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AUDIT OF USAID/JAMAICA'S  
PRIVATE DEVELOPMENT BANK  
PROJECT NO. 532-0091

Audit Report No. 1-532-87-26  
April 27, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

April 27, 1987

MEMORANDUM

TO : Director, USAID/Jamaica, William Joslin  
FROM : RIG/A/T, *Coinage N. Gothard*  
Coinage N. Gothard, Jr.  
SUBJECT: Audit of USAID/Jamaica's Private Development Bank, Project  
532-0091

This report presents the results of audit of the Private Development Bank Project. A program results audit was made to determine if stated project objectives were being achieved, whether USAID/Jamaica was managing the project economically and efficiently; and to assess compliance with AID requirements.

The audit showed that the project purpose of establishing a private development finance institution to provide medium and long-term credit was being achieved. However, we also found instances of non-compliance with AID policies, deficiencies in project operations, undocumented AID monitoring and inadequate reports presented by the implementing agency, Trafalgar Development Bank. Some internal control problems were also noted at the implementing agency.

This report contains four findings. First, because sub-borrowers were not providing proof of purchase, there was no evidence whether loan monies were used for intended purposes. Second, USAID/Jamaica had advanced the Bank, a privately owned profit-making organization, funds to be sub-lent, even though the Bank had resources of its own to make initial disbursements to sub-borrowers. Third, the Bank's accounting records and reports showing sub-loan disbursements were not reliable. Finally, project monitoring was not documented.

The report makes four recommendations. First, USAID/Jamaica request the Bank to obtain suppliers' invoices for past and future procurement with AID funds. Second, no future advances be made to the Bank for this purpose and current outstanding advances be liquidated. Third, USAID/Jamaica obtain a reconciliation showing how project funds had been disbursed. Finally, USAID/Jamaica require its project managers to document the results of site inspection trips.

We discussed our findings and recommendations with your staff, and we submitted a draft report for review and comment. Your comments and suggestions were considered in finalizing the report. The comments are included as Appendix I.

Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendations. We appreciate the cooperation and courtesy extended our staff during the audit.

## EXECUTIVE SUMMARY

The Private Development Bank Project was started on August 31, 1984 with Trafalgar Finance Limited to provide medium and long-term credit and financial services, such as underwriting and management support, to private sector enterprises, including agro-industry, tourism, manufacturing, shoe/leather, furniture/woodworking, and chemical industries. As a result, the Trafalgar Development Bank was established. Total expected funding for the project was \$25,200,000; of which \$21,200,00 would be AID funds, \$20,000,000 loan funds to provide seed capital and \$1,200,000 grant funds for technical assistance. Trafalgar's contribution to the program was \$4,000,000.

A program results audit was made to determine if stated project objectives were being achieved, to determine if USAID/Jamaica was managing the project economically and efficiently, and to assess compliance with AID requirements. The audit covered activities from August 31, 1984, when the project started, to February 12, 1987 and included a review of \$3,153,404 million in AID loan funds and \$392,610 in grant funds.

The audit showed that the project purpose of establishing a private development finance institution to provide medium and long-term credit was being achieved. However, the audit found instances of non-compliance with AID policies, deficiencies in project operations, undocumented AID monitoring and inadequate reports presented by the implementing agency, Trafalgar Development Bank. Some internal control problems were also noted at the implementing agency.

The project was on target for its interim objectives in terms of amounts loaned. As of October 23, 1986, a total of 16 sub-loans valued at \$2.6 million had been disbursed by Trafalgar Development Bank. This compared favorably with the 1986 target of a \$2 million sub-loan portfolio. Furthermore, an economic impact statement prepared by Bank officials identified 2,216 jobs created by sub-loan projects, a figure far in excess of the 162 targeted for 1986.

This report contains four findings. First, because sub-borrowers were not providing proof of purchase, there was no evidence whether loan monies were used for intended purposes. Second, USAID/Jamaica had advanced the Bank, a privately owned profit-making organization, funds to be sub-lent, even though the Bank had resources of its own to make initial disbursements to sub-borrowers. Third, the Bank's accounting records and reports showing sub-loan disbursements were not reliable. Finally, project monitoring was not documented.

The Trafalgar Development Bank had not required project sub-borrowers to provide suppliers' invoices as proof of the use of loan funds as was required by standard provisions in the agreement. Additionally, USAID/Jamaica's voucher reviews did not include verification of supporting documentation for the use of loan funds. The Mission felt

that random inspections and the Bank's certification of payment were adequate safeguards. Consequently, there were no assurances that \$1.5 million of AID loan monies disbursed for sub-loans were used for intended project purposes. We recommended that USAID/Jamaica request the Bank to obtain suppliers' invoices for past and future procurement with AID funds.

