,247	\$0	\$9,800,000			
COSTS INCURRED							
Transportation	\$0	\$429,238	\$0	\$1,059,257			
Energy	\$0	\$460,009	\$0	\$5,195,248			
Programme Management	\$0	\$0	\$0	\$2,748,554			
Monitoring and Evaluation	\$0	\$0	\$0	\$796,941			
	\$0	\$889,247	\$0	\$9,800,000			
Outstanding fund balance	\$0	\$0	\$0	\$0			

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

MCA-TANZANIA
CIF FUNDING STATEMENT
July 1, 2010 to December 31, 2010

		<u>ACTUAL COSTS</u>				<u>Questioned costs</u>		
		<u>Budget</u>	<u>Prior Period</u>	<u>Current Period</u>	<u>Cumulative</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
REVENUE								
Grant no. GR08TZ08001 (MCC/CIF)		\$0	\$1,751,250	\$0	\$5,540,056			
		\$0	\$1,751,250	\$0	5,540,056			
COSTS INCURRED								
Transportation		\$0	\$754,704	\$0	\$1,975,566			
Energy		\$0	\$40,335	\$0	\$582,178			
Water		\$0	\$940,956	\$0	\$1,481,556			
Programme Management		\$0	\$15,255	\$0	\$1,340,692			
Monitoring and Evaluation		\$0	\$0	\$0	\$160,064			
		\$0	\$1,751,250	\$0	\$5,540,056			
Outstanding balance	fund	\$0	\$0	\$0	\$0			

MILLENNIUM CHALLENGE ACCOUNT - TANZANIA

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

**MCA-TANZANIA
COMPACT FUNDING STATEMENT
July 1, 2010 to December 31, 2010**

	ACTUAL COSTS				Questioned costs		Notes
	Budget	Prior Period	Current Period	Cumulative	Ineligible	Unsupported	
	USD	USD	USD	USD			
REVENUE							
Grant no. GR08TZA08001 (MCC/CIF)	\$149,938,490	\$29,759,773	\$84,522,365	\$121,813,048	-	-	4
	\$149,938,490	\$29,759,773	\$84,522,365	\$121,813,048	-	-	
COSTS INCURRED							
Transportation	\$92,031,221	\$24,978,890	\$41,528,431	\$68,842,676	-	-	5
Energy	\$36,988,479	\$3,313,998	\$32,292,979	\$38,273,089	-	-	6
Water	\$13,674,456	-	\$1,175,226	\$1,199,226	-	-	7
Programme Management	\$6,340,04	\$2,376,659	\$8,1412,731	\$13,291,065	-	-	8
Monitoring and Evaluation	\$903,429	\$111,555	\$91,669	\$206,992	-	-	9
	\$149,938,490	\$30,781,102	\$83,501,036	\$121,813,048	-	-	
Outstanding fund balance	\$0	(\$1,021,329)	\$1,021,329	\$0			10

¹ MCA-Tanzania third party payments of \$4,999,242 made to USAID Tanzania by MCC for HIV risk mitigation forms part of the programme management costs. These third party payments are added to the fund accountability statement for the purpose of providing full disclosure of MCA-Tanzania expenditures for the audit period. The scope of the MCA-Tanzania Accountable Entity Audit does not cover funds managed by MCC on behalf of MCA-Tanzania. The audit of these expenditures will take place in the annual MCC Financial Audit.

1. Accounting Entity

The accounting entity is the Millennium Challenge Account (MCA)-Tanzania.

On February 17, 2008 the Millennium Challenge Compact was signed between the Government of the United Republic of Tanzania and the Government of the United States of America, acting through the Millennium Challenge Corporation (MCC), a United States Government Corporation.

The objective of the agreement is to advance economic growth and poverty reduction in Tanzania through strategic investments in transportation, energy and water infrastructure. The total value of the Compact is USD \$698 million over a five year period.

The Government of the United Republic of Tanzania established MCA-Tanzania, an independent accountable entity through Government Notice No. 202 of September 21, 2007 to oversee and administer the implementation of the Compact.

Significant Accounting Policies**a) Basis of Preparation**

The Fund Accountability Statement has been prepared on the basis of cash receipts and cash payments. Income and assets were recognized when received rather than when earned, and expenses when paid for rather than when incurred.

This is a cash basis of accounting rather than the accrual basis which is required by the International Financial Reporting Standards, adopted in Tanzania from 2004. However, the cash basis of accounting is still considered appropriate for projects reporting in Tanzania.

