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AUDIT OF
USAID/JAMAICA EMERGENCY
REHABILITATION PROJECT
PART II - RESTORATION OF ESSENTIAL SERVICES

Audit Report No. 1-532-89-38-N
July 28, 1989

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July 28, 1989

MEMORANDUM

TO : USAID/Jamaica, Director, William R. Joslin

FROM : RIG/A/T, Coinage N. Gothard, Jr.

SUBJECT: Audit of USAID/Jamaica Emergency Rehabilitation Project: Part II, Restoration of Essential Services, Report No. 1-532-89-38-N

This report presents the results of a concurrent non-Federal financial audit of the Emergency Rehabilitation Project, USAID/Jamaica Project No. 532-0185. The draft audit report was submitted to you for comment and your comments are appended to the Part I Report. Because of its size and because Congress requested a detailed accounting of this project, the draft report was divided into five parts. Part I is a consolidated report; Part II reports on the Restoration of Essential Services component; and report Parts III, IV and V contain the results of the audit of the Support for Non-Governmental Organizations Component -- the National Development Foundation of Jamaica, the Kingston Restoration Company Limited, and the Council of Voluntary Social Services/United Way of Jamaica, respectively. The certified public accounting firm of Touche Ross prepared the reports, which are dated May 25, 1989.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement of the project for the period September 28, 1988 to February 25, 1989, (2) the internal control structure, and (3) compliance by the project's implementing entities with applicable laws, regulations, and agreement terms.

In the opinion of Touche Ross, the fund accountability statement presents fairly the Restoration of Essential Services' receipts and expenditures for the period September 28, 1988 to February 25, 1989. Touche Ross's evaluation of the internal control structure disclosed matters that were considered reportable conditions in accordance with generally accepted auditing standards and the U.S. Comptroller General's auditing standards. In their opinion, there was compliance with agreement terms and applicable laws and regulations tested, except for certain instances reported. Nothing came to their attention to indicate non-compliance with items not tested.

The Touche Ross report does not contain audit recommendations. We attribute this to the concurrent audit approach and your staff's timely work in correcting deficiencies as they were disclosed during the audit.

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

AUDIT OF THE EMERGENCY REHABILITATION PROJECT

USAID/JAMAICA PROJECT NO. 532-0185

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TRANSMITTAL LETTER AND SUMMARY

July 14, 1989

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa
Honduras, C.A.

Dear Mr. Gothard:

This report presents the results of our financial audit of the Restoration of Essential Services Component, of the Emergency Rehabilitation Project, USAID/Jamaica Project No. 532-0185 for the period September 28, 1988 to February 25, 1989.

BACKGROUND

The major objectives of the Restoration of Essential Services Component were as follows:

(a) restoration of electric power service;

(b) restoration of potable water and sewage disposal;

(c) provision of zinc roofing and related building materials;

(d) restocking critical medical supplies and equipment;

(e) providing seeds and related inputs to farmers for replanting damaged fields.

In pursuance of the above support, USAID/Jamaica granted the amount of US$21,350,112.

.../2

Partners: E. Carroll Thorburn, Philmore H. Ogle, Carl M. Findlay, T. Sydney Fernando, Donald S. Reynolds, Donneth C. Chin, Winston A. Milwood, Lloyd L. Duncan, Carey O. Metz.

Touche Ross International

AUDIT OBJECTIVES AND SCOPE

July 14, 1989

The overall objective of the examination was to perform a financial audit of the fund accountability statement of the Restoration of Essential Services Component, for the period September 28, 1988 to February 25, 1989.

Our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision), and accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances, to determine that funds were being properly accounted for and were used in accordance with applicable laws, regulations and agreement terms.

The scope of our work consisted of the following:

(a) a review of the fund accountability statement as of February 25, 1989;

(b) study and evaluation of the internal control structure as considered necessary in the circumstances;

(c) a review of agreements under which funds were granted to determine whether USAID/Jamaica and the implementing entities have complied with the applicable laws, regulations and agreements which may have an effect on the fund accountability statement;

(d) performance of on-site tests, inspections and observations as considered necessary.

The following major audit procedures were carried out in order to meet the stated audit objectives.

1. Obligations

   We agreed the total amount of $21,350,112 to the Grant Agreement and subsequent amendments along with journal vouchers.

2. Earmarks

   We compared $21,296,711 in earmarks to the relevant Project Implementation Orders for Commodities (PIO/Cs), Project Implementation Orders for Technical Services (PIO/Ts) and Project Implementation Letters (PILs).

3. Commitments

   We compared commitments of $21,217,711 to the commitment documents and to the related PIO/Cs, PIO/Ts and PILs.

