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AUDIT OF  
USAID-FUNDED PROJECTS MANAGED BY  
EASTERN AND SOUTHERN AFRICAN  
MANAGEMENT INSTITUTE (ESAMI)  
PROJECT NO. 698-0413.09  
PROJECT NO. 698-0662.23

AUDIT REPORT NO. 3-621-89-02-N  
DECEMBER 16, 1988

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
REGIONAL INSPECTOR GENERAL/AUDIT

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December 16, 1988

MEMORANDUM FOR DIRECTOR REDSO/ESA, Satish P. Shah,

FROM: RIG/A/N, Richard C. Thabet

SUBJECT: Audit of USAID-Funded Projects Managed by Eastern  
and Southern African Management Institute (ESAMI);  
Project No. 698-0413.09 and Project No. 698-0662.23  
Audit Report No. 3-621-89-02-N

This report presents the results of a non-Federal audit of A.I.D.-funded Projects No. 698-0413.09 and No. 698-0662.23 managed by Eastern and Southern African Management Institute (ESAMI) in Tanzania. The certified public accounting firm of Price Waterhouse prepared the report dated June 17, 1988.

The purpose of the audit was to report on: (1) the fairness of the Statement of AID Revenue and Expenditures of the two projects for the period July 1, 1986 to December 31, 1987; (2) the system used to ensure propriety and reasonableness of costs incurred, (System of Internal Control), of the two projects; and, (3) compliance by ESAMI with the the terms and conditions of the A.I.D. agreements and the applicable U.S. Government laws and regulations.

Price Waterhouse issued a qualified opinion on the Statement of AID Revenue and Expenditures. The auditors' study and evaluation of internal accounting control disclosed two material weaknesses: (1) subvention payments by member countries are too low and inequitable; and (2) a departmental costing system needs to be established. The study disclosed ten non-material internal control weaknesses which included: journal vouchers were not reviewed and approved by a senior official; supporting documents to payments were not cancelled on payment; stock cards were not kept up to date; and there were no stock cards for fuel supplies. In the report on compliance, no instances of non-compliance were disclosed other than the \$11,373 in disallowed costs and \$33,463 in questioned costs.

Recommendation No. 1

We recommend that Regional Economic Development Support Office for Eastern and Southern Africa obtain evidence from the Eastern and Southern African Management Institute to demonstrate that it has implemented the twelve recommendations resulting from the report on internal accounting control.

Recommendation No. 2

We recommend that the Regional Economic Development Support Office for Eastern and Southern Africa recover from the Eastern and Southern African Management Institute disallowed costs of \$11,373. Since these costs have been recovered, this recommendation is closed upon report issuance.

The report on internal accounting control contained two recommendations to correct material weaknesses and ten recommendations to correct non-material weaknesses of the system of internal accounting control. Management concurred with all twelve recommendations, which we have combined into Recommendation No. 1.

The report on compliance contained a recommendation to recover disallowed and questioned amounts. Management concurred with the recommendation that \$11,373 be disallowed, and has documented that this amount was recovered as a deduction from an ESAMI expense voucher posted in September, 1988. Additionally, REDSO/ESA documented that the U.S. Government sanctions against Tanzania were lifted before questioned expenditures of \$33,463 were made. Consequently, we are closing the recommendation for disallowed costs upon report issuance and have withdrawn an audit report recommendation pertaining to the questioned costs.

Please advise me within 30 days of the actions planned or taken to implement these recommendations.

**NON-FEDERAL AUDIT OF USAID-FUNDED  
PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE**



### ACRONYMS

<b>C&amp;L</b>	<b>Coopers and Lybrand</b>
<b>CFTC</b>	<b>Commonwealth Fund for Technical Cooperation</b>
<b>ESAMI</b>	<b>Eastern and Southern African Management Institute</b>
<b>PACD</b>	<b>Project Assistance Completion Date</b>
<b>REDSO/ESA</b>	<b>Regional Economic Development Services Organization for Eastern and Southern Africa</b>
<b>RFMC</b>	<b>Regional Financial Management Center</b>
<b>RIG/A/N</b>	<b>Regional Inspector General for Audit in Nairobi</b>
<b>TAC</b>	<b>Tanzanian Auditing Corporation</b>
<b>UNDP</b>	<b>United Nations Development Program</b>
<b>USAID</b>	<b>United States Agency for International Develop- ment</b>

## EXECUTIVE SUMMARY

The Eastern and Southern African Management Institute (ESAMI) came into existence on February 28, 1980. USAID, through the Regional Economic Development Services Organization for Eastern and Southern Africa (REDSO/ESA), finances two projects run by the Institute. The purpose of project number 698-0413.09 is to assist in the development of a regional center which will help to improve the management and policy-making capabilities of public and private development enterprises in Eastern and Southern Africa. The project began on April 25, 1982 and has an assistance completion date of August 31, 1988. Amounts obligated by USAID at December 31, 1987 totalled \$ 500,000 (\$ 25,000 was de-obligated on May 26, 1988) and amounts disbursed and accrued at the same date totalled \$ 436,965. Project number 698-0662.23 is providing supply management training in the logistics of distributing family planning commodities in nine Eastern and Southern African countries. This project began on August 29, 1984 and has an assistance completion date of September 1, 1988. Amounts obligated by USAID at December 31, 1987 totalled \$ 1,000,000 and amounts disbursed and accrued at the same date totalled \$ 637,485.