The Fund Accountability Statement was prepared using the accounting records of MCA-Tanzania. The recording, processing and reporting of information for Fund Accountability Statement follows the guidelines of the Fiscal Accountability Plan Manual dated December 2009 which also emphasises the use of cash accounting.

b) Interest

There was no interest earned on MCC funding that is held in the Bank of Tanzania (BoT) account because of the requirement to disburse the fund to respective vendors within two hours of receipt. Further, BoT as a non-commercial entity does not offer interest rates for deposits held awaiting disbursement.

c) Property and Equipment

MCA-Tanzania's assets are recorded at cost and expensed immediately. No depreciation or revaluation is provided for asset usage or appreciation in their value as per section 10.3 on Capitalization and Depreciation of assets of the Fiscal Accountability

2. Exchange Rate and Monetary Unit

The Fund Accountability Statement is presented in United States Dollars (USD), to comply with the U.S. Government reporting requirements. All receipts were in USD and all payments were made in USD except for administrative expenses which were disbursed in Tanzanian Shillings (TZS). These expenses were converted into USD at ruling rate on the date of transactions.

3. Tax Exemption

Through section 2.7 (a) of the Compact, the Government of the United Republic of Tanzania committed that MCC assistance will be exempted from any existing or future taxes, duties,

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

levies, contributions or other similar charges by the Government including national, regional, local or other governmental or taxing Authority.

4. Revenue

Revenue consists of disbursements received from MCC during the period from July 1, 2010 to December 31, 2010. The disbursements were made against MCA-Tanzania payment requests to MCC. The MCA-Tanzania programs audited is Compact agreement which were provided for in the agreement signed on February 17, 2008.

The Compact budgeted funds are \$149,938,490 and the Compact actual costs incurred for the audited period is \$83,501,036.

5. Transportation

The expenses are associated with transportation activities related to Compact implementation	Actual
Mafia Island Airport	\$225,000
Mainland Trunk Roads	\$41,303,431
Total	<u>\$41,528,431</u>

Payments of \$225,000 were made to SNC-Lavalin International SAS for consultant services of submission of draft design review report and updated EIA.

Mainland trunk roads includes payments of \$7,533,339.75 made to SOGEA - SATOM limited for upgrading the Songea Namtumbo road (67kms) to Bitumen standards, \$2,645,771.28 which was paid to Sinohydro Corporation Limited for upgrading of Tanga - Horohoro road (65 kms) to Bitumen standard. \$48,969.19 was paid to Intercontinental Consultant and Technocrats PVT ltd for consultancy services for supervision of Tanga Horohoro road and \$11,137,557.60 was a payment to China New Era International Engineering Corporation for upgrading of Ikana - Laela Road (64.2 Km). Payments of \$596,420.46 were made to Nicholas O'DWYER and Company for consultancy services for the supervision of works on the Mtwara corridor to bitumen standards while \$555,580 was paid to Grontmij/Carl Bro A/S for project management services for the transport sector. Payments amounting to \$195,876.75 were made to Intercontinental Consultants and Technocrats PVT ltd for consultancy services for the supervision of Tanga Horohoro road. Consolidated Contractor Group S.A.L (off shore (ccc) was paid \$8,175,494.98 for works for the upgrading of Tunduma Ikana road (63.7 km) to bitumen standard and \$1,748,798.13 was paid to AARsleff Bam International as an interim payment for upgrading of Laela Sumbawanga road (95.31 kms) to Bitumen standard. Adolf Grunt was paid \$30,000 for individual consultant contract; \$114,771.52 was paid to PAPS as resettlement compensation for the Tanga – Horohoro, Peramiho Mbinga, Tunduma Laela Tunduma Sumbawanga and Songea Namtumbo roads. \$ 20,748 was a payment made to Africon for consultancy services for the review and upgrading of the design of the Tunduma to Laela road (128kms) and \$22,585 was a payment to UWP Consulting Limited for consultancy services of Infrastructure oversight/technical assistance in TANRODS. A payment of \$70,330 to Brian Warren, for an individual consultant contract for transport management consultancy Payments of \$500,585.16 were made to Egis BCEOM International for consultancy services of the Tunduma Sumbawanga road (224.5 km) and \$7,882,968.18 was paid to Sinohydro Corporation Limited for upgrading of Peramiho JCT - Mbinga Road (78 km) to Bitumen Standard. Payments of \$23,635 were made to EGIS BCEom International for consultancy services which is supervision of works for the Songea Namtumbo roads.

6. Energy

The expenses are associated with energy activities related to Compact implementation

	Actual
Distribution systems rehabilitation and extension activity	\$19,527,963
Malagarasi Hydropower and Kigoma Distribution activity	\$903,799
Zanzibar Interconnector activity	\$11,861,217
	\$32,292,979

Energy costs in respect to distribution systems rehabilitation and extension activity were for payments to ESBI Engineering and Facility Management of \$877,413.45 for Phase 2 of the contract for supervision and oversight for the distribution systems rehabilitation and extension and \$447,730.56 was paid to AFRICARE for the provision of consulting services for resettlement action plan (RAP) completion and implementation for the energy. Payments of \$4,844,407 were made to Symbion Areva for the construction and distribution systems and rehabilitation and extension activity, while \$9,541,426.04 was paid to Symbion Power for designing and building of distribution network rehabilitation and extension for Lots 1 and 3). Payments of \$3,593,560.49 were made to Pike Erectric Inc for designing and building of distribution network rehabilitation and extension of Lot 2. Payment to AZOROM Limited of \$106,585.50 for technical assistance for electricity loss reduction study for TANESCO and (ZECO), \$62,500 payment to Business plan for provision of Technical assistance distribution systems rehabilitation and extension and \$54,340 paid to CMC Automobile for purchase of cars.

