

PD-AAW-504

AN: 52541

NONFEDERAL AUDIT OF
CHAD PRIVATE ENTERPRISE DEVELOPMENT
PROJECT NO. 698-0502

Audit Report No. 7-677-87-08-N

September 30, 1987

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

INTERNATIONAL ADDRESS
RIG/DAKAR
C/o AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

September 30, 1987

MEMORANDUM FOR A.I.D. Representative, Chad

FROM: John P. Competello, RIG/A/Dakar 

SUBJECT: Nonfederal Audit of Chad Private Enterprise
Development Project (698-0502) (Audit Report
No. 7-677-87-08-N)

Attached is a copy of the report for subject audit. The certified public accounting firm Price Waterhouse, Abidjan, Ivory Coast, prepared the report.

The report presents the results of a financial and compliance audit requested by your Mission of the expenditures incurred under the Chad Private Enterprise Project. The project is implemented by the Volunteers in Technical Assistance (VITA), a U.S.-based private voluntary organization, under a cooperative agreement between A.I.D. and VITA. The purpose of the audit was to assess the project's compliance with the provisions of the cooperative agreement, and the controls and procedures established to assure proper protection of A.I.D.-financed assets and revolving loan fund.

The audit firm concluded that the expenditures incurred under the project during the period July 1, 1984, to December 31, 1986, were correctly recorded and complied with the Cooperative Agreement of January 16, 1984, as amended. However, the firm found several areas where project internal controls could be strengthened.

The report contains four recommendations which we have consolidated into one as they all relate to improvements in internal control. This will ease tracking, implementation and resolution of the recommendation.

Recommendation No. 1

We recommend that the A.I.D. Representative, Chad, ensure that the cooperating agency strengthen project internal controls by:

- a. performing quarterly reconciliations of the loan fund account;
- b. reporting and analyzing delinquent loans;
- c. updating personnel records; and
- d. filing quarterly returns on a timely basis.

In your comments to the draft audit report (see Appendix IV) you indicate you had initiated action to ensure that VITA (1) perform needed reconciliations, (2) report and analyze delinquent loans; (3) update personnel records; and (4) file quarterly reports promptly.

Based upon action underway, recommendation No. 1 is now considered resolved. It can be closed upon your providing assurance to RIG/A/D that you are satisfied that VITA has fully implemented the corrective actions.

We have evaluated your comments on maintaining an imprest account (Recommendation No. 1, part (c) in our memorandum of June 18, 1987). As a result, we have excluded this part of the recommendation from the final report.

In your comments, you also explained the loan policy which was followed by VITA and your view that the policy was sound. We agree and therefore have eliminated recommendation No. 2 transmitted with the draft audit report.

Please advise RIG/A/Dakar by cable within 30 days of actions planned or taken to close the report recommendation.

We appreciate the assistance and cooperation provided to the audit firm.



AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

AUDIT OF EXPENDITURES INCURRED UNDER
THE CHAD PRIVATE ENTERPRISE PROJECT
N° 698-0502, BY VOLUNTEERS IN
TECHNICAL ASSISTANCE (VITA)



LIST OF ACRONYMS

AID	Agency for International Development
BTCD	Banque Tchadienne de Crédit et de Dépôts
FRLC	Federal Reserve Letter of Credit
VITA	Volunteers in Technical Assistance

Price Waterhouse
June 10, 1987



Mr. J.P. Competello
Regional Inspector General's
Office
Dakar
Senegal

Dear Sir,

Following your instructions contained in the work order N° 677-0929-0-7054-00 dated March 26, 1987, we have carried out a financial and compliance audit of the expenditures incurred under the Chad Private Enterprise Project N° 698-0502 by Volunteers in Technical Assistance (VITA).

1. BACKGROUND

The purpose of the VITA Private Enterprise Development Project, known as VITA/PEP, is to help establish and further develop the small private enterprise sector (manufacturing and services) of the capital city of Ndjamená and its surrounding area. Initiated in 1984, the project has received US \$ 1,570 million from the Agency for International Development (AID) through a Cooperative Agreement with VITA, a private voluntary organization. One of the features of this project is the creation of a loan fund of US \$ 538,000 which provides loans to small businesses. The project has up to December 31, 1986 granted some 81 loans to numerous small businessmen in Ndjamená and surroundings, involved in agricultural production, manufacturing and repair facilities and activities in the service sector. In addition, the project has granted 20 loans to small farmers in the region of Bognor.

.../...