We performed a non-federal financial and compliance audit. The objectives of the audit were to: (a) determine whether the financial statements and costs claimed by ESAMI under the grants, for the period under review, present fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs incurred under the two grants; (c) determine whether ESAMI complied with the laws, regulations and agreement provisions which may have a material effect on the financial statements and costs claimed; (d) review the problems identified by Coopers and Lybrand during their audit and determine if ESAMI implemented the recommendations; and (e) prepare a professional audit report. Our audit covered the period from July 1, 1986 to December 31, 1987.

In our opinion, except for disallowable costs of \$ 11,373 and questionable costs of \$ 33,463, the total expenditure incurred in the period under review of \$ 412,016 (\$ 143,325 under project number 698-0413.09 and \$ 268,691 under project number 698-0662.23) was fairly stated and resulted from project implementation. We concluded that ESAMI had invoiced REDSO/ESA for some costs which were not reimbursable under the terms of the grants. Our review showed that most of the recommendations made by Coopers and Lybrand have been implemented.



Our audit indicated that considerable improvements have been made by ESAMI in the area of internal accounting controls since the Coopers and Lybrand audit in 1986 identified significant problems.

We found that ESAMI had claimed and recovered costs incurred in respect of participants from prohibited countries. We considered that subvention payments by member states are inadequate and inequitable. We found that ESAMI has no formal departmental costing system.

We recommend that EFDSO/ESA should recover disallowed costs of \$ 11,373 and take appropriate action to resolve or recover questioned costs of \$ 33,463. We recommend that ESAMI: (a) reviews the level of subvention payments and increases it; (b) adjusts fees charged to participants from countries paying subventions; (c) continues to actively campaign for new signatories to the ESAMI agreement; and (d) continues to actively campaign for payment of arrears. We recommend that a formal departmental costing system should be designed and implemented.



NON-FEDERAL AUDIT OF USAID-FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE

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**NON-FEDERAL AUDIT OF USAID FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE**

**PART I INTRODUCTION**

**A Background**

The Eastern and Southern African Management Institute (ESAMI) is an educational institution situated in Arusha, Tanzania. ESAMI came into legal existence on February 28, 1980. The basic philosophy and objective of the institute is to promote and maintain efficient, effective and economical performance of major organizations in the region. ESAMI is run as a management development center which offers training, consultancy studies, research services, documentation and information to organizations in the region with a view to improving this performance.

At present, the region comprises the following 19 countries - Angola, Botswana, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Somalia, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Of these only Kenya, Tanzania, Uganda, Zambia and Zimbabwe have signed the ESAMI agreement.

National governments and international organizations, including USAID, provide financial and other support to the institution. USAID provides its assistance through the Regional Economic Development Services Organization for Eastern and Southern Africa (REDSO/ESA). REDSO/ESA awards the grants and monitors the technical program aspects. The Regional Financial Management Center (RFMC) monitors the financial resources of the grants.

REDSO/ESA has provided assistance under three grant agreements. At December 31, 1987 amounts obligated, disbursed, accrued and balance remaining under each grant covered by our audit were:

<u>Project no.</u>	<u>Obligated</u>	<u>Disbursed</u>	<u>Accrued</u>	<u>Balance</u>
	\$	\$	\$	\$
698-0413.09	500,000			
De-obligated on May 26, 1988	( 25,000)			
	475,000	376,273	60,692	38,035
698-0662.23	1,000,000	526,002	111,483	362,515
	<u>1,475,000</u>	<u>902,275</u>	<u>172,175</u>	<u>400,550</u>



Project number 698-0413.09 was signed on April 25, 1982 and has a Project Assistance Completion Date (PACD) of August 31, 1988. The goal of the project is to assist in the development of a regional center which will help to improve the management and policy-making capabilities of public and private development enterprises in Eastern and Southern Africa. The grant was designed to strengthen the training, research and consultancy capabilities of ESAMI.

Project number 698-0662.23 was signed on August 29, 1984 and has a PACD of September 1, 1988. The project is providing supply management training in the logistics of distributing family planning commodities in nine Eastern and Southern African countries.



**B Audit Objectives and Scope**

This assignment was a financial and compliance audit performed at the request of the Regional Inspector General for Audit in Nairobi (RIG/A/N). The objectives of the audit were to: (a) determine whether the financial statements and costs claimed by ESAMI under the grants, for the period under review, present fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs incurred under the two grants; (c) determine whether ESAMI complied with the laws, regulations and agreement provisions which may have a material effect on the financial statements and costs claimed; (d) review the problems identified by Coopers and Lybrand during their audit and determine if ESAMI implemented the recommendations; and (e) prepare a professional audit report.

The audit work was performed at RFMC, Nairobi, from May 31, 1988 to June 6, 1988 and at ESAMI offices in Arusha, Tanzania from June 8, 1988 to June 17, 1988. The audit covered the activities of Project number 698-0413.09 and Project number 698-0662.23 from July 1, 1986 to December 31, 1987. This was the second non-federal audit of these projects. The first audit, performed by Coopers and Lybrand, covered the period from inception to June 30, 1986.