For Malagarasi Hydropower and Kigoma Distribution activity, payments of \$72,618.78 were made for studies, designs and bid documents and \$788,672.80 was paid for supervision and oversight consultancy services to ESBI Engineering & Facility Management respectively Payments of \$42,507 were made to AXEL SCHOLLE for technical assistance

For the Zanzibar Interconnector activity, payments totaling \$5,622,680 were made to VISCAS Corporation through interim payment certificate No.1 for design and building of the 132kV submarine cable works. Payments of \$1,899,125 were made to SYMBION AREVA for the construction and upgrading of the substation. . Payments of \$1,209,768.99 were made to ESBI Engineering and Facility Management for supervision and oversight consultancy services as well as payments of \$2,393,579.94 which were made to Sundry project affected persons as resettlement compensation. Payment to the tune of \$708,906.72 paid to Africare Tanzania for the provision of consulting services for resettlement action plan (RAP) completion and implementation for the energy project, \$2,526 Payment to CSI for purchase of 6 Sonny digital camera and Sam Disk Memory stick for in kind and \$24,630 was paid to CMC Automobile for the purchase of Ford range long wheel base double CAB 4x4 for the energy project.

7. Water

The expenses are associated with water activities for Compact implementation

	Actual
Lower Ruvu plant expansion	\$ 634,909
Non revenue water activity	\$540,317
	\$1,175,226

Lower Ruvu plant expansion includes \$625,645 paid to SMEC International Pty Ltd for study design and bid documents and the remaining \$9,264 were paid to UWP Consulting (T) Ltd for Technical assistance.

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

Non revenue water activity includes \$498,628 paid to EGIS BCEOM International for study design and bid documents while the remaining amount \$41,689 were paid to UWP Consulting (T) Ltd for Technical assistance.

8. Programme Management

The expenses are associated with support activities to compact implementation

	Actual
Audit Services	22,730
Fiscal Agent Support	84,834
Procurement Agent Services	1,698,376
Program Administration MCA – Tanzania	6,606,791
	8,412,731

- Audit services refer to the amount of \$22,730 paid to INNOVEX Auditors for providing audit services.
- Fiscal Agent refers to \$55,150.23 which was paid to Soft Tech consultants Ltd for supply and installation of financial systems for Fiscal Agent and \$29,684 which was paid to Greg Grosenick for consultant services.
- Procurement Agent services refers to payments totaling \$1,664,647.35 which were made to Crown Agents USA Inc for procurement agency fees and advisory fees. \$14,282.39 which was spent on adverting costs and \$19,445.92 was for bid related costs.
- Program Administration expenses refers to \$729,688.35 which was spent on remunerating MCA-T staffs, MCA Tanzania third party payments of \$4,990,242 made by MCC which were made to USAID for HIV risk mitigation in Tanzania, \$129,982.97 which was paid for pension contribution for MCA-T staffs, \$102,372.61 which was spent on leave allowances for MCA-T staffs, \$6,194.88 which was paid to Knight Frank for rent for the Zanzibar office, \$14,168.82 which was paid to Kipawa Enterprises and Kijangwani petrol station for fueling MCA-T motor vehicles, \$6,968.33 was paid to DT Dobie & Company Tanzania for repair and maintenance of motor vehicles while \$237.89 was paid to Andrew Traders for supply of tyres, \$3,599.88 which was paid to BJM Technical services for repair of office equipments, \$14,095.36 was paid to Hima Investments Ltd for modification of the Zanzibar office, \$3,685.08 was paid to Quality Furniture & General Appliance for supply of office furniture, \$2,483.70 was paid to Dubai Trading Company Ltd for supply of office equipments, \$1,722 was paid to Engineering works for supply and fixing wall shelves, \$6,036.70 which was paid to TTCL for landline telecommunication, \$29,362.45 which was paid to MCA-T staffs for mobile phones allowances, \$2,811.61 which was paid to Luther House Centre for parking charges, \$7,624.93 was paid through MCA-T drivers as parking fees, \$2,267.66 which was paid to IFM restaurant for serving lunch to 65 people on the anti-fraud and corruption training, \$6,400 which was paid to the Association of Consulting Engineers for training on FIDIC contract training, \$2,562.85 which was paid to MCA-T Staffs for FIDIC contracts training, \$244.52 which was paid to the Procurement & Supplies Board for registration and annual fees for MCA-T procurement staffs, \$3,809.24 which was incurred for advertisement expenses, \$6,315.29 which was paid to Ultimate Security Tanzania for security services, \$55,667 which was paid to Symfact on submission of the inception report on contract number MCAT-T/COM/091/250, \$35,500 which was paid to Bell Communication Ltd for the supply and installation of software in Zanzibar, \$42,898 which was paid to Technology Associate for supply, installation and training on FAS 2020 Controller, \$15,502.14 which was paid to INFOSYS for supply and installation of IT soft ware, \$89,168.52 which was paid to Simply Computers Ltd for supply and installation of IT equipments and software, \$6,704.69 which was paid to G&L Bright Agency and Services Ltd for office supplies, \$1,763.31 which was paid to Darworth for supply of office stationeries, \$2,052.60 which was paid for office