Project lending terms include a 12% interest rate per annum and the guarantee of loans by financially established guarantors.

VITA is responsible for providing technical assistance and establishing procedures for the monitoring and reporting of the loan fund activities.

2. SCOPE OF THE AUDIT

2.1 Under the terms of our engagement, as outlined in the work order, we were required to perform a financial and compliance audit of the VITA Private Enterprise Development Project to include the following:

- a) Assess the project's compliance with the provisions of the Cooperative Agreement, as amended.
- b) Examine and reconcile the project's books and documentation submitted to USAID.
- c) Verify receipt and disposition of AID financed non-expendable commodities.
- d) Assess the controls and procedures to assure that AID financed assets are properly protected and used.
- e) Assess the controls and procedures governing the Revolving Loan Fund.
- f) Prepare an exhibit showing the source and application of funds concerning the life of the project.



2.2 Except for the matters described in paragraphs 2.3 to 2.5 below, our audit was carried out in accordance with generally accepted international auditing standards and the standards for financial and compliance audits contained in the General Accounting Office 'Standards for Audit of Governmental Organizations, Programs, Activities and Functions' and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

2.3 Our examination was limited to the project expenditure incurred in Chad as we could not have access to the accounting records of the expenditures incurred in the United States by VITA.

2.4 In the course of our audit we did not obtain an analysis by individual expense category of the project expenditures incurred from the date of inception of the project in July 1984 to December 31, 1986. We were thus unable to analyse and reconcile the expenditures between those incurred in Chad and overseas.

2.5 Furthermore, we have not received a reply from VITA following our request for the direct confirmation of Federal Reserve Letter of Credit (FRLCs) and of the Cooperative Agreement Fund balance as at December 31, 1986.

2.6 An examination made in accordance with generally accepted international auditing standards is subject to the inherent limitations of the auditing process and will therefore not necessarily disclose all cases of derelictions or irregularities, but their disclosure if they exist, may result from the audit tests we undertake.



3. WORK PERFORMED

3.1 Our audit of the expenditures incurred by the VITA project during the period from the date of inception in July 1984 to December 31, 1986, was carried out during the week of April 27, 1987. In order to collect the information necessary for the audit we met with the following personnel:

Mr. J.B. Woods, AID Representative
Mr. H. Dorcus, AID Acting Controller
Ms. D. Blane, Project Manager
Mr. R. Reitemeir, VITA Assistant Project Director

3.2 As part of our audit, we made a study and evaluation of the system of internal accounting control of the VITA Private Enterprise Development Project in Chad to the extent we considered necessary to evaluate the system as required by generally accepted international auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Cash disbursements (paragraph 4.7)
- Revolving loan fund (paragraphs 5.1 and 5.2)
- Payrolls (paragraphs 5.3 and 5.4)
- Non-expendable commodities (paragraph 4.6).

.../...



The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the project financial report for the period ended December 31, 1986. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

3.3 The management of VITA Private Enterprise Development Project in Chad is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of project financial reports in accordance with generally accepted accounting principles.

3.4 Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

.../...



3.5 Our study and evaluation made for the limited purpose described in the paragraph 3.2 above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of VITA Private Enterprise Development Project taken as a whole or on any of the categories of control identified in paragraph 3.2 above. However, our study and evaluation disclosed no condition that we believe to be a material weakness as defined in US Auditing Standard number 20.

3.6 We present in Appendix I the project budget by major expense category, together with the actual expenditures incurred in US dollar equivalent. Local expenditures incurred in CFA francs have been translated to the US dollar equivalent using the monthly exchange rates applied by VITA for the preparation of the quarterly financial reports. A summary of the local project expenditures selected for our review and testing is set forth in Appendix II. The monthly exchange rates utilized are summarized in Appendix III.

3.7 Our audit of the expenditures included the following procedures:

3.7.1 Cooperative Agreement

- Obtaining a copy of the Cooperative Agreement N° 677-0502-46-A-00-4016-00 of January 16, 1984 between AID and VITA together with the subsequent amendments.

- Assessing the project's compliance with the provisions of the Cooperative Agreement, as amended.

.../...



3.7.2 Accounting Records

- Examination of the accounting records of the project to ensure that they are properly maintained and segregated from other funds' records.
- Obtaining the summary of expenditures in US dollar equivalent incurred by the project, for the period July 1984 to December 31, 1986.