AID policy favors payments on the basis of goods delivered and services performed. USAID/Jamaica had advanced the Trafalgar Development Bank US\$2.4 million from AID loan funds to be sub-lent to project participants even though Trafalgar, a profit-making organization, had resources of its own to initially disburse project sub-loans. USAID/Jamaica did not consider these disbursements to Trafalgar advances because interest charges commenced upon disbursement. As a result, Trafalgar maintained an average monthly balance of over US\$426,000 in a non-interest-bearing account, costing the U.S. Government unnecessary interest. We recommended that no future advances be made to the Bank for this purpose and that current outstanding advances be liquidated.

The AID project agreement requires that the Bank account for its use of AID funds and that it maintain adequate books and records. Trafalgar's accounting records and reports showing disbursements made for sub-loans were not reliable because at least three sources of information reporting the same data did not agree. Neither Trafalgar nor USAID/Jamaica officials could explain why the reports did not agree, although, pursuant to our inquiry, Bank officials stated that a reconciliation would be made. Since one of the reports in question constituted support for AID disbursements, USAID/Jamaica could not be reasonably certain that it was disbursing on the basis of reliable information. We recommended that USAID/Jamaica obtain a reconciliation showing where project funds had been disbursed.

The USAID Project Manager stated that project site visits were made but that the results were not documented in USAID/Jamaica files. AID Handbook 3, Chapter 11 lists site visits as a reference and information source for project monitoring and provides guidance for preparing site inspection reports. The reason given for not documenting visits was that it was not required. Without documented results of site visits the project manager and USAID management have no historical record to benefit both current and future AID officials. We recommended that USAID/Jamaica require its project managers to document the results of all site inspection trips.

*Office of the Inspector General*

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PART I - INTRODUCTION

A. Background

By June 1984 USAID/Jamaica had determined that a substantial gap existed in the range of financial services available to the Jamaican business community in the area of medium to long-term loans. As a result, existing businesses interested in expanding could not grow and new ventures failed to materialize.

To address this issue USAID/Jamaica signed a \$10,000,000 project agreement on August 31, 1984 with Trafalgar Finance Limited, a Jamaican private development corporation. Loan repayment was guaranteed by the Government of Jamaica through a repayment agreement signed by the Government of Jamaica and USAID. Pursuant to the agreement, the Trafalgar Development Bank was established to provide: (i) medium-term credit (ii) long-term credit and (iii) financial services, such as underwriting and management support, to private sector enterprises. Those enterprises included agro-industry, tourism, manufacturing, shoe/leather, furniture/woodworking, and chemical industries.

Amendments to the August 31, 1984 agreement increased AID funding to \$13,400,000; of which \$12,500,000 was a loan to provide seed capital to the Bank for making sub-loans, and \$900,000 was a grant to fund technical assistance to the Bank. The Mission anticipated total project funding of \$21,200,000. The Project Assistance Completion Date was August 31, 1989. Exhibit 1 presents a financial summary of AID funding for the project as of November 30, 1986.

The Bank's overall objective was to accelerate the economic rehabilitation and development of Jamaica. This was to be done by increasing production, employment, and net foreign exchange earnings using private sector resources. The Bank intended to accomplish these objectives through:

- mobilizing long-term private international and domestic savings,
- effectively applying those savings by using objective economic criteria when selecting, supervising, implementing and operating projects assisted by the Bank, and
- aiding the transfer of technology and modern management procedures to assisted enterprises.

## B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit of USAID/Jamaica's Private Development Bank, Project 532-0091. The audit covered activities from August 1984, when the Project started, to February 12, 1987 and included a review of \$3,153,404 million in AID loan funds and \$392,610 in grant funds disbursed as of November 30, 1986.

The audit objectives were to:

- determine if stated project objectives were being achieved;
- gauge whether USAID/Jamaica was managing the project economically and efficiently; and
- assess compliance with AID requirements.

Audit field work was done during the period October 23, 1986 to February 12, 1987. Project files were reviewed and project officials interviewed at USAID/Jamaica and the Trafalgar Development Bank. Eight of fifteen AID-funded sub-borrowers were visited and available records were examined at those locations. Documentation regarding the Trafalgar Development Bank's required \$4,000,000 contribution to the project was examined.

Our evaluation of internal controls was limited to those affecting problem areas identified by the audit. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

Despite constraints, the project purpose of establishing a private development finance institution to provide medium and long-term credit was being achieved. However, the audit found instances of non-compliance with AID policies, deficiencies in project operations, undocumented AID monitoring, and inadequate reports presented by the implementing agency, Trafalgar Development Bank. Some internal control problems were also noted at the implementing agency.

The project was on target for its interim objectives in terms of amounts loaned. As of October 23, 1986 a total of 16 sub-loans valued at \$2.6 million had been disbursed by Trafalgar Development Bank. This compared favorably with the 1986 target of a \$2 million sub-loan portfolio. Furthermore, an economic impact statement prepared by Bank officials identified 2,216 jobs created by sub-loan projects, a figure far in excess of the 162 target for 1986.