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

supplies through petty cash, \$5,136.50 which was paid to Akhaz General Traders for fumigation services, \$5,772.05 which was paid to Fame Consolidated Services Co for cleaning and sanitary services, \$1,853.04 which was paid to Jo & Jo General Traders for printing the MCA-T news letter, \$232.26 which was paid to Colour Print (T) Ltd for MCA-T brochures in Kiswahili version, \$4,393.15 which was paid to Tanzania Standard Newspaper Ltd for supply of news papers, \$39,381.16 which was paid to INFOSYS for supply of IT equipment, \$27,196 which was paid to Dubai Trading Co. Ltd for supply of IT equipments, \$1,350 Entersoft Systems Co Ltd for domain registration and website hosting, \$13,574.73 which was paid to East Africa Technology for supply of IT equipment, \$53,772.20 have been spent on travel expenses for MCA-T Staffs, \$1,998 which was paid to AAR insurance Tanzania for employees health insurance, \$83,253.96 which was paid to Jose M cabral for supervision and oversight, \$23,627.87 which was paid to Pravash Kumar Mishra for supervision and oversight, \$6,957.67 which was paid as in kind to NEMC, \$5,679.88 which was paid as direct support in salary to NEMC, \$10,479.26 which was given as in kind to ZEMC

9. Monitoring and Evaluation

The expenses are associated with supportive activities to Compact implementation	Actual (\$)
Monitoring and evaluation	\$91,669.10
	<u>\$91,669.10</u>

Payments of \$31,091.07 were made to National Bureau of Statistics for baseline study for water sector project for Morogoro, Pwani and Dar es Salaam third installment and \$6,592.32 was paid to Magnate Traders Company Ltd for JUNO SB handled GPS and Antropometric Equipment. A payment of \$49,745.71 was made to the National Bureau of Statistics for a baseline study for the water sector project and \$4,240 were payments to Computer ICS limited for IT equipments.

10. Outstanding Fund Balance

Confirmed funds disbursed during the period by MCC	\$84,522,365
Total program expenditure per Fund Accountability Statement	\$83,501,036
Surplus of confirmed revenue funds disbursed over program expenditure as per the Fund Accountability Statement	<u>\$1,021,329</u>

Expenditure amounting to \$1,021,329 was booked on 29 June 2010 but the funds were released in July 2010 as follows: \$2,344 was paid to East African Technology, \$2,350 was paid to Jojo Traders as administrative cost assistance, and these expenses were booked on 24 June 2010. \$204 was paid to Full Time Security Services (T) Ltd for and \$8,957 was paid to Rainbow Printers Co. Ltd as administrative cost assistance and was booked on 29 June 2010. \$168,124 was paid to ESBI Engineering and Facility Management for supervision and on sight consultancy, \$244 was paid to Walji's Travel Bureau Ltd for administrative cost assistance and these expenses were booked on 29 June 2010. \$19,790 was paid to Greg Grosenick for consultancy services provided to the fiscal agent, \$746,261 was paid to AFRICARE for resettlement compensation to project affected persons and \$48,969 was paid to Intercontinental Cons & Technocrats Pvt Ltd for supervision and on sight consultancy and \$24,086 was paid as resettlement compensation to project affected persons.

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010**

11. Bank Balance Reconciliation

	US\$
i) Balance as per bank statement (MCC Special Account Number 9921190201) as at 31 December 2010	<u>\$38,728.82</u>
Reconciliation of balance as per bank statement	
Expenditure not yet cleared	
Salum Mohamed Batash (Refer to Note 6)	\$36,430.02
Twahiri Kilagwa (Refer to Note 8)	\$1,795.92
Darworth (Refer to Note 8)	<u>\$502.88</u>
	<u>\$38,728.82</u>
Unreconciled bank balance as at 31 December 2010	<u>-</u>

The funds for these payments totalling \$38,728.82 were received in the MCC Special Account Number 9921190201 between the 25th and 31st of December, 2010 and were transferred to the respective vendors in January 2011. The costs have already been accounted for and have been included in the July 1, 2010 to December 31, 2010 period.

	US\$
ii) Balance as per bank statement (MCC Special Account Number 9931206581) as at 31 December 2010	<u>\$0</u>
Reconciliation of balance as per bank statement	
Expenditure not yet cleared	
	<u>\$0</u>
Unreconciled bank balance as at 31 December 2010	<u>\$0</u>

For the MCC Special Bank Account Number 9931206581, there was no outstanding expenditure that was still to be cleared by the bank as at 31 December 2010.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL FOR THE PERIOD JULY 1, 2010 TO DECEMBER 31, 2010

23 February 2012

The Governing Board
Millennium Challenge Account-Tanzania
Development House
Kivukoni Front/Ohio Street
P.O. Box 8327
Dar es Salaam
Tanzania

We have audited the Fund Accountability Statement of Millennium Challenge Account (MCA)-Tanzania as of and for the period ended July 1, 2010 to December 31, 2010.