We held meetings with REDSO/ESA Project officers, RFMC Controller personnel and RIG/A/N personnel in Nairobi. We reviewed the terms and conditions of the grant agreements, applicable standard provisions, implementation letters, budgets and financial or program reports in order to gain knowledge and understanding of the (a) goals and objectives of the project and grants, (b) activities being financed by AID under the grants, (c) types of costs intended to be financed, (d) financial procedures and requirements, and (e) results of completed financial reviews.

We studied ESAMI's chart of accounts, a cost accounting system design prepared by the United Nations Development Program, an accounting procedures manual written by Coopers and Lybrand, ESAMI's organization charts, the most recent audit report of the Tanzanian Auditing Corporation and other relevant background material. We reviewed USAID and other US Government authoritative documents to become familiar with cost principles and accounting for not-for-profit organizations.



We prepared work papers listing all vouchers reimbursed by RFMC in the period under review for each project. We tested these vouchers as appropriate. Amounts audited and amounts tested for each project were as follows:

	Amounts Audited			Amounts
	Disbursed	Accrued	Total	Tested
	\$	\$	\$	\$
Project no. 698-0413.09	82,632	60,693	143,325	122,813
Project no. 698-0662.23	157,208	111,483	268,691	231,586
	<u>239,840</u>	<u>172,176</u>	<u>412,016</u>	<u>354,399</u>

We reviewed and evaluated ESAMI's accounting system, internal controls, and capability to properly identify and account for costs in accordance with the grant agreements, implementation letters and/or applicable standard provisions. We prepared a detailed analysis by categories of costs for vouchers submitted by ESAMI in respect of the period under review. We audited these costs to ensure that they were proper, allowable, allocable, reasonable and supportable.

We reviewed the C&L Audit report (No. 3-621 87-2-N) issued in November 1986 and performed follow-up work to determine whether ESAMI has repaid monies embezzled and implemented recommendations made by C&L.

We analyzed work being done by ESAMI in connection with the two accounting systems designed by the UNDP and C&L. We evaluated policies, formulae, methodology, reasonableness and consistency of application used by ESAMI to arrive at tuition fees, accommodation costs and transportation charges, and to allocate costs accumulated by the Service and Administrative Departments.

We assessed the adequacy of the level of subvention payments made by member states.

# Price Waterhouse



## NON FEDERAL AUDIT OF USAID FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN AFRICAN MANAGEMENT INSTITUTE

### PART II RESULTS OF AUDIT

#### Report I. Report of the Auditors to RIG/A/N

- 1 We have examined the statement of the AID Revenue and Expenditures for the period from July 1, 1986 to December 31, 1987 of ESAMI. Agency for International Development had the following two grants with ESAMI during the period:
  - a) Project No 698 0413.09
  - b) Project No 698 0662.23
- 2 Our examination was made in accordance with generally accepted auditing standards and the US Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
- 3 It is ESAMI's accounting policy to prepare its statement of AID revenue and expenditures on a basis outlined by the terms and conditions of grant agreements with AID and the applicable U.S. Government laws and regulations. Accordingly, the statement of AID Revenue and Expenditures is not presented in conformity with generally accepted accounting principles.
- 4 In our opinion, except for \$ 11,373 in disallowed costs, and subject to the resolution of the questioned costs of \$ 33,463, explained in footnote 3, the statement of AID Revenue and Expenditures of ESAMI, presents fairly ESAMI's expenditure for the period from July 1, 1986 to December 31, 1987 in accordance with Federal Laws, Regulations, and the terms and conditions of the Federal award agreements applied on a basis consistent with that of the preceding period.
- 5 This report is intended solely for the use of management of ESAMI or the Agency for International Development and should not be used for any other purpose. Contractor 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.

Price Waterhouse  
June 17, 1988

Footnote 1

Analyze work being done by ESAMI in connection with the two accounting systems designed by the United Nations Development Program (UNDP) and Coopers and Lybrand (C&L).

Our work indicated that these two systems complement each other and that implementation of the UNDP costing system, as an extension of the C&L accounting system, will enhance the quality and reliability of management information. Our work further indicated that the C&L Accounting Procedures Manual has been substantially implemented. But we would recommend that a more detailed examination of the accounting procedures in force be performed before any conclusion can be reached on the successful implementation of the C&L Accounting Procedures Manual. Of interest will be the C&L post audit report produced following their recently completed audit, which should provide detailed comments on the implementation of their recommended procedures.



## Footnote 2

Evaluate policy, formulae, methodology, reasonableness and consistency of application used by ESAMI to arrive at tuition fees, accommodation fees and transportation charges.

### Tuition and accommodation fees

We were unable to identify the methodology in arriving at these rates as the person responsible for setting them has left ESAMI. The rates have not been revised since January 1, 1986. ESAMI accept that the rates may be incorrect but believe that they cannot increase tuition fees to a more realistic level without driving away participants. Accommodation fees compare favorably with rates charged in local hotels. But as there is no costing system in force we were unable to establish whether accommodation fees charged covered the costs of running the accommodation and catering block.