3.7.3 Funding

- Obtaining an analysis of payments made by means of Federal Reserve Letter of Credit (FRLC) to VITA.
- Verification of advances received by the Revolving Loan Fund and the Operating account with the local bank journals and bank statements available in Chad.
- Request from VITA for the confirmation of FRLCs issued and of the Cooperative Agreement Fund balance as at December 31, 1986.

3.7.4 Revolving Loan Fund

- Obtained an analysis of loans at December 31, 1986.
- Verified that loan procedures had been correctly applied for a sample of 25 loans.
- Requested direct confirmation from borrowers of loan balances and conditions for a sample of 25 loans.



- Reviewed the loan management system and the preparation of related management information.
- Reviewed the procedures for the follow-up and recovery of delinquent loans.

3.7.5 Bank Accounts

VITA operates two bank accounts opened at the Banque Tchadienne de Crédit et de Dépôts (BTCDD) for the Revolving Loan Fund and for the Operating Account. Our audit included the following procedures:

- Verified transactions over F.CFA 250,000 (US \$ 820) recorded in the bank journals for the period July 1984 to December 31, 1986.
- Verified additions of the totals of the bank journals.
- Verified the bank reconciliations at December 31, 1986 for the two accounts maintained at the BTCDD and obtaining direct confirmation of the balance at that date.

3.7.6 Personnel Salaries

- Obtained the list of local employees by staff category.
- Verified the authorisation and recording of local salaries.
- Verified the calculation and payment of the salaries for 7 local employees (30% of total) to personnel record files, bank journals and bank statements.
- Verified that local payroll taxes are correctly computed and paid on the due dates.

.../...



3.7.7 Equipment and Supplies

- Reviewed the procedures for the ordering, recording and safeguard of equipment and supplies.
- Verified purchases to the supplier's invoice, bank journals and bank statements. Our sample covered some F.CFA 22,184,721 (US \$ 56,117) representing 84% of total purchases of equipment and supplies.
- Physical inspection of some 24 items of equipment and supplies.

3.7.8 Other direct costs

- Verified other expenditures incurred locally (electricity, rent, travel, per diem, consultant fees and sundries) to invoices, bank journals and bank statements.

Our sample covered some F.CFA 32,324,693 of local expenditures.

4. FINDINGS AND COMMENTS

4.1 Accounting Records

The transactions relating to the project are recorded in a manual bank journal maintained in CFA francs for the Revolving Loan Fund and for the Operating Account. The journal is the book of prime entry and is maintained on a cash basis. The journal enables the preparation of quarterly financial reports and analyses in US dollar equivalent of expenditures incurred and loans disbursed.

.../...



Our examination of the bank journals revealed that they were properly maintained and reconciled to the bank statements. In the course of our audit we did not obtain an analysis by individual expense category of the expenditures incurred from the date of inception of the project in July 1984 to December 31, 1986. We were thus unable to analyse and reconcile the expenditures between those incurred in Chad and USA.

4.2 Funding

Payment by AID to VITA is made by FRLCs. As at December 31, 1986 the amounts obligated and utilized were:

	<u>Operating</u> <u>account (US\$)</u>	<u>Revolving</u> <u>Loan Fund (US\$)</u>	<u>Total (US\$)</u>
Obligated	1 032 000	538 000	1 570 000
Expenditures/calls	(960 125)	(380 000)	(1 340 125)
Balance at 12/31/86	<u>71 875</u>	<u>158 000</u>	<u>229 875</u>
	=====	=====	=====

We did not receive a reply from VITA following our request for the direct confirmation of FRLC's and of the Cooperative Agreement fund balance as at December 31, 1986.

4.3 Revolving Loan Fund

As at December 31, 1986 VITA had called US \$ 380,000 on the Revolving Loan Fund account out of the total amount obligated of US \$ 538,000. The total amount remaining for future loans is US \$ 282,713, being US \$ 158,000 from the Revolving Loan Fund and US \$ 124,713 of the Revolving Loan Fund bank balance at December 31, 1986.



Total loans issued in Ndjamená and Bognor up to December 31, 1986 are as follows:

	<u>N°</u>	<u>US \$</u>	<u>F.CFA</u>
Ndjamená	81	471 334	183 120 774
Bognor	20	1 440	500 000
	<u>101</u>	<u>472 774</u>	<u>183 620 774</u>
	===	=====	=====

No reconciliation is carried out between funds called, disbursed, repaid and the balance of the Revolving Loan Fund account. The movement of the fund account is as follows:

	<u>US \$</u>
Amount called	380 000
Less: funds disbursed	(472 774)
Add: repayment of principal and interest	184 862
	<u>92 088</u>

Book balance at December 31, 1986 (F.CFA 39,258,101)	124 713
	<u>32 625</u>
Difference	=====

.../...