Except for not having a satisfactory continuing education program and not conducting an external quality review by an affiliated audit organization (as described in our independent auditor's report on the Fund Accountability Statement), we conducted our audit of the Fund Accountability Statement in accordance with U.S. Government Auditing Standards issued by the Controller 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.

The management or those charged with governance of MCA-Tanzania is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control 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 agreements; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of accounting described in Note 1 (a) to the Fund Accountability Statement. Because of inherent limitations in internal control, errors or fraud 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.

MILLENNIUM CHALLENGE ACCOUNT -TANZANIA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

In planning and performing our audit of the Fund Accountability Statement of MCA-Tanzania for the period July 1, 2010 to December 31, 2010, in accordance with U.S. Government Auditing Standards, we considered MCA-Tanzania's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control:

A Significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control:

- Non review of bank reconciliation statements (see schedule of findings, page 22)
- Non review and approval of the vehicle logbook (see schedule of findings, page 23)
- Deviations in motor vehicle fuel consumption (see schedule of findings, page 24)

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Fund Accountability Statement will not be prevented, or detected and corrected on a timely basis. We did not come across deficiency we consider to be material weaknesses in internal control.

This report is intended for the information of MCA-Tanzania and the Millennium Challenge Corporation (MCC). However, upon release by MCC, this report is a matter of public record and its distribution is not limited.



INNOVEX Auditors

Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: 23 February 2012



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE PERIOD JULY 1, 2010
TO DECEMBER 31, 2010**

23 February 2012

The Governing Board
Millennium Challenge Account-Tanzania
Development House
Kivukoni Front/Ohio Street
P.O. Box 8327
Dar es Salaam
Tanzania

We have audited the Fund Accountability Statement of Millennium Challenge Account (MCA)-Tanzania as of and for the period July 1, 2010 to December 31, 2010.

Except for not having a satisfactory continuing education program and not conducting an external quality review by an affiliated audit organization (as described in our independent auditor's report on the fund accountability statement), we conducted our audit in accordance with U.S. Government Auditing Standards 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Fund Accountability Statement amounts.

Compliance with agreement terms and laws and regulations applicable to MCA-Tanzania is the responsibility of MCA-Tanzania's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of MCA-Tanzania's compliance with certain provisions of agreement terms and 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 noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from failures or violations is material to the fund accountability statement. We believe that the following deficiencies constitute material weaknesses:

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

- Absence of procurement implementation plan for the period July to December 2010
(See schedule of findings, page 25)
- Unfavourable performance trend (See schedule of findings, page 26-27)
- Partial implementation of the budgeted activities (See schedule of findings, page 27-29)

This report is intended for the information of MCA-Tanzania and the Millennium Challenge Corporation (MCC). However, upon release by the MCC, this report is a matter of public record and its distribution is not limited.



INNOVEX Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: 23 February 2012



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SCHEDULE OF AUDIT FINDINGS FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

23 February 2012

The Governing Board
Millennium Challenge Account-Tanzania
Development House
Kivukoni Front/Ohio Street
P.O. Box 8327
Dar es Salaam
Tanzania

We have finalised the audit of Millennium Challenge Account (MCA)-Tanzania's Fund Accountability Statement for the period from July 1, 2010 to December 31, 2010.

Our assessment identified three significant deficiencies and no material weaknesses which could adversely affect the MCA-Tanzania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Generally Accepted Accounting Principles. We have reported these items in the attached Schedule of audit findings for the period July 1, 2010 to December 31, 2010. These findings are described in details on the next pages.

We take this opportunity to record our appreciation to the management and staff of MCA-Tanzania for the support accorded to us during the audit period.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher Mageka", with a long horizontal line extending to the right.

INNOVEX Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA

Date: 23 February 2012

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

SCHEDULE OF AUDIT FINDINGS FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

SECTION I – INTERNAL CONTROL

1. Non- review of bank reconciliation statements

Condition

Management of MCA-Tanzania was not reviewing monthly bank reconciliations for the MCC Special Account Number 9921190201(TZS) and MCC Special Account Number 9931206581 (USD) held with the Bank of Tanzania for the period under audit as shown below.