### Transportation charges

Again the lack of a formal costing system made it difficult to establish whether ESAMI rates are realistic. However in an attempt to assess the reasonableness of rates charged per kilometre we contacted several travel agents in Arusha and compared their rates with ESAMI's. This comparison indicated that rates charged by ESAMI are not unreasonable.



**Footnote 3**

**Disallowed and questioned costs**

Project number 698-0413.09

<u>Voucher No.</u>	<u>Amount</u> <u>\$</u>	<u>Allowed</u> <u>\$</u>	<u>Disallowed</u> <u>\$</u>	<u>Questioned</u> <u>\$</u>
878594	56,214	30,544	9,172	16,498
878676	5,074	3,031	2,043	-
878677	832	397	158	277
888837	4,435	3,964	-	471
888839	1,691	1,176	-	515
888840	<u>54,566</u>	<u>38,864</u>	<u>-</u>	<u>15,702</u>
	<u>122,812</u>	<u>77,976</u>	<u>11,373</u>	<u>33,463</u>



Footnote 4

Other matters

Our discussions with ESAMI management indicated that the Institute suffers cash flow problems, which are sometimes significant, as a result of having to bear all costs of running particular courses financed under the projects before claiming reimbursement from REDSO/ESA. We believe that REDSO/ESA should, in the light of this report, consider re-introducing the system of making advance payments to ESAMI, which was in force before the fraud was discovered by C&L in their audit of 1986.



EASTERN AND SOUTHERN AFRICAN MANAGEMENT INSTITUTE

Statement of AID Revenue and Expenditure for the period July 1,  
1986 to December 31, 1987.

	\$	\$
Total Revenue		412,016
Tuition fees	84,650	
Accommodation	75,513	
Travel costs	27,447	
Out of pocket expenses for participants	22,793	
Per diems and travel expenses for consultants	19,170	
Per diems and travel expenses for facilitators and support staff	12,254	
Field trip expenses		
- Accommodation	3,068	
- Consultants' allowance	1,796	
- Travel expenses	1,499	
- Participants' allowance	3,467	
Incidental course expenses	6,063	
Pre-seminar expenses	1,054	
Cost of resource person	3,199	
Audit/review costs	33,320	
Project staff salaries	100,778	
Miscellaneous consultants' expenses	2,740	
Consultants' fee - case writing	6,746	
Needs assessment expenses	<u>7,459</u>	
Total Expenditure		<u>412,016</u>
Net difference		<u>0</u>

## Price Waterhouse



### Report II Report on Internal Accounting Control

- 1 We have examined the Statement of AID Revenue and Expenditures of ESAMI for the period ended December 31, 1987 and have issued our report thereon dated June 17, 1988. As part of our examination we made a review and evaluation of ESAMI's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the US Comptroller General's Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls in the following categories:
  - procurement and payables
  - property and equipment
  - billings and receivables
  - cash and bank payments and receipts
  - payroll
- 2 Our review included all of the control categories listed above. The purpose of our review and evaluation was to determine whether the system of internal accounting controls was capable of properly identifying and accounting for costs in accordance with the grant agreements, implementation letters and/or applicable standard provisions. Our review and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.
- 3 The management of ESAMI is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements 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 financial statements in accordance with generally accepted accounting principles.



- 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 the procedures may deteriorate.
- 5 Our review and evaluation, made for the limited purpose described in paragraph 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 ESAMI taken as a whole or any of the categories of controls identified in the first paragraph. Our review and evaluation disclosed two conditions that we believe to be material weaknesses. These are listed on Schedule A. Our study also indicated ten non material weaknesses to the system of internal accounting control which are also listed on Schedule A.
- 6 This report is intended solely for the use of management of ESAMI or the Agency for International Development and should not be used for any other purpose. Contractor 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.

Price Waterhouse  
June 17, 1988

## SCHEDULE A

### Internal Control Recommendations

#### Material Weaknesses

- 1 Subvention payments by member states are inadequate and inequitable.

Subvention payments represent 11% of ESAMI's budgeted revenues for 1988. There are only 5 signatories, out of a potential 19, to the ESAMI agreement. The ESAMI budget for 1988 assumes that, in addition to these 5 signatories, Malawi and Namibia will also pay subventions. The subvention rate of \$ 78,947 per annum has not been changed since ESAMI'S inception. Participants from countries which do not pay subventions pay the same course fees as those from countries which do. We consider this to be inequitable and believe that it is a disincentive to countries which are not signatories to the ESAMI agreement to become signatories.

#### Recommendation no. 1

We recommend that ESAMI:

- (a) reviews the level of subvention payments and increases it;
- (b) adjusts fees charged to participants from countries paying subventions to reflect the investment in ESAMI made by that country. Participants from countries which do not pay subventions should pay higher fees;
- (c) continues to actively campaign for new signatories to the ESAMI agreement; and
- (d) continues to actively campaign for payment of arrears.