The difference of US \$ 32,625 is mainly due to exchange differences in converting amounts in CFA francs to US dollars. This arises from recording amounts, called disbursements and repayments at historical rates whereas the bank balance at December 31, 1986 is translated at the year-end rate.

Our verification of the loan management system, which has been established for the granting of loans, revealed that all procedures required prior to the disbursement of the loans, had been correctly complied with. These include:

- completion of an interview questionnaire;
- submission of a balance sheet and an income statement;
- development of a venture plan;
- agreement on loan terms and conditions.

We noted that the current management information system which has been implemented for the monitoring of loans could be further improved by the preparation of the following monthly reports as required by the Cooperative Agreement:

- listing of balances owed;
- analysis of delinquent loans.

.../...



We requested the direct confirmation of loan balances and conditions for a sample of 25 loans. The result of the confirmations were as follows:

	<u>N°</u>	<u>%</u>	<u>F.CFA</u>	<u>%</u>
Loans issued	<u>101</u>	<u>100</u>	<u>183 620 774</u>	<u>100</u>
Circularised	<u>25</u>	<u>25</u>	<u>101 098 830</u>	<u>55</u>
Replied and agreed	17	68	68 848 830	68
No replies	8	32	32 250 000	32
	<u>25</u>	<u>100</u>	<u>101 098 830</u>	<u>100</u>
	===	===	=====	===

As at December 31, 1986 there were some 50 accounts with overdue payments as follows:

	<u>Payments overdue</u>				<u>Total</u>
	<u>1-3</u>	<u>4-6</u>	<u>7-9</u>	<u>10 and over</u>	
Number	26	10	1	13	50
Value(F.CFA)	5,264,609	5,576,384	1,736,000	25,659,148	38,236,141
Average value of overdue payment(F.CFA)	202,485	557,638	1,736,000	1,973,781	764,723

VITA management feels that in view of the current economic situation in Chad, the late payment record appears to be acceptable since most are due to factors beyond the customers' control. Nevertheless there is a good record of eventual collection. Overdue payments received in 1987 amount to some F.CFA 7,040,662 up to the time of our audit. As a last recourse, legal action has been initiated against 6 borrowers whose loans are delinquent.



4.4 Bank Accounts

Our examination of the bank transactions indicated that they were correctly recorded in the bank journals and related to transactions pertaining to the project. Our verification of the bank reconciliations as at December 31, 1986 of the two BTCD accounts did not reveal any exception.

Attachment Two to the Cooperative Agreement specifies that "it is anticipated that the loan fund will be placed in an interest bearing account with a local bank in Ndjamena." Due to the nature of interest bearing accounts offered by banks in Ndjamena, funds need to be deposited for a specific period of time or a ceiling of F.CFA 5 million has been set for savings accounts. As a result banks in Ndjamena do not provide the necessary services to operate the loan fund account as stated in the Cooperative Agreement.

4.5 Personnel Salaries

Our examination of the calculation, recording and payment of local salaries indicated that:

- A number of administrative documents necessary for the calculation of the salaries were not available in the individual personnel record files. These include birth certificates of children and marriage certificates.

- Quarterly returns for salary taxes and social security contributions need to be filed and paid by the 20th of the month following the quarter. We noted that certain returns had been filed after the due dates.

.../...



4.6 Equipment and Supplies

In the course of our verification of the procedures for the purchase, recording and safeguarding of equipment and supplies we noted that individual assets are not identified by a serial number. Furthermore, the inventory of the project's assets that has already been carried out should be reconciled with the project's records.

4.7 Other direct costs

Our review of the control procedures relating to other expenditures revealed that receiving reports and the verification of invoices were not always documented when the project was set up. Nevertheless we noted an improvement in these procedures during the later stages of the project.

5. RECOMMENDATIONS

In the course of our audit, we reviewed the procedures established in order to identify internal control weaknesses and suggest the following recommendations:

REVOLVING LOAN FUND

5.1 A quarterly reconciliation should be performed between funds called, disbursed, repaid and the balance of the Revolving Loan Fund account

In the course of our audit we noted that the Revolving Loan Fund was not reconciled with the funds actually called, disbursed and repaid. Such a reconciliation, which should take into account exchange differences, would ensure that the records for the Revolving Loan Fund are accurately maintained.