This report contains four findings and recommendations. First, because sub-borrowers were not providing proof of purchase, there was no evidence that loan monies were used for intended purposes. We recommended that USAID/Jamaica request the Bank to obtain suppliers' invoices for past and future procurement with USAID funds.

Second, USAID/Jamaica had advanced the Bank, a privately owned profit-making organization, funds to be sub-lent, even though the Bank had resources of its own to make initial disbursements to sub-borrowers. We recommended that no future advances be made to the Bank for this purpose and that current outstanding advances be liquidated.

Third, the Bank's accounting records and reports showing disbursements made for sub-loans were not reliable. We recommended that USAID/Jamaica obtain a reconciliation showing where project funds had been disbursed.

Finally, project monitoring was not documented. We recommend that USAID/Jamaica require project managers to document the results of site inspection trips.

## A. Findings and Recommendations

### 1. Use of AID Loan Funds Was Not Adequately Supported

The Trafalgar Development Bank had not required project sub-borrowers to provide suppliers' invoices as proof of the use of loan funds as was required by standard provisions to the agreement. Additionally, USAID/Jamaica's voucher reviews did not include verification of supporting documentation for the use of loan funds. The Mission felt that random inspections and the Bank's certification of payment were adequate safeguards. Consequently, there were no assurances that \$1.5 million of AID loan monies disbursed for sub-loans were used for project intended purposes.

#### Recommendation No. 1

We recommend that USAID/Jamaica:

- a) obtain evidence that the Trafalgar Development Bank has obtained suppliers' invoices as proof-of-purchase from sub-borrowers for past and future purchases; and
- b) institute procedures to periodically verify selected purchase invoices to test the reliability of reported expenditures prior to disbursing AID funds.

#### Discussion

Standard provisions of the AID loan agreement required Trafalgar to maintain books and records adequate to show, without limitation, the receipt and use of goods and services acquired under the assistance. Those provisions were not adhered to.

As of November 30, 1986 AID had committed \$7.5 million in loan funds for sub-borrower use, \$4 million under a letter of commitment procedure and \$3 million under an advance/reimbursement procedure. The remainder was for project support costs. As of November 30, 1986 about \$400,000 had been disbursed through letters of commitment for U.S. procured goods and \$2.4 million had been disbursed in local currency through the advance/reimbursement procedure. Since loan funds disbursed under the letter of commitment procedures were paid by AID through a U.S. bank, and disbursements amounted to only about \$400,000, we did not review those payments.

Implementation letter No. 21, dated November 21, 1985, established the advance/reimbursement mechanism. The letter stated that local currency procurement of goods and services would be made via a special Jamaican dollar-denominated account opened by Trafalgar Development Bank at another local bank in the project's name. Bank officials forwarded reports to USAID/Jamaica requesting reimbursement for expenditures made for project purposes specified in the Project Agreement. The Bank further certified in the report that the goods and/or services purchased were fully paid for and were appropriate. However, funds provided to

sub-borrowers were not supported by suppliers' invoices to certify actual purchases. Although documentation submitted by the Bank was as requested by USAID/Jamaica, the bank's files were not adequate to show that sub-loans were spent according to project regulations because they did not require recipients to submit suppliers' invoices. Bank officials told us that they assumed sub-borrowers would spend the monies as intended. They also stated that site visits were made to assess overall project progress, but not to compare the physical existence of goods with purchase invoices.

The Controller at USAID/Jamaica advised that random inspections were made of the Trafalgar Development Bank to assure some degree of reliability of the Bank's accounting procedures. The Controller felt that these random reviews, in addition to the Bank's certification of payment, were adequate to ensure the payment for goods by the Bank's sub-borrowers. However, the random inspections were not documented and hence could not be substantiated. Furthermore, the Controller's random reviews did not consist of verifying suppliers' invoices since the Bank did not have, nor did it require, suppliers' invoices as part of its files.

For the period ended November 30, 1986, the Bank had liquidated \$1.5 million of the \$2.4 million advance received. However, the Bank's files showed that only two sub-borrower purchases totaling \$418,863 (or 28 percent of the total \$1,499,629 advances liquidated) were supported by suppliers' invoices. There was thus no documentation to ensure that sub-borrowers had actually spent the remaining \$1,080,766 as intended by the project agreement.

#### Management Comments

In response to Audit recommendation No. 1a, USAID/Jamaica issued Project Implementation Letter No. 39, dated January 14, 1987... [advising] TDB that they are to implement a system to collect suppliers' invoices from sub-borrowers for future purchases, and, to the extent possible, TDB should endeavour to obtain suppliers' invoices for past purchases.