#### Discussion

Subvention payments by member states are accounted for on an accruals basis for countries which have signed the ESAMI agreement and a payments basis for other countries. The subvention payment charged is \$ 78,947 per annum and this has not changed since inception. As a result ESAMI often experience cash flow problems. Our review indicated that subventions receivable in 1988 represent 11% of ESAMI's budgeted revenues. Based on generally accepted accounting practices we recommend that member states should make a greater contribution towards the day-to-day running costs of the institution in order to reduce the institute's reliance on donor funds. Arrears of subventions at December 31, 1987 amounted to \$ 501,895. However, receipts in 1988 reduced the amount of arrears to \$119,168 by the end of June



1988. Further, fees charged to participants from countries which do not pay subventions are the same as those charged to participants from countries which do.

2 A formal departmental costing system should be designed and implemented.

At present there is no formal departmental costing system. The principal reason for this appears to be that ESAMI management have been concentrating on improving the internal accounting controls in force. As a result of the absence of a departmental costing system management is unable to identify unprofitable revenue-generating departments.

Recommendation No. 2

We recommend that ESAMI should:

- (a) evaluate and consider the results of a study currently being performed by a consultant sponsored by CFTC; and
- (b) design and implement a formal departmental costing system taking into account the results of the evaluation recommended under (a).

Discussion

Introduction of a formal departmental costing system would enhance management controls over the performance of revenue generating departments. Following the fraud identified during the C L audit in 1986 ESAMI management have concentrated on improving the internal accounting controls to limit the chances of a similar fraud being repeated. At the time of our audit a consultant sponsored by CFTC was undertaking a study at ESAMI with a view to making recommendations on the implementation of a departmental costing system. The results of this study should be evaluated before a decision is made on the implementation of a costing system.

Management comments on recommendations 1 and 2.

Management agrees with the recommendations.



### Non-material weaknesses

During the course of our audit we identified some internal accounting control weaknesses which we believe are significant enough to warrant inclusion in this section of the report. We do not believe these weaknesses were so significant in scope and nature that individual findings were required.

- 1 We recommend that all journal vouchers be reviewed and approved by a senior official.

We found no evidence to show that journal vouchers are reviewed and approved by a senior official. Formalization of this control will also reduce the risk of errors on journal vouchers going unnoticed. This recommendation was also made by C&L.

- 2 We recommend that all supporting documents for payments made should be cancelled on payment.

We noted that travel advances claim forms are not stamped 'PAID' on payment. However, our review indicated that invoices are cancelled on payment as recommended by C&L. Implementation of this recommendation will reduce the risk of double payment. No instances of double payments were noted during our review.

- 3 We recommend that formal reconciliations between suppliers statement balances and creditors sub-ledger balances, and between creditors sub-ledger total and general ledger control account, be performed and documented.

At present these reconciliations, if performed, are not documented. Implementation of this recommendation will enhance the control over recording of all liabilities and timely resolution of errors.

- 4 We recommend that a senior official reviews entries in the purchase day book before it is posted to the general ledger.

The purchase day book is a posting source for the general ledger. At present it is not reviewed for correctness before posting is done. Implementation of our recommendation will enhance control over the recording of information and assist in the timely identification of errors.

- 5 We recommend that a checking grid be used on all incoming invoices and that the checking grid be modified to include evidence of checking of arithmetic.

At present, the checking grid is only used on incoming invoices relating to the USAID funded projects, following a recommendation by C&L. This should be extended to all incoming invoices. Also, the checking grid does not require specific indication that the



arithmetic of the invoices has been checked. Formalization of this procedure will enhance the control.

- 6 We recommend that stock cards should be brought up-to-date and maintained up to-date.

Our review indicated that stock cards have not been updated for many months. In order that adequate controls are maintained over stocks, stock cards should be maintained for all categories of stocks and updated on a timely basis. This recommendation was also made by TAC.

- 7 Stock cards should be maintained for fuel supplies

Our review indicated that stock cards are not maintained for fuel supplies. We recommend that these be introduced in order to improve controls over these stocks.

- 8 We recommend that the fixed asset register should be updated regularly.

At the time of our audit the latest update of the fixed asset register was in 1984. Consequently, asset additions and disposals since 1984 are not recorded. Implementation of our recommendation will enhance controls over fixed assets. This recommendation was also made by TAC.

- 9 We recommend that significant disposals of fixed assets should be sanctioned by the Board of Governors.

TAC noted that six motor vehicles disposed of in 1986 and 1987 did not have the approval of the Board of Governors. The absence of this procedure meant that the Board of Governors were unaware that two of these vehicles were sold at a significant loss and were consequently unable to prevent this loss. This recommendation was also made by TAC.

- 10 Evaluate policy, formulae, methodology, reasonableness and consistency of application used by ESAMI to allocate costs accumulated by the Service and Administrative Departments.

Our review and discussions held with senior personnel indicated that no policy exists to allocate service and administrative department costs to revenue generating departments. At the time of our audit a consultant sponsored by CFTC was undertaking a study at ESAMI with a view to making recommendations on the implementation of a costing system. This study is separate from the study carried out by the UNDP. We recommend that the results of this study be considered before any decision is made on the implementation of any costing system.

Management comments on recommendations 1 to 10.

Management agrees with the recommendations.

*Price Waterhouse*

Report III - Report on Compliance with Laws, Regulations and Agreement provisions.