Bank Account Details	Month	Reconciliation prepared	Reconciliation reviewed
MCC Special Account Numbers 9921190201 and 9931206581	July 2010	Yes	No
MCC Special Account Numbers 9921190201 and 9931206581	Aug 2010	Yes	No
MCC Special Account Numbers 9921190201 and 9931206581	Sept 2010	Yes	No
MCC Special Account Numbers 9921190201 and 9931206581	Oct 2010	Yes	No
MCC Special Account Numbers 9921190201 and 9931206581	Nov 2010	Yes	No
MCC Special Account Numbers 9921190201 and 9931206581	Dec 2010	Yes	No

Criteria

According to Section 5.2 of the Fiscal Accountability Plan (FAP) and best business practices, bank reconciliation statements should be submitted to the Deputy Head of Fiscal Agent for review and approval after their preparation

Cause

Non compliance with the fiscal accountability plan on review and approval of monthly bank reconciliation statements

Effect

Errors and irregularities in the bank transactions might not be detected and timely corrected

Recommendation

Management should abide by the stipulations of the FAP concerning the preparation and review of bank reconciliation statements on a monthly basis.

Management comments

Monthly Bank reconciliations were prepared by the scheduled fiscal agent officer and thereafter reviewed by the fiscal agent deputy head. This exercise was properly undertaken as it was done in the system. Although the review was not evidenced by signature on the printed hard copies, it was subsequently done.

2. Non review and approval of the vehicle logbook (repeated finding)

Condition

We noted the following instances regarding motor vehicle logbooks;

- Non availability of evidence that indicate authorization of vehicle usage in the log books as trips taken are only written on the logbook without specifying the purpose or signature of the responsible MCA-T official for the authorization process.
- Non periodic review of the vehicle log book

Criteria

Section 11.5 of the Fiscal Accountability Plan (FAP) on *Fuel Control Policy* requires the Human Resources Officer to review the forms submitted against the log book to establish fuel usage and determine the quantities to be issued.

Cause

Non compliance with the fiscal accountability plan

Effect

- Lack of review and authorization might lead to misuse of vehicles hence incurring unnecessary expenses relating to fuel and maintenance;
- Inadequate monitoring of vehicle usage might result in poor performance of the vehicles in terms of fuel consumption which might not be detected and corrected on time.

Recommendation

The management should ensure that all the details of the routes travelled are recorded in the log books, and a responsible official should authorize the trips. A senior official should review the logbooks periodically as has already been advised in prior periods.

Management Comments

Although the condition stated in this case does not relate with criteria, normally log books are reviewed by administration officer monthly, as this is one of references where monthly fuel consumption reports are generated. More-over it should be noted that, it is not practical to authorize each trip since there could be six trips all connected together. For this case we have car track movement control system in place. However, we acknowledge that some details regarding some routes travelled may not have been recorded and therefore noted by administration for action.

3. Deviations in motor vehicle fuel consumptions (repeated finding)

Condition

During our review of motor vehicle logbooks, we noted that there is a high degree of deviation of actual fuel consumption levels from the expected consumptions. We further noted inconsistency in fuel consumption trends by respective motor vehicles. In the case of motor vehicle with the registration number STK 5529, its average fuel consumption per 1km travelled abnormally ranged between 1.57 and 4.06. See the table below.

Table 3: Fuel consumption variation details

Motor vehicle	Date of fuelling	Fuel amount	km reading	next refuelling	km reading	Km covered	Km/ltrs	expectations km/ltr	Deviation
STK 5532	30/07/2010	140	42474	03/08/2010	43102	628	4.49	6 to 7	1.51
	16/11/2010	100	56797	19/11/2010	57227	430	4.30	6 to 7	1.70
	06/01/2010	100	58350	10/12/2010	58654	304	3.04	6 to 7	2.96
STK 5530	21/07/2010	100	39225	11/10/2010	39648	423	4.23	6 to 7	1.77
	05/11/2010	120	41191		41688	497	4.14	6 to 7	1.86
	29/11/2010	100	45093	03/12/2010	45310	217	2.17	6 to 7	3.83
STK 5529	10/08/2010	100	38683	14/08/2010	38840	157	1.57	6 to 7	4.43
	17/09/2010	100	44079	22/09/2010	44257	178	1.78	6 to 7	4.22
	01/10/2010	100	45549	08/10/2010	45854	305	3.05	6 to 7	2.95
	04/11/2010	100	50447	12/11/2010	50853	406	4.06	6 to 7	1.94

Criteria

Good business practices in fleet management require preparation and review of fuel consumption reports on a regular basis.

Cause

No follow up on the noted deviation of vehicle fuel reports by human resource department.

Effect

Fuel might be consumed on mileage that is not related to the objectives of the compact thereby compromising the cost effectiveness of the program.

Recommendations

Fuel consumption should be monitored closely so that any vehicles which are consuming abnormal quantities of fuel will be identified and sent for servicing if any technical problems are the cause of the anomaly. Noted anomalies per fuel reports should be investigated and dealt with promptly.

Management comments

MCA-T has installed fuel management device which is expected to give a good result from the current status.

SECTION II – COMPLIANCE

4. Absence of procurement implementation plan

Condition

The Procurement Agent did not prepare the procurement implementation plan (PIP) for all planned procurements in the procurement plan for the period from July to December 2010 contrary to Paragraph P.2.2 of MCC Program Procurement Guidelines and Section 4 of the Procurement Operations Manual.