On January 22, 1987, the Mission received correspondence... from TDB advising us that a system had already been established to obtain invoices from sub-borrowers... TDB has received documentation from sub-borrowers for nine of the twelve local currency loans approved and is in the process of obtaining receipts for the others. The Controller's Office staff will conduct a random test to verify full compliance with the recommendation....

...[Regarding] Recommendation No. 1b,... the Controller's Office has established procedures to periodically review all local recipients of AID funds. TDB accounting procedures including verification of documentation to support disbursements to sub-borrowers will be conducted at least quarterly....

### Inspector General Comments

The Office of the Inspector General considers that actions taken by USAID/Jamaica resolve the recommendation. It will be closed upon receipt or a report prepared by the Controller's office verifying full compliance with Recommendation 1a, and upon receipt or a copy of the USAID/Jamaica Standard Operating Procedure that establishes the criteria for periodic reviews.

## 2. AID Advances to Trafalgar for Sub-loans Were Unnecessary

AID policy favors payments on the basis of goods delivered and services performed. USAID/Jamaica had advanced the Trafalgar Development Bank US\$2.4 million from AID loan funds to be sub-lent to project participants even though Trafalgar, a profit-making organization, had resources of its own to initially disburse project sub-loans. USAID/Jamaica did not consider these disbursements to Trafalgar advances because interest charges commenced upon disbursement. As a result, Trafalgar maintained an average monthly balance of over US\$4.16,000 in a non-interest-bearing account, costing the U.S. Government unnecessary interest.

### Recommendation No. 2

We recommend that USAID/Jamaica:

- a) liquidate outstanding local currency advances to Trafalgar Development Bank; and
- b) amend current local currency sub-loan disbursement procedures so that Trafalgar would be reimbursed for actual disbursements to sub-borrowers instead of receiving project advances.

### Discussion

Treasury and AID regulations and the project agreement indicate that Trafalgar should finance initial sub-loan disbursements from its own resources. AID regulations define advances as payments made before delivery of goods and services. AID policy favors payment to AID-financed recipients on the basis of goods delivered or services performed, or to cover costs already incurred by the recipient. U.S. Treasury regulations state that: "It is the responsibility of agencies to monitor the cash management practices of their recipient organizations to ensure that federal cash is not maintained by them in excess of immediate disbursing needs." Finally, the project agreement states that it is anticipated that the Trafalgar Development Bank will use its own resources to the extent available for local currency requirements. The agreement also required the recipient to provide the equivalent of \$4 million in Trafalgar's Equity. Therefore, Trafalgar had available resources of its own to cover sub-loan disbursement requirements.

USAID/Jamaica had provided periodic advances totaling \$2.4 million 1/ to Trafalgar for project sub-loans between February and September 1986. These advances were subsequently liquidated by actual disbursements made to sub-borrowers, except for \$851,593 as of November 30, 1986. According

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1/ Advances were made in Jamaican dollars. The US dollar equivalents used in this report were determined by using the exchange rate in effect at the time of the transaction.

to USAID/Jamaica officials, the \$2.4 million disbursed to Trafalgar was not treated as advances because interest was charged to the Bank starting on the date the advances were given, not when they were liquidated.

Trafalgar's financial position did not justify advances on the basis of need since project advances were not really necessary to carry out the purpose of the project in an efficient and effective manner. Trafalgar's cash flow was more than enough to cover monthly sub-loan disbursements.

As of September 30, 1986 Trafalgar had investments of \$3,003,282, while Trafalgar equity resources amounted to \$4,413,143, Trafalgar disbursements for loans, including AID financed loans, were only \$2,581,783. Furthermore, Trafalgar Development Bank was a profit-making organization. In its two years of operation, profits were \$91,432 in 1985 and \$267,577 as of September 30, 1986, a nearly 300 percent increase over 1985. Additionally, the AID loan was at concessionary terms of 5 percent, while Trafalgar's sub-loans were made at an average rate of about 18 percent; giving the Bank a 13 percent spread on its sub-loans.

Project advances were made to Mutual Security Bank account 127-418-2, which was opened in July 1986. A review of this account showed that Trafalgar maintained an average monthly balance of the equivalent of \$426,454 (see Exhibit 1 for monthly balances).

The above examples demonstrate that Trafalgar did not need project loan advances to carry out the project in an efficient and effective manner. Trafalgar maintained an average monthly balance equivalent of \$426,454 in a non-interest bearing account, causing an unnecessary cost of over \$8,000 per year to the U.S. for borrowing funds. Therefore, loan disbursement procedures for local currency advances should be changed from disbursements made on an advance basis to disbursement on a reimbursement basis. In addition, actual outstanding advance balances for local currency sub-loans should be liquidated.