- 1 We have examined the Statement of AID Revenue and Expenditures of ESAMI for the period ended December 31, 1987 and have issued our report thereon dated June 17, 1988. Our examination was made in accordance with generally accepted auditing standards, the provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision), promulgated by the US Comptroller General, as they pertain to financial and compliance audits and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The management of ESAMI is responsible for ESAMI's compliance with laws, regulations and terms and conditions of the Federal award agreements.
- 2 In connection with our examination, we found that for the items tested, ESAMI complied with laws, regulations, and the terms and conditions of the federal award agreements except for the one item identified in section A which constitutes a material instance of non-compliance.
- 3 Further, with respect to the items not tested by us, nothing came to our attention to indicate that ESAMI had not complied with laws, regulations and terms and conditions of ESAMI's Federal grants, contracts, and agreements. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of non-compliance with laws, regulations, terms and conditions of Federal award agreements.
- 4 This report is intended solely for the use of management of ESAMI or the Agency for International Development and should not be used for any other purpose. Contractor 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.

Price Waterhouse  
June 17, 1988



## Section A.

### Findings and Recommendations

1 ESAMI claimed and recovered costs incurred in respect of Ethiopian and Tanzanian participants under project number 698-0413.09

ESAMI used USAID funds to finance training of participants for several nations including Ethiopia (\$ 11,373) and Tanzania (\$ 33,463). However, USAID regulations specifically excluded the funding of Ethiopian and Tanzanian participants. Consequently, ESAMI should not have claimed costs incurred in respect of participants from these countries. ESAMI officials stated that they had specific USAID approval for the financing of Tanzanian participants but could not produce documentation.

#### Recommendation No. 1

We recommend that REDSO/ESA should:

- (a) recover the disallowed costs of \$11,373; and
- (b) take appropriate action to resolve, or recover, the questioned costs of \$ 33,463.

#### Discussion

A REDSO/ESA project paper on project no. 698-0662.23 dated August 29, 1984, indicated that USAID assistance to nationals of certain countries is prohibited. These countries include Ethiopia and Tanzania, but ESAMI claimed the costs of Ethiopian and Tanzanian participants on courses funded by REDSO/ESA. ESAMI officials stated that they had specific USAID approval for the financing of Tanzanian participants, but they could not produce any evidence of this approval. Consequently, we recommend that the costs of the Tanzanian participants (\$ 33,463) be questioned and the costs of the Ethiopian participants (\$ 11,373) be disallowed.

#### Management comments

Management reports that the disallowed costs, in respect of the Ethiopian participants, of \$ 11,373 have subsequently been recovered from ESAMI.

Management reports that the prohibition of expenditure on Tanzanian participants was lifted in April 1987 which was before the expenditure was incurred, and therefore recommends that the questioned costs be allowed.

# Price Waterhouse



## PART III

### Report on Supplemental Information

We have examined the Statement of AID Revenue and Expenditures to ESAMI for the period ended December 31, 1987. Our examination was made for the purpose of determining whether the Statement of amounts reimbursed by AID under the grants, for that period, present fairly costs resulting from program implementation.

The following Exhibits 1-3 and their appendices are presented for the purpose of additional analysis. Such information has been subjected to the auditing procedures applied in the examination of the basic Statement of amounts reimbursed by AID and, in our opinion, are fairly stated in all material respects in relation to the basic Statement of amounts reimbursed by AID.

Price Waterhouse  
June 17, 1988

NON-FEDERAL AUDIT OF USAID-FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE

Summary of expenditure incurred under project number 698-0662.23

	Course 1 \$	Course 2 \$	Course 3 \$	Course 4 \$	TOTAL \$
Tuition fees	15,000	4,200	15,000	6,150	40,350
Accommodation and conference facilities	9,905	3,198	9,155	3,975	26,233
Out of pocket expenses for participants	5,935	2,415	7,750	4,563	20,663
Travel for participants	9,832				9,832
Per diems and travel expenses for consultants	4,211	4,019	6,156	4,784	19,170
Incidental expenses	1,820	313	2,407	1,023	6,063
Pre-seminar expenses	1,054				1,054
Per diem and travel expenses for facilitators and support staff		4,556	4,102	3,596	12,254
<b>TOTAL COURSE EXPENSES</b>	<u>47,757</u>	<u>19,201</u>	<u>44,870</u>	<u>24,091</u>	<u>135,919</u>
Project staff salaries					100,778
Audit/review costs					21,795
Miscellaneous consultants' expenses					2,740
Needs assessment expenses					<u>7,459</u>
<b>TOTAL EXPENSES</b>					<u>268,691</u>

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NON-FEDERAL AUDIT OF USAID FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICA MANAGEMENT INSTITUTE

Courses held under project 698 0662.23

- Course 1** - Training of trainers workshop on management in logistics of Family Planning Commodities.  
Held: 4 May 1987 to 16 May 1987
- Course 2** - In country training program in Uganda  
Held: 3 August 1987 to 8 August 1987
- Course 3** - Family Planning Supplies and Logistics management workshops in Uganda.
- Workshop 1 - Mbarara. Held: 23 November 1987 to 27 November 1987
- Workshop 2 - Jinja. Held: 30 November 1987 to 4 December 1987
- Workshop 3 - Jinja. Held: 7 December 1987 to 11 December 1987
- Course 4** - In-country training workshop in Malawi and follow-up visits in Kenya, Lesotho and Botswana.  
Held: 15 November 1987 to 20 November 1987.