Criteria

Paragraph P.2.2 of MCC Program Procurement Guidelines and Section 4 of the POM requires the Procurement Agent to prepare the PIP so as to identify timelines for key milestones in the process and to provide details of the planned strategy for successful completion of each procurement action. The Procurement Agent is required to prepare a separate PIP for each procurement in the Procurement Plan.

Cause

Non-compliance with the MCC Program Procurement Guidelines

Effect

The performance of the Procurement Agent in relation to timely implementation of the procurement plan cannot be measured and due to this, projects may take longer than planned periods before they are implemented resulting in unanticipated cost increases. There might be a delay in implementation of procurements, which is corroborated by the overall underutilization of the budgeted compact funds and partial implementation of budgeted activities as reported under Item 5 and 6 below.

Recommendation

The Procurement Agent should prepare the procurement implementation plan as required under paragraph P.2.2 of the MCC Program Procurement Guidelines and Section 4 of the POM of 2010.

Management Comment

The requirement to produce a Procurement Implementation Plan (PIP) in the PPG for all planned procurements is based on flawed logic. The Procurement Agent cannot produce this at the time the Procurement Plan is submitted, as he/she does not have timing or the level of the required inputs from the technical sectors. PIPs were originally produced early on in the Compact by Procurement Agents, but as the information contained in them was not accurate and/or in constant need of updating, caused on the above lack of technical input, the process of producing PIPs was stopped.

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

SCHEDULE OF AUDIT FINDINGS FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

5. Performance review analysis

Condition

We noted an unfavorable trend in the utilization of compact funds for five periods audited since December 2008 to December 2010 against the approved detailed financial plans. The trend indicates underutilization of budgeted funds which is hindering the timely implementation of other activities given that the compact has an implementation timeframe of five years. The table below shows the utilization trend since inception of the project.

Table 1: Performance trend analysis

Period	Budget	Actual	Variance	% Spent
Dec-08	\$21,696,000	\$3,083,158	\$18,612,842	14.2
Jun-09	\$14,316,157	\$6,415,986	\$7,900,171	44.8
Dec-09	\$25,340,277	\$10,734,699	\$14,605,578	42.4
Jun-10	\$56,188,994	\$34,197,076	\$21,991,918	60.9
Dec-10	\$149,938,490	\$83,501,072	\$66,437,418	55.7
Total	\$267,479,918	\$137,932,140	\$129,547,778	51.56

Criteria

The approved detailed financial plans and the work plans for each period and the global budget and work plans for the five year period. Best practice in project management requires that project managers should set realistic targets after taking into consideration the past operational performance and the prevailing conditions which might militate against the achievement of set objectives.

Cause

Non compliance with the approved work plans and detailed financial plans and lack of flexibility on the part of the organization to adjust its plans and budgets to factor in changes that may threaten the achievement of the set targets as it has been consistently failing to utilize all the funds that were budgeted to be used for its planned activities as shown by analysis in the table above.

Effect

The entity might not be able to achieve full implementation of all the transport, water and energy projects planned for the compact for the five year period if actual expenditure against approved budgets has been hovering around 51% for past five periods (three years). This would entail that some projects would end up in the infancy stages by the end of the planned timeframe of the compact. A delay in the implementation of certain activities is likely to result in failure to attain overall objectives of the project.

Recommendation

More efforts should be exerted by management to ensure that the planned work for each period and for each activity is fully implemented to avoid disruptions in the implementation of all the Compact activities within the agreed timeframes.

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

SCHEDULE OF AUDIT FINDINGS FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

Management Comment

As indicated above, substantial progress has been made since inception of the programme, periodic revisions of work plans in the pace of program implementation and rescheduling of program activities continue to improve, however it should be noted that MCA-T pays against deliverables and work certificates scheduled for each quarter. The deliverables are in turn based on contractors' work plans. The contractors work plans and deliverables are linked to the agreed payments schedules for each contract. The timing of the deliverables is adjusted on quarterly basis (based on previous performance), before making quarterly cash disbursement projections. However, from our experience, we have noted that during the initial period of contracts most firms fail to submit quality deliverables and in a timely manner for a wide range of reasons including; i) slow mobilization of both staff and equipments ii) consulting firms and contractors underestimating the scope and volume of work before a deliverable can be produced to the required standard iii) the rigorous MCC/MCA-T approval process iv) firms not meeting the necessary preconditions, like the need to get approval of ESMP and HSMP before starting the construction work and the need to reach minimum threshold before a work certificate can be raised.

Nevertheless, with the contractors now on site, and almost fully mobilized, the expenditure levels are expected to increase significantly. In fact the concern now is on availability of the GOT funds in a timely manner, to cover the MCC budget shortfall.

6. Partial implementation of the budgeted activities

Condition

We noted partial and non implementation of some of the planned project activities, as actual expenditure for all the functional sectors was on the lower side compared to what was budgeted. Table 2 below indicates the implementation progress of the activities for the period of July to December 2010.