#### Management Comments

In response to Recommendation No. 2, USAID issued Project Implementation Letter No. 40... [which] advised TDB that their outstanding local currency advance would be liquidated, and that in the future, TDB will be reimbursed for actual disbursements to sub-borrowers rather than receiving project advances. USAID staff have met with TDB staff and it was agreed that future vouchers would be used to liquidate the outstanding advance. At the time the current advance is liquidated, USAID will then begin reimbursing TDB for their local currency expenses.

#### Inspector General Comments

The Mission has taken appropriate actions to satisfy the report recommendation. Part (a) of the recommendation will be closed upon receipt of the final voucher liquidating the project advance. Part (b) is closed with the issuance of this report.

3. Trafalgar Development Bank's Records and Reports of AID Loan Funds Disbursements Could Not Be Reconciled.

The AID project agreement requires that the Bank account for its use of AID funds and that it maintain adequate books and records. Trafalgar's accounting records and reports showing disbursements made for sub-loans were not reliable because at least three sources of information reporting the same data did not agree. Neither Trafalgar nor USAID/Jamaica officials could explain why the reports did not agree, although pursuant to our inquiry, Bank officials stated that a reconciliation would be made. Since one of the reports in question constituted support for AID disbursements, USAID/Jamaica could not be reasonably certain that it was disbursing on the basis of reliable information.

Recommendation No. 3

We recommend that USAID/Jamaica:

- a) obtain from Trafalgar Development Bank an accounting of Jamaican dollar disbursements made from AID loan funds to sub-borrowers which reconciles the Bank's "Summary of Loans Approved" report, the "Expenditure" report submitted in support of obtaining AID funds, and its records of checks disbursed from AID-funded advance account 127-418-2; and
- b) obtain documented and tested evidence from Trafalgar Development Bank that reported disbursements for sub-loans are eligible for reimbursement by AID.

Discussion

The AID project agreement under Standard Provision B.5-Reports, Records, Inspection, Audit requires the Borrower "to maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the project and this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Assistance."

The monthly summary of sub-loans (Summary of Loans Approved) prepared by Trafalgar Development Bank did not agree with sub-loan data reported to USAID/Jamaica as support for disbursements of AID funds (attached to Public Voucher for Purchases and Services Other Than Personal, Standard Form 1034). Furthermore, an analysis of checks issued from the AID-funded advance account (127-418-2) by Trafalgar showed that the amounts of the checks issued did not reconcile with the data shown on the Summary of Loans Approved and on Form 1034 vouchers submitted to USAID.

The discrepancies noted related to the Jamaican dollar components of AID-funded loans. As of November 30, 1986 twelve loans had a Jamaican dollar component financed with AID funds. These are summarized in Exhibit 3, which shows the reported amounts loaned to sub-borrowers per each of the three documents.

In summary, as of November 30, 1986, the three documents in question showed the following amounts as disbursements made with USAID funds.

	<u>No. Loans</u>	<u>Amount Disbursed</u>
Summary of Loans	11	\$ 1,857,740
Attachment to SF 1034s Per Checks Drawn on Advance Account	9	1,577,063
	10	1,823,954

Bank officials could not explain why the three documents were not in agreement, except that the Bank's accounting system needed further refinement. USAID/Jamaica was not aware of the discrepancies although the project manager had access to both the monthly Summary of Loans Approved report and the supporting documentation attached as support for disbursements of AID funds.

Trafalgar Bank officials could not explain how the discrepancies occurred. However, as a result of our inquiry they said that a reconciliation was in process and would be provided.

As a result of the discrepancies among the three documents, AID was disbursing funds on the basis of a document prepared by Trafalgar whose reliability was uncertain. Of the three documents in question it was not clear which, if any, presented the correct information.

#### Management Comments

USAID/Jamaica has received from TDB a reconciliation of the three reports mentioned in part 3.a. The reports have been reviewed by the USAID Controller's Office.... In summary, the three reports are now in agreement.... Subsequent bank statements for the TDB/AID special account will be reviewed by the Controller's Office to ensure that AID is reimbursed for the excess J\$587,821.46 erroneously disbursed from the TDB/AID special account. AID will also request TDB to provide a written explanation of the J\$150,000 given for Fort George Botanical. This amount represents the excess of funds disbursed over the approved amount of the loan. These items are currently under review by the USAID Controller's office and should be resolved in the near future.

#### Inspector General Comments

The Mission has provided adequate evidence that it has satisfactorily implemented part (a) of the recommendation, which is closed upon issuance of this report. Part (b) of the recommendation can be closed upon receipt of evidence that reported disbursements made by Trafalgar for sub-loans are eligible for AID reimbursement.

#### 4. Project Monitoring Needs to be Documented

The USAID Project Manager stated that project site visits were made but that the results were not documented in USAID/Jamaica files. AID Handbook 3, Chapter 11 lists site visits as a reference and information source for project monitoring and provides guidance for preparing site inspection reports. The reason given for not documenting visits was that it was not required. Without documented results of site visits the project manager and USAID management have no historical record to benefit both current and future AID officials.