NON-FEDERAL AUDIT OF USAID-FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE

Summary of expenditure incurred under project number 698-0413.09

	<u>Course 1</u>	<u>Course 2</u>	<u>Total</u>
	\$	\$	\$
Tuition fees	21,000	23,000	44,000
Accommodation	23,520	25,760	49,280
Travel costs	8,406	5,968	14,374
Out of pocket expenses for participants	1,080	1,050	2,130
Field trip expenses			
- Accommodation	1,377	1,691	3,068
- Consultants' allowance	919	877	1,796
- Travel expenses	866	633	1,499
- Participants' allowance	2,087	1,380	3,467
Cost of resource person	<u>2,866</u>	<u>333</u>	<u>3,199</u>
TOTAL COURSE EXPENSES	<u>62,121</u>	<u>60,692</u>	122,813
Audit/review costs			10,525
Travel costs			3,241
Consultants' fees - case writing			<u>6,746</u>
TOTAL EXPENSES			<u>143,325</u>

NON-FEDERAL AUDIT OF USAID FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE

Courses held under project number 698-0413-09

**Course 1** - Agricultural policy formulation and analysis.  
Held: 8 June 1987 to 3 July 1987

**Course 2** - Planning and appraisal of industrial and  
agro-industrial projects.  
Held: 12 October 1987 to 20 November 1987

NON-FEDERAL AUDIT OF USAID FUNDED PROJECTS RUN BY EASTERN AND SOUTHERN  
AFRICAN MANAGEMENT INSTITUTE

Financial Summary by project

<u>Period</u>	<u>Disbursed</u> \$	<u>Accrued</u> \$	<u>Total</u> \$
<b>Project No. 698-0662.23</b>			
Inception to 30.6.86	330,777	118,830	449,607
1.7.86 to 31.12.87	157,208	111,483	268,691
1.1.88 to 31.5.88	9,391	-	<u>9,391</u>
			727,689
Less: recovery of disallowed expenditure per C&L report			<u>(80,813)</u>
Expenditure to 31.5.88 per MACS report			<u>646,876</u>
<b>Project No 698-0413.09</b>			
Inception to 30.6.86	268,979	27,327	296,306
1.7.86 to 31.12.87	82,633	60,692	<u>143,325</u>
			439,631
Less: recovery of disallowed expenditure per C&L report			<u>(6,164)</u>
Expenditure to 31.5.88 per MACS report			<u>433,467</u>

**UNITED STATES OF AMERICA**  
**AGENCY FOR INTERNATIONAL DEVELOPMENT**

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE  
FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

United States Postal Address  
USAID  
BOX 221  
APO NEW YORK 09675

November 8, 1988

International Postal Address  
POST OFFICE BOX 30261  
NAIROBI KENYA

MEMORANDUM

FOR: Mr. David Conner, Acting Director, RIG/A/N

FROM: Satish P. Shah, Director, REDSO/ESA *Shah*

SUBJECT: NFA Draft Audit Report on the Eastern and Southern African Management Institute Projects (ESAMI) in Tanzania

The opportunity availed to us to discuss an earlier draft of this audit was very much appreciated, and we are extremely glad to provide our formal comments on the current draft.

While the primary focus of our comments is Recommendation No. 1, we take a keen interest in the audit report as a whole, including the other recommendations and the manner in which they will be resolved, although they essentially can only be adequately resolved by ESAMI, with or without external assistance. We plan to send a copy of the audit report to ESAMI as soon as it is issued in final.

Following resumption of project activities in 1986, improving ESAMI's internal management became an important objective of the SRO subproject and, concurrently, a considerable investment in both time and money was made in this regard. We are, therefore, gratified to note that ESAMI's internal controls have considerably improved in the interim period. As some of these management improvement activities have only just concluded, e.g. the Computer Training for ESAMI accounts staff by Coopers & Lybrand Associates Ltd., we have reason to believe that ESAMI will continue to record improvements in this area.

The audit report's recommendation that REDSO consider reintroducing advances to ESAMI has been noted. We consider that advances as a solution to ESAMI's liquidity problems may no longer be a viable option given the fact that we are in the last stages of implementation for both subprojects. (The SRO's PACD was August 31, 1988, while the PACD of the FBI subproject is December 31, 1988.)

- 2 -

RECOMMENDATION NO. 1

With respect to Compliance with Laws, Regulations and Agreement Provisions, the draft audit report states: "In connection with our examination, we found that for the items tested, ESAMI complied with laws, regulations, and the terms and conditions of the federal award agreements except for the one item identified in Section A which constitutes a material instance of non-compliance."

REDSO/ESA assumes the "Project Paper on Project No. 698-0662.23 dated August 29, 1984" cited in the discussion section of Recommendation No. 1 found in Section A is the Project Authorization of the same project which is also dated August 29, 1984. Section II - SUMMARY of the Attachment to the Authorization states as follows: "The purpose of this subproject is to provide supply management training on distributing family planning (FP) commodities in nine East and Southern Africa countries. Eight of the nine countries have tentatively been designated: Botswana, Lesotho, Swaziland, Malawi, Zimbabwe, Zambia, Uganda, and Kenya. The ninth was to have been Tanzania, but it is currently ineligible for assistance under Section 620(g) of the FAA. Another country will be substituted for Tanzania if it is still ineligible in the second or third years of the subproject."