5.2 The management information system for the monitoring of loans could be improved

The project currently prepares a number of quarterly manual and computer produced analyses as part of the management information system which has been established for the monitoring of loans. We believe that the quality of the information available to the project's management could be further improved by making fuller use of the microcomputer spreadsheet facility which is currently available to the project. Additional reports could include the following:

- listing of balances owed;
- analysis of delinquent loans.

PAYROLLS

5.3 Personnel record files should be updated

We noted that a number of supporting documents necessary for the calculation of the salaries were not available in the personnel record files. These include birth certificates of children and marriage certificates.

5.4 Quarterly returns for salary taxes and social security contributions should be filed on due dates

We noted that certain quarterly returns had been filed past the due date, which is the 20th of the month following the quarter. In order to avoid any possible penalty for late filing, we recommend that the returns are made and filed by the due dates.



6. CONCLUSIONS

The management of the Project is responsible for compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records relating to the project expenditures incurred in Chad to determine the compliance with laws and regulations noncompliance with which could have a material effect on the statement of financial position of the project. Except for our specific findings and internal control recommendations described in paragraphs 4 and 5 above, all tested items in respect of the project expenditures incurred in Chad were found to be in compliance with applicable laws and regulations. Furthermore, nothing came to our attention that caused us to believe that for the project expenditures incurred in Chad not tested the project was not in compliance with laws or regulations noncompliance with which could have a material effect on the financial position. As mentioned in paragraph 2.3 above, we did not have access to the accounting records of the expenditures incurred in the USA by VITA and accordingly we do not express an opinion on the those project expenditures incurred in the USA.

In our opinion, except for the effects on the project's records of such matters or adjustments, if any, as might have been identified had we been able to obtain all the evidential matters discussed in paragraphs 2.3 to 2.5 above, the expenditures incurred under the Chad Private Enterprise Project N° 698-0502 by Volunteers in Technical Assistance during the period July 1984 to December 31, 1986 are correctly recorded and comply with the Cooperative Agreement of January 16, 1984, as amended.

Yours very truly,

Price Waterhouse



CHAD PRIVATE ENTERPRISE PROJECT No 698-0502

PROJECT BUDGET AND ACTUAL EXPENDITURES INCURRED TO

DECEMBER 31, 1986 (US \$)

Description	Budget US \$	Actual expenditures US \$	Funds remaining US \$
Personnel salaries	319,990	339,419	(19,429)
Fringe benefits & occupancy	70,028	78,140	(8,112)
Allowances	193,724	151,966	41,758
Travel & per diem	54,390	35,034	19,356
Equipment & supplies	64,750	66,748	(1,998)
Other direct costs	62,450	73,096	(10,646)
Contingency	37,182	-	37,182
Overhead	229,486	215,720	13,766
Total operating expenditures	1,032,000	960,123	71,877
Revolving Loan Fund	538,000	538,000	538,000
Total expenditures	1,570,000	1,498,123	609,877

CHAD PRIVATE ENTERPRISE PROJECT N° 698-0502
SUMMARY OF LOCAL EXPENDITURES SELECTED AND
TESTED DURING OUR AUDIT



Amounts in F.CFA

PERSONNEL SALARIES	
- Local wages, salaries and other employment costs	24 482 591
FRINGE BENEFITS AND OCCUPANCY	
- Local house electricity	4 154 273
ALLOWANCES	
- Temporary lodging (hotel costs)	1 889 040
TRAVEL AND PER DIEM	
- Per diem	350 000
EQUIPMENT AND SUPPLIES	
- Office equipment	14 817 035
- Household furniture	5 041 386
- Other office equipment	2 326 300
	<hr/>
	22 184 721
OTHER DIRECT COSTS	
- Office electricity	7 123 998
- Rent expenditures	24 095 170
- Maintenance expenditures	1 105 525
	<hr/>
	32 324 693
OVERHEAD	
- Insurance and legal fees	2 832 290
- Consulting fees	5 056 525
	<hr/>
	7 888 815
Sub-total-Local expenditures tested	<hr/>
	93 274 133
Revolving loan fund (loan disbursements)	<hr/>
	99 498 830
Total local disbursements tested	<hr/>
	192 772 963



Monthly US dollar/F.CFA exchange rate used by VITA

Appendix II

	1984	1985	1986
	----	----	----
January	-	450	361
February	-	470	348
March	-	450	343
April	-	475	353
May	400	470	348
June	400	460	350
July	400	430	339
August	430	435	329
September	430	430	326
October	400	398	321
November	430	395	323
December	450	370	320