#### Recommendation No. 4

We recommend that USAID/Jamaica prepare a Mission Order which requires its Project Managers to document the results of site inspection trips as required by AID Handbook 3, Chapter 11.

#### Discussion

AID Handbook 3, Chapter 11 states that project site visits are an important source of information to USAIDs in fulfilling project monitoring responsibilities. Appendix 11c provides guidance for preparing site inspection reports.

While the USAID project manager reportedly made project site visits, the results of those visits were not documented and incorporated into the project files. The Project Manager did not know that a written report was a required part of project site visits. As a result, the benefits to other interested Mission staff were never realized and the project manager had no historical record of project site visits to use as guidance or to pass on to future project managers.

When presented with this finding and recommendation during the audit USAID/Jamaica stated that it was circulating the recommended Mission Order for staff comments.

#### Management Comments

This Mission has prepared a Standard Operating Procedure (S.O.P.) concerning the preparation of site visit reports.

#### Inspector General Comments

The Mission has provided adequate evidence that it has satisfactorily implemented the recommendation. Accordingly, the recommendation is closed upon issuance of this final report.

B. Compliance and Internal Controls

1. Compliance

The audit disclosed three compliance exceptions.

- Trafalgar Development Bank had not required project sub-borrowers to provide suppliers' invoices as proof of use of loan funds (Finding 1).
- Site visits and project site inspections were not documented (Finding 4).
- Trafalgar Development Bank had not fully complied with a project implementation letter regarding the designation of officers who were empowered to act on behalf of the Bank for all purposes other than amending the Project Agreement or Annex I thereof (Other Pertinent Matters)

Other than the conditions cited, tested items were in compliance with applicable laws and regulations, and nothing came to our attention that would indicate that untested items were not in compliance.

## 2. Internal Controls

The audit disclosed internal weaknesses in the following areas:

- USAID/Jamaica in its review of Trafalgar's operations did not include verification of supporting documentation for loan funds used; as a result, there were no assurance that \$1.5 million in AID loan monies were used for intended purposes (Finding 1).
- USAID/Jamaica was disbursing loan funds based on lists of sub-loans prepared by Trafalgar. However, those lists were not reliable. Two other loan status reports prepared by Trafalgar reporting the same data did not agree. Even though two of those reports were received by the project manager prior to disbursement by USAID/Jamaica, the Mission was not aware of such differences. Since one of the reports in question was support for AID disbursements, USAID/Jamaica could not be reasonably certain that funds were disbursed on the basis of reliable information (Finding 3).
- Because of weaknesses in the accounting system at the Trafalgar Development Bank, reports prepared by the bank were not reliable. As a result, it was difficult to determine actual disbursements by the bank to project sub-borrowers (Finding 3).

Other than the above exceptions, nothing was noted to indicate that USAID/Jamaica and the Bank did not have adequate internal controls.

### C. Other Pertinent Matters

AID's policy is to ensure that local costs are met from the cooperating country funds. Because USAID/Jamaica did not adhere to this policy to the maximum extent possible, at least \$97,300 of logistic support for technical assistance contractors was provided through U.S. dollar grant funds, even though the private development bank had sufficient resources to pay for the logistic support costs.

Per the project agreement, \$1.2 million in AID grant funds was to be provided by AID to Trafalgar Development Bank. Accordingly, on February and August 1985, grant funds of \$800,000 and \$100,000 were obligated for the Bank. As of November 3, 1986 about \$608,000 of the \$900,000 had been committed. Annex I to the project loan and grant agreement specified that grant monies were to be used to finance technical assistance to the Bank, monitoring by USAID/Jamaica, and technical assistance for project evaluations.

At least \$97,330 in AID grant funds were obligated for logistic support costs such as a vehicle, furniture and computer equipment for a technical assistance contractor, instead of using available local currency from the Bank's resources.

These costs were financed with AID grant funds even though Trafalgar Development Bank had sufficient resources of its own to finance the logistic support costs. For example, net current assets of the Bank as of February 28, 1985, were about \$1.6 million U.S. dollars, of which \$1.54 million were held as short-term certificate of deposits (180 days), \$12,300 was cash in bank, and the remaining funds were in receivables.

No recommendation is made in this report regarding the use of grant funds by a private entity because no specific AID policy was violated. However, the use of grant funds or highly concessional loans to favor profit-making participants in AID projects will be raised as an issue with AID/Washington policy officials in the near future.

2. Section 5.1(b) of the project agreement required, as a condition precedent to disbursement of AID funds, that Trafalgar Development Bank provide USAID/Jamaica "a statement of the name of the principal officers of Trafalgar and of any additional representatives empowered to act on behalf of Trafalgar, together with a specimen signature of each person specified in such statement."