The Project Grant Agreement, also dated August 29, 1984, incorporated Section 5.5 (Prohibited Assistance) which stated as follows: "The Grantee agrees that no funds provided under this Grant shall be used to provide assistance to any country in regard to which A.I.D. has a statutory or other prohibition of assistance."

REDSO/ESA surmises that it is compliance with the above provisions of the Project Grant Agreement which the audit report has called into question with respect to Tanzanian participants. However, while it is true that assistance to Tanzania was prohibited at various times as a result of the operation of Section 620(g) of the FAA and Section 517 of the related Appropriations Act (the Brooke Amendment), it so happens that the Brooke Amendment sanctions on Tanzania had already been lifted as of the time the expenditures questioned were incurred. (FYI: The sanctions were lifted as of April 27, 1977 and the expenditures were incurred between June 8-July 3, 1977. end FYI.) ESAMI's use of USAID funds to finance participants from Tanzania in this instance is not deemed improper by REDSO. The report should be corrected accordingly.

- 3 -

With respect to expenditures on Ethiopian participants, REDSO agrees that ESAMI's claim for reimbursement was not in order. We would, however, like to point out that the full amount of \$11,373 has already been disallowed from ESAMI's subsequent claim for reimbursement (see attached copy of Voucher No. 7606238904 dated October 5, 1988). A copy of the voucher is attached.

In view of the above, we suggest that this recommendation be considered resolved and closed.

Clearance:  
RFMC:ABulliang: X 11/8/88

Attachment:  
Voucher

PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL

INVOICE NO. 16062389904

BUREAU, OR ESTABLISHMENT AND LOCATION

DATE VOUCHER PREPARED  
10/5/88

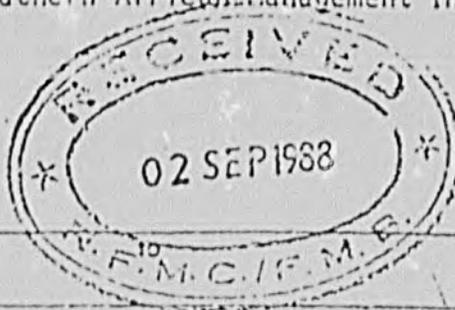
FORM NO.

CONTRACT NUMBER AND DATE  
698-0662.23/08/29/84

PAID BY

REGISTRATION NUMBER AND DATE

PAYEE'S NAME Eastern and Southern African Management Institute  
P. O. Box 3030  
AFIISHA  
ADDRESS Tanzania



DATE INVOICE RECEIVED

DISCOUNT TERMS

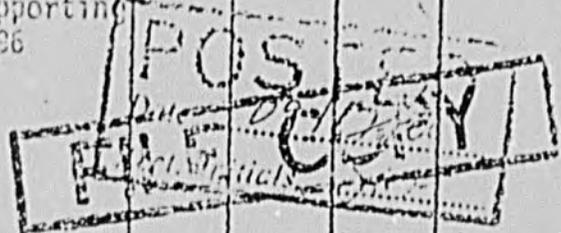
PAYEE'S ACCOUNT NUMBER

SHIPPED FROM

WEIGHT

GOVERNMENT'S EMPLOYER

NUMBER DATE FOUR	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <small>(State quantity, unit, number of contract or Federal Acquisition Regulation and other information deemed necessary)</small>	QUAN- TITY	UNIT PRICE		AMOUNT (1)
				COST	PER	
		Claim for the expenses incurred to conduct Maternal Child Health/ Child Spacing Logistics Management Workshop in Malawi as per supporting documents and Invoice No. 2896 enclosed.				\$ 34,581.
<p><i>W. M. Njiru</i> W. M. Njiru Chief, Accounts &amp; Finance Dept.</p>						



(Payee must NOT use the space below) TOTAL \$ 34,581

APPROVED FOR	EXP. RATE	DIFFERENCES \$ -
COPIES	\$23208.00	all as per other
PARTIAL		sub items
FINAL		
AMOUNT VERIFIED; CORRECT FOR		\$ 23208.00
DATE		9/09/88

9/22/88 Edward T. Giza  
EDWARD T. GIZA  
REMB. KENYA

ACCOUNTING CLASSIFICATION  
R-698-0662-23/8340530/APP-72-11M1021-49/PROS 698-0662-23  
US \$ 34581.00  
C:GDAA-84-21623-BA12  
F-4413-P-06-3152-01/8340379/APP-72-11M1021-49/PROS 698-4413-09  
US \$ (11373.00)  
GDAA-83-21623-0612 (UNAUTHORIZED EXPENSES - DISBURSED)  
NET US \$ 23208.00

CHECK NUMBER	ONE TREASURER OF THE UNITED STATES	CHECK NUMBER	CITY (Name of City)
CASH	DATE	PAYEE	
		0557P	



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RIG/I/N	1
IG/PSA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
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