UNCLASSIFIED

Appendix IV
Page 1 of 4

ACTION: RIG-2 INFO: DCM

VZCZCTAAB42CNA321
RR RUTADS
DE RUTAND #4487/01 2051434
ZNR UUUUU ZZH
R 241431Z JUL 87
FM AMEMBASSY NDJAMENA
TO AMEMBASSY DAKAR 1064
BT
UNCLAS SECTION 01 OF 02 NDJAMENA 04487

LOC:
24 JUL 87
CN: 33324
CHRG: AID
DIST: RIG

ADM AID

FOR RIG/A/WA

E.O. 12356: N/A

TAGS:

SUBJECT: CHAD PRIVATE ENTERPRISE DEVELOPMENT
(698-0502.4B) - NON-FEDERAL AUDIT CONDUCTED BY PRICE
WATERHOUSE

REF: (A) COMPETELLO/WOODS MEMO DATED 6/18/87 WITH DRAFT
AUDIT REPORT ATTACHED (B) NDJAMENA 03099 (NOTAL)

NDJ FILE CODE: 698-0502.4B

1. MISSION AND VITA HAVE REVIEWED REFERENCED DRAFT
AUDIT REPORT WHICH WAS RECEIVED ON JUNE 23. OUR JOINT
COMMENTS FOLLOW.
2. THE PROJECT IS BEING IMPLEMENTED THROUGH A
COOPERATIVE AGREEMENT WITH VITA, AN AMERICAN PRIVATE
VOLUNTARY ORGANIZATION. IN THIS CASE, THEN, RIG/A/WA'S
WORDING OF THE TWO RECOMMENDATIONS SHOULD BE REVISED TO
REFLECT VITA AS THE IMPLEMENTING AGENCY. SPECIFICALLY,
BOTH RECOMMENDATIONS SHOULD BE REVISED TO READ "VITA"
VICE "U.S.A.I.D./CHAD."
3. WITH REFERENCE TO PARA. 2.3: ON THE AUDITOR'S
BEHALF, MISSION SENT A DIRECT RELAY TELEGRAM (REF. B),
DRAFTED BY MR. DIABAGATE AROUNA, TO VITA/ARLINGTON
REQUESTING SUPPLEMENTAL INFORMATION REGARDING (A) THE
FRLC, (B) A STATEMENT OF THE BALANCE IN THE COOPERATIVE
AGREEMENT FUND AS OF 12/31/86 AND (C) AN HISTORICAL
STATEMENT OF LOCAL CURRENCY FUNDS TRANSFERRED TO
VITA/CHAD. VITA/ARLINGTON WAS INSTRUCTED TO FORWARD THE
INFORMATION DIRECTLY TO AROUNA IN ABIDJAN. NO CABLE WAS
SENT TO AID/W REQUESTING INFORMATION. UNDER THESE
CIRCUMSTANCES, WORDING SHOULD BE REVISED TO REFLECT THAT
A REPLY WAS NOT RECEIVED FROM VITA/ARLINGTON, DELETING
THE REFERENCE TO AID. THE WORDING "CONFIRMATION OF
FRLC'S ISSUED BY VITA" MUST ALSO BE CORRECTED. VITA
DOES NOT ISSUE FRLC'S. AID HAS ISSUED ONLY ONE FRLC IN
FAVOR OF VITA.

4. USAID/CHAD AND VITA'S RESPONSE TO RECOMMENDATION
NO. 1:

UNCLASSIFIED

NDJAMENA 004487/01

(A) VITA WILL PROVIDE QUARTERLY RECONCILIATIONS BETWEEN FUNDS CALLED, DISBURSED AND REPAID AND THE BALANCE OF THE REVOLVING LOAN FUND. IT IS UNDERSTOOD, HOWEVER, THAT THE NATURE OF CROSS-CURRENCY CALCULATIONS, SUCH AS THE FUTURE VALUE OF UNCALLED-FORWARD DOLLARS WHEN USING FCFA AS THE BASE CURRENCY AND/OR THE CURRENT DOLLAR VALUES OF REIMBURSED PRINCIPLE AND INTEREST IN FCFA WHEN USING DOLLARS AS THE BASE CURRENCY, WILL ALWAYS RESULT IN SOME DISCREPANCIES IN THE QUARTERLY RECONCILIATION.