The condition was satisfied and USAID/Jamaica so acknowledged by Implementation Letter No. 5, dated February 13, 1985. However, USAID/Jamaica suggested in the Implementation Letter that the Bank designate one or more additional offices to act on its behalf.

At the completion of the audit, Trafalgar had not responded to USAID/Jamaica's request.

AUDIT OF USAID/JAMAICA'S  
PRIVATE DEVELOPMENT BANK  
PROJECT NO. 532-0091

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

AUDIT OF USAID/JAMAICA'S  
PRIVATE DEVELOPMENT BANK  
PROJECT NO. 532-0091

PROJECT FINANCIAL STATUS (AS OF 11/30/86)

(IN \$000s)

	<u>TOTAL FUNDING</u>	<u>OBLIGATIONS</u>	<u>ACCRUED EXPENDITURES</u>	<u>RESOURCES AVAILABLE</u>
Technical Assistance/ Grant Funds	\$ 900	\$ 900	\$ 393	\$ 807
PDB Loans/Loan Funds	<u>12,500</u>	<u>12,500</u>	<u>3,153*</u>	<u>16,847</u>
Total	<u>\$ 13,400</u> =====	<u>\$13,400</u> =====	<u>\$ 3,546</u> =====	<u>\$17,654</u> =====

\* Disbursements made to Trafalgar Development Bank, including advances.

AUDIT OF USAID/JAMAICA'S  
PRIVATE DEVELOPMENT BANK  
PROJECT NO. 532-0091

TRAFALGAR DEVELOPMENT BANK  
J\$ ACCOUNT NO. 127-418-2 MUTUAL SECURITY BANK  
MONTHLY BANK BALANCE

<u>DATE</u>	<u>OUTSTANDING BALANCES</u>	
	<u>J\$</u>	<u>Equiv. in US\$</u> <u>1/</u>
July 25, 1986	3,701,500	673,000
August 25, 1986	688,195	125,126
September 25, 1986	1,767,894	321,435
October 25, 1986	61,825	11,241
November 25, 1986	5,508,071	1,001,467
Total	11,727,485	\$2,132,269
Average Balance	J\$ 2,345,497 =====	\$ 426,454 =====

1/ Exchange rate: J\$5.50 = US\$1.00

AUDIT OF USAID/JAMAICA'S  
PRIVATE DEVELOPMENT BANK  
PROJECT NO. 532-0091

SUMMARY OF AMOUNTS DISBURSED TO SUB-BORROWERS  
REPORTED BY TRAFALGAR DEVELOPMENT BANK  
AS OF NOVEMBER 30, 1986  
(IN JAMAICAN DOLLARS)

	November 86 Reported to USAID Controller	November 86 Advance Account	November 86 Summary of Loans
Reading Reef Club	J\$ 725,000	J\$ 725,000*	J\$ 830,000
Fort George Botanicals	853,398	853,398	750,000
Data Prep	1,674,450	2,000,350	2,000,447
Jamaican Heart	2,019,000	2,442,000	2,292,000
Janroy	500,000	1,000,000	718,500
J.D. Manufacturing	200,000	200,000	140,228
The Hut Farm	40,000	40,000	
Village Resorts	2,000,000	2,000,000	2,000,000
Hopewell Blooms		109,000	121,000
Sunleaf Foliage	662,000	662,000	662,000
Jobs Data Services			100,000
Old England Coffee			603,398
	-----	-----	-----
Total	J\$ 8,673,848	J\$ 10,031,748	J\$ 10,217,573
	=====	=====	=====
Total in U.S.\$**	\$ 1,577,063	\$ 1,823,954	\$ 1,857,740
	=====	=====	=====

Includes J\$600,000 disbursed by Trafalgar before the checking account was opened, and reimbursed by USAID/Jamaica.

\*\* Exchange rate: J\$ 5.50 = US\$ 1.00.

MEMORANDUM

DATE: April 2, 1987

FROM: William Joslin, Director, USAID/Jamaica

SUBJECT: DRAFT AUDIT REPORT OF THE USAID/JAMAICA'S PRIVATE DEVELOPMENT BANK PROJECT (532-0091)

TO: Coinace Gothard, RIG/A/T

This memorandum provides USAID/Jamaica's response to the Recommendations of subject draft audit report. In addition, enclosed is a copy of your draft report with my hand written comments.

Recommendation No. 1:

"We recommend that USAID/Jamaica:

- a. Obtain evidence that the Trafalgar Development Bank (TDB) has obtained suppliers' invoices as proof of purchase from sub-borrowers for past and future purchases.
- b. Institute procedures to periodically verify selected purchase invoices to test the reliability of reported expenditures prior to disbursing funds."