Table 2: Actual expenditure with budget comparison

Expenditure line	Budget	Actual	Variance	% of utilization
Transportation				
Mainland Trunk Roads Activity	\$87,792,253	\$41,459,524	\$46,332,729	47.2
Zanzibar Rural Roads Activity	\$4,012,851	\$188,145	\$3,824,706	4.7
Mafia Island Airport Activity	\$332,498	\$225,000	\$107,498	67.7
Energy				
Zanzibar Interconnector	\$15,693,415	\$10,927,290	\$4,766,125	69.6
Water				
Lower Ruvu Plant Expansion Activity	\$8,564,588	\$634,909	\$7,929,679	7.4
Non-Revenue Water Activity	\$1,595,591	\$540,317	\$1,055,274	33.8
Morogoro Water Supply	\$3,514,277	-	\$3,514,277	0

Criteria

Section 4.7.1 of the FAP on the preparation of detailed financial plans (DFP); states that the DFP should be updated quarterly in conjunction with the preparation of the relevant disbursement request and quarterly work plans. Updating the DFP without first updating the

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

SCHEDULE OF AUDIT FINDINGS FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

work plans will result in DFPs that are at variance with the work plans which the DFPs are supposed to be based on, thereby resulting in utilization variances between budgeted figures and actual amounts.

Cause

Periodic revisions of Work Plans and Detailed Financial Plans does not fully reflect changes in the pace of program implementation and rescheduling of program activities, hence causing significant variances between cash needs forecasted in rolling budgets serving as basis for disbursement requests, and actual expenditure utilisation in Compact implementation for the same periods.

Effect

DFPs that are at variance with corresponding periodic work plans result in inconsistent utilization variances between budgeted figures and actual amounts.

Recommendation

We recommend improving MCA-T cash projections by strengthening the quarterly budgeting practices, putting into place mechanisms that anticipate, identify and react to events affecting cash needs, thus resulting in the preparation of more realistic detailed financial plans, that take full account of changes in the pace of program implementation.

Management Comments

As explained under (8), all payments are based on contractors' accepted and approved deliverables in accordance with the requirement of the respective sector contracts. Therefore, although planned and budgeted for, payment and disbursement will be based on approved submittals and deliverables from contractors. No invoices for payment are processed until the associated deliverable/submittal has been approved.

Water sector

During the first quarter the projected expenditure was \$3,312,364. These funds were earmarked for payments to the supervision engineers and designs, for both Lower Ruvu and Morogoro water system; and technical assistance for Lower Ruvu, Morogoro water supply and Non Revenue Water. The funds for supervision of both Lower Ruvu and Morogoro water system could not be spent because of delays in concluding the respective procurements. Likewise, the provision for compensation was not utilized because the RAPs could not be finalized as earlier scheduled. Since they were expected to be concluded in October these commitments were therefore shifted to the next quarter.

For this case the following quarter expenditure was projected at \$10,362,092 being initial cash outlays for works and supervision for the Lower Ruvu plant expansion and Morogoro water supply system. The amount also included funds earmarked for technical assistance and studies and designs for Lower Ruvu, Morogoro water and Non Revenue Water.

The actual disbursements were much lower than the projected amount due to the following factors

- i) Both Bid Invitations attracted more bidders than what had been expected and hence needed more time for evaluation
- ii) More than 50 clarifications were received from Bidders for Lower Ruvu Water Treatment Plant (under FIDIC Yellow Book) which later necessitate the extension of the submission date from September 27, 2010 to October 11, 2010

MILLENNIUM CHALLENGE ACCOUNT- TANZANIA

SCHEDULE OF AUDIT FINDINGS FOR THE PERIOD FROM JULY 1, 2010 TO DECEMBER 31, 2010

- iii) Delays in signing the works contract for both rehabilitation of the Morogoro water supply system and the Lower Ruvu plant expansion
- iv) Delays to submit deliverables related to the baseline study
- v) Non completion of the designs for the Morogoro water supply.

Transportation

The shortfall in projected expenditure was caused by several factors including: -

- i) Slow progress at the start of construction works in all mainland trunk roads;
- ii) slow progress for the design work for both the Mafia Airport upgrading and Pemba rural roads

Energy

The shortfall in projected expenditure was caused by several factors:

- i) MCA-T was not likely to meet its re-disbursement target for July- Sept 2010 following contract modification for the Consulting Engineer's contract. As such some funds have been reallocated into other CE's deliverables including the Kigoma hydro power feasibility study.
- ii) In the original Program Implementation Plan, Preliminary design for submarine Cable contract was agreed as a one line item, later it was decided to split the design into 3 parts i.e. submarine cable, cable accessories and submarine cable & installation works. Reviewing and approving each design separately delayed the process as a result no design was completed on time to demand payment.
- iii) Difficulties in procurement procedures for Google earth Pro software (\$400), this has been dropped out of the procurement plan
- iv) Compensation schedules and Draft RAPS for 6 T &D regions were not yet approved and could not be paid for.

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