(B) VITA WILL IMPROVE THE QUALITY OF THE MANAGEMENT INFORMATION SYSTEM FOR MONITORING LOANS BY ADDING A TABLE ON LOAN BALANCES DUE AND AN ANALYSIS OF DELINQUENT LOANS BY LOAN VALUE TO THE PRESENTLY-PREPARED MICROCOMPUTER SPREADSHEET ANALYSES.

(C) PARAGRAPH F. OF ATTACHMENT ONE TO THE COOPERATIVE AGREEMENT (PAGE A1-3) CALLS FOR QUARTERLY FINANCIAL REPORTS TO BE FORWARDED TO VITA/USA TO BE USED AS THE BASIS FOR REPLENISHING THE PROJECT'S IMPREST ACCOUNT. THE PRECEDING PARAGRAPH E. CALLS FOR ESTABLISHMENT OF AN IMPREST FUND BY VITA/USA, WITH REPORTS TO BE MADE USING AID FORM 269 AND SF-1284, WITH SUPPORTING DOCUMENTATION SUPPLIED BY VITA/CHAD. THERE IS NO REFERENCE TO VITA/CHAD'S OPERATING FUND BEING MAINTAINED ON AN IMPREST SYSTEM. FURTHER, VITA/CHAD FEELS VERY STRONGLY THAT IMPOSITION OF A FUNDING CEILING (THE ONLY REQUIREMENT FOR AN IMPREST FUND WHICH IS NOT ALREADY MET) WOULD INEVITABLY CREATE CASH FLOW PROBLEMS FOR THE FOLLOWING REASONS:

- (1) REQUIREMENTS FOR OPERATING CASH FLUCTUATE GREATLY FROM MONTH TO MONTH. IMPOSITION OF A LEVEL BASED UPON AN AVERAGE QUARTER'S FIGURES WOULD UNDOUBTEDLY PROVE INSUFFICIENT FOR SOME QUARTERS.
- (2) BOTH THE INTERNATIONAL MAIL AND POUCH MAIL SYSTEMS OPERATE ON SUCH AN IRREGULAR BASIS THAT THE COMMUNICATIONS FLOW IS NOT ADEQUATE TO PERMIT THE TRANSMITTAL/RECEIPT/CLEARANCES OF EXPENDITURE REPORTS PRIOR TO ISSUANCE OF REPLENISHMENT FUNDS. (FYI: THE EMBASSY CASHIER, WHOSE IMPREST FUND IS DEPENDENT UPON COMMUNICATIONS WITH PARIS, NEVER MIND WASHINGTON, FREQUENTLY SUFFERS CASH FLOW PROBLEMS BECAUSE OF

IRREGULAR POUCHES. EMERGENCY TELEGRAPHIC REQUESTS FOR REPLENISHMENT BASED UPON ASSURANCES THAT SUPPORTING DOCUMENTATION HAS BEEN TRANSMITTED ARE COMMON.)

GRANTED THAT THESE PROBLEMS COULD BE SURMOUNTED BY ESTABLISHING AN IMPREST FUND OF SUFFICIENTLY HIGH LEVEL TO PERMIT DISBURSEMENTS FOR AN EXTENDED PERIOD, SUCH A LEVEL WOULD SEEM TO NEGATE THE UNDERLYING INTENT OF AN IMPREST REQUIREMENT. MISSION AGREES WITH VITA/CHAD THAT THE CURRENT SYSTEM OF REQUESTING OPERATING FUND ADVANCES FROM VITA/USA AS NEEDED AND REPORTING EXPENDITURES ON A MONTHLY BASIS IS A MORE PRACTICAL SOLUTION AND IS WORKING SMOOTHLY.

(D) TO THE EXTENT THAT DOCUMENTATION IS AVAILABLE, VITA/CHAD WILL COMPLETE ALL PERSONNEL RECORDS.

(E) VITA/CHAD WILL FILE QUARTERLY RETURNS FOR SALARY TAXES AND SOCIAL SECURITY CONTRIBUTIONS ON OR BEFORE THE DUE DATES.