In response to Audit recommendation No. 1a, USAID/Jamaica issued Project Implementation Letter No. 39, dated January 14, 1987. See Attachment 'A'. PII, No. 39 advised TDB that they are to implement a system to collect suppliers' invoices from sub-borrowers for future purchases, and, to the extent possible, TDB should endeavour to obtain suppliers' invoices for past purchases.

On January 22, 1987, the Mission received correspondence (Attachment 'B') from TDB advising us that a system had already been established to obtain invoices from sub-borrowers. Per Attachment 'C' TDB has received documentation from sub-borrowers for nine of the twelve local currency loans approved and is in the process of obtaining receipts for the others. The Controller's Office staff will conduct a random test to verify full compliance with the recommendation. The findings will be submitted upon completion.

Mission suggests that Recommendation No. 1b be changed by deleting "prior to disbursing AID funds". The Controller's Office has established procedures to periodically review all local recipients of AID funds. TDB accounting procedures including verification of documentation to support disbursements to sub-borrowers will be conducted at least quarterly. The findings can then be adjusted in a subsequent billing.

Recommendation No. 2:

"We recommend that USAID/Jamaica:

- a. Liquidate outstanding local currency advances to Trafalgar Development Bank; and,
- b. Amend current local currency sub-loan disbursement procedures so that Trafalgar would be reimbursed for actual disbursements to sub-borrowers instead of receiving project advances."

In response to Recommendation No. 2, USAID issued Project Implementation Letter No. 40 (Attachment "D"), advised TDB that their outstanding local currency advance would be liquidated, and that in the future, TDB will be reimbursed for actual disbursements to sub-borrowers rather than receiving project advances. USAID staff have met with TDB staff and it was agreed that future vouchers would be used to liquidate the outstanding advance. At the time the current advance is liquidated, USAID will then begin reimbursing TDB for their local currency expenses.

The last voucher submission from TDB for January 1987, liquidated J\$1.4 million from the advance leaving an outstanding advance balance of J\$2.4 million. It is anticipated that this amount will be liquidated by the submission of TDB vouchers for the period February through April 1987.

Recommendation No. 3:

"We recommend that USAID/Jamaica:

- a. Obtain from TDB an accounting of Jamaican dollar disbursements made from AID loan funds to sub-borrowers which reconciles the Bank's "Summary of Loans Approved" report, the "Expenditure" report submitted in support of obtaining AID funds, and its records of checks disbursed from the AID funded advance account 127-418-2.
- b. Obtain documented and tested evidence from TDB that reported disbursements for sub-loans are reliable."

USAID/Jamaica has received from TDB a reconciliation of the three reports mentioned in part 3.a. The reports have been reviewed by the USAID Controller's Office. In summary, the three reports are now in agreement and are attached for your reference (See Attachment F). Subsequent bank statements for the TDB/AID special account will be reviewed by the Controller's Office to ensure that AID is reimbursed for the excess J\$587,821.46 erroneously disbursed from the TDB/AID special account. AID will also request TDB to provide a written explanation of the J\$150,000 given for Fort George Botanical. This amount represents the excess of funds disbursed over the approved amount of the loan. These items are currently under review by the USAID Controller's Office and should be resolved in the near future.

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Recommendation No. 4:

"We recommend that USAID/Jamaica prepare a Mission Order which requires that Project Managers document the results of all site inspection trips as required by AID Handbook 3, Chapter 11."

This Mission has prepared a Standard Operating Procedure (S.O.P.) concerning the preparation of site visit reports (see attachment 'G').

Att: a/s

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LIST OF RECOMMENDATIONS

Recommendation No. 1

We recommend that USAID/Jamaica:

- a) obtain evidence that the Trafalgar Development Bank has obtained suppliers' invoices as proof-of-purchase from sub-borrowers for past and future purchases; and
- b) institute procedures to periodically verify selected purchase invoices to test the reliability of reported expenditures prior to disbursing AID funds.

Recommendation No. 2

We recommend that USAID/Jamaica:

- a) liquidate outstanding local currency advances to Trafalgar Development Bank; and
- b) amend current local currency sub-loan disbursement procedures so that Trafalgar would be reimbursed for actual disbursements to sub-borrowers instead of receiving project advances.

Recommendation No. 3

We recommend that USAID/Jamaica:

- a) obtain from Trafalgar Development Bank an accounting of Jamaican dollar disbursements made from AID loan funds to sub-borrowers which reconciles the Bank's "Summary of Loans Approved" report, the "Expenditure" report submitted in support of obtaining AID funds, and its records of checks disbursed from AID-funded advance account 127-418-2; and
- b) obtain documented and tested evidence from Trafalgar Development Bank that reported disbursements for sub-loans are eligible for reimbursement by AID.

Recommendation No. 4

We recommend that USAID/Jamaica prepare a Mission Order which requires its Project Managers to document the results of site inspection trips as required by AID Handbook 3, Chapter 11.

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APPENDIX 3

REPORT DISTRIBUTION

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