5. VITA'S RESPONSE TO RECOMMENDATION NO. 2:

UPON ISSUANCE OF A VITA LOAN, RESPONSIBILITY FOR MONITORING THE ACTIVITY, INCLUDING MONITORING LOAN REPAYMENTS, RESTS WITH A VITA/CHAD LOAN OFFICER. IF REPAYMENTS ARE NOT MADE ON TIME DURING THE FIRST SIX MONTHS, VITA/CHAD TAKES THE FOLLOWING STEPS:

(A) A SERIES OF LETTERS IS SENT TO THE CLIENT REQUESTING THAT LOAN PAYMENTS BE MADE WITHOUT FURTHER DELAY. THE FIRST LETTER IS SENT 15 DAYS AFTER THE LOAN PAYMENT DUE DATE; SUBSEQUENT LETTERS BECOME INCREASINGLY INSISTENT;

(B) THE LOAN OFFICER MAKES MONTHLY SITE VISITS TO THE CLIENT TO DISCUSS THE LOAN REPAYMENT SITUATION; AND

(C) BASED ON THE RESULTS OF THE LETTERS AND VISITS TO THE CLIENTS, VITA/CHAD SENIOR STAFF FORMULATE REMEDIAL ACTION WHICH IS THEN COMMUNICATED TO THE CLIENTS.

IF LOAN REPAYMENTS ARE SIX OR MORE MONTHS IN ARREARS, VITA/CHAD APPLIED THE FOLLOWING CRITERIA:

(A) ARE THE PARTICULAR CIRCUMSTANCES WITH REGARD TO THE LOAN ADEQUATELY JUSTIFIED TO WARRANT EITHER AN EXTENSION OR A RESCHEDULING OF THE LOAN REPAYMENTS. ADEQUATE JUSTIFICATION IS BASED ON THE FOLLOWING SUB-CRITERIA:

- THE CLIENT'S LATE PAYMENTS ARE A RESULT OF ECONOMIC OR NATURAL CIRCUMSTANCES BEYOND HIS CONTROL;
- THE CLIENT HAS KEPT VITA/CHAD STAFF INFORMED OF ON-GOING COMMERCIAL DIFFICULTIES WHICH REQUIRE SPECIAL REMEDIAL ACTION.

(B) ARE THE PARTICULAR CIRCUMSTANCES WITH REGARD TO THE LOAN NOT ADEQUATELY JUSTIFIED TO WARRANT EITHER AN EXTENSION OR A RESCHEDULING OF THE LOAN REPAYMENTS. IN THIS CASE VITA/CHAD TAKES THE FOLLOWING STEPS:

- THE VITA/CHAD COLLECTIONS DEPARTMENT NEGOTIATES A REASONABLE AND ACCEPTABLE REPAYMENT ARRANGEMENT WITH THE CLIENT AND/OR HIS GUARANTOR.

- IF NOT REASONABLE/ACCEPTABLE REPAYMENT ARRANGEMENT IS NEGOTIATED, THE CLIENT'S LOAN FILE IS TURNED OVER TO VITA/CHAD'S ATTORNEY FOR LEGAL ACTION.

OF THE FOUR CASES WHICH HAVE BEEN SUBMITTED TO THE CHADIAN CCURTS AND HEARD, ALL HAVE BEEN DECIDED, ALBEIT AFTER A CONSIDERABLE PERIOD OF TIME, IN VITA/CHAD'S FAVOR. CCNSEQUENTLY, TO DATE VITA/CHAD HAS NEVER HAD TO "WRITE OFF" A LOAN AS UNCOLLECTABLE.

6. MISSION HOPES THAT MISSION AND VITA'S ABOVE RESPONSES TO THE TWO AUDIT RECOMMENDATIONS ARE SATISFACTORY AND THAT THE RECOMMENDATIONS CAN BE CLOSED WITHOUT DELAY. PLEASE ADVISE. BLANE

BT
#4487

NNNN

Report Distribution

	<u>No. of Copies</u>
A.I.D. Representative/Chad	5
AA/AFR	1
AA/M	2
AFR/CONT	5
AFR/PD	1
AFR/SWA	1
AA/XA	2
LEG	1
GC	1
XA/PR	1
M/FM/ASD	2
PPC/CDIE	3
SAA/S&T	1
IG	1
Deputy IG	1
IG/PPO	2
IG/EMS/C&R	12
IG/LC	1
IG/PSA	1
AIG/II	1
REDSO/WCA	1
REDSO/WCA/WAAC	1
USAID/Burkina	1
USAID/Cameroon	1
USAID/Cape Verde	1
USAID/Congo	1
USAID/Ghana	1
USAID/Guinea	1
USAID/Guinea-Bissau	1
USAID/Liberia	1
USAID/Mali	1
USAID/Mauritania	1
USAID/Morocco	1
USAID/Niger	1
USAID/Senegal	1
USAID/Sierra Leone	1
USAID/The Gambia	1
USAID/Togo	1
USAID/Tunisia	1
USAID/Zaire	1
RIG/II/Dakar	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1