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AUDIT OBJECTIVES AND SCOPE (CONT'D) July 14, 1989

4. Disbursements

We examined documentary evidence in support of disbursements totalling $3,574,094.

5. Accrued Expenditure

We obtained and reviewed Bills of Lading and other shipping documents in the amount of $11,394,417 for vehicles, heavy equipment, and other commodities.

We physically inspected commodities valued at $4,551,600.

RESULTS OF AUDIT

The results of our work are included in the following three reports:

(a) Report on the fund accountability statement

(b) Report on the Internal accounting controls

(c) Report on the compliance with applicable laws, regulations and agreement terms

Fund Accountability Statement

In our opinion, the fund accountability statement presents fairly the financial status of the project as at February 25, 1989.

Internal Accounting Control

Our evaluation was limited to an understanding of the control environment and the flow of transactions through the accounting system in relation to the project activities. As a result, we do not express an opinion on the internal control structure of the implementing entities taken as a whole.

However, our evaluation disclosed certain matters which came to our attention. Details of these matters are outlined in Sections 2.2.2 and 2.2.3 of this report.

Compliance with Applicable Laws, Regulations and Agreement Terms

Our review of the applicable agreements and regulations that could have an effect on the fund accountability statement of the project disclosed that the implementing entities complied with the tested terms of such agreements, except for the matters which are described in detail in Section 2.3.2 of this report.

Nothing came to our attention that caused us to believe that items not tested were not in compliance with applicable laws, regulations and agreement terms.

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EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.1.1 AUDITOR'S OPINION - FUND ACCOUNTABILITY STATEMENT

We have examined the fund accountability statement of the Restoration of Essential Services Component of the Project for the period September 28, 1988 to February 25, 1989. Our examination was performed in accordance with generally accepted auditing standards and the U.S Comptroller General's "Government Auditing Standards" (1988 Revision), and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying fund accountability statement presents fairly the financial status of the project as of February 25, 1989, in conformity with the basis of preparation as explained in Note 2.

This report is intended solely for the use of the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Touche, Ross, Thorburn & Co.

Kingston, Jamaica,
May 25, 1989

Partners: E. Carroll Thorburn, Philmore H. Ogle, Carl M. Findlay, T. Sydney Fernando, Donald S. Reynolds, Donneth C. Chin, Winston A. Milwood, Lloyd L. Duncan, Carey O. Metz.

Touche Ross International

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.1.2 FUND ACCOUNTABILITY STATEMENT

FEBRUARY 25, 1989

(All amounts in US$)

ELEMENTS	(1) OBLIGATIONS $	(2) EARMARKS $	(3) COMMITMENTS $	(4) DISBURSEMENTS $	(5) ACCRUED EXPENDITURES $
POWER -					
Commodities	4,248,622	4,248,622	4,248,622	310,482	3,845,620
Technical Assistance	69,106	69,106	69,106	43,790	12,000
Technical Services	6,445,655	6,392,254	6,392,254	2,764,051	3,628,200
	10,763,383	10,709,982	10,709,982	3,118,323	7,485,820
SHELTER -					
Commodities	6,977,459	6,977,459	6,977,459	20,524	6,896,000
Technical Assistance	56,000	56,000	56,000	7,250	48,750
	7,033,459	7,033,459	7,033,459	27,774	6,944,750
WATER					
Commodities	2,016,666	2,016,666	2,016,666	92,760	1,744,000
Technical Assistance	59,120	59,120	59,120	18,425	40,695
	2,075,786	2,075,786	2,075,786	111,185	1,784,695
HEALTH -					
Commodities	873,733	873,733	794,733	-	816,122
AGRICULTURE -					
Commodities	603,751	603,751	603,751	316,812	286,939
	21,350,112	21,296,711	21,217,711	3,574,094	17,318,326

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.1.2 FUND ACCOUNTABILITY STATEMENT

Explanation of Column Headings

(1) Obligation: is the amount made available by USAID/Jamaica to pay for goods and services for projects and is established by a signed project agreement or amendments to the agreement.

(2) Earmark: represents an implementation action of a project which involves funding. Earmarks are generally approved bilaterally by signatures on project implementation orders or project implementation letters, including prevalidation of fund availability by USAID/Jamaica.

(3) Commitment: is the recognition of the execution of a contractual document such as a Purchase Order or Contract for Services.

(4) Disbursement: is the amount disbursed for goods and services.

(5) Accrued Expenditure: represents cost incurred during a given period for goods received and services rendered but not billed, or billed but not paid.

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.1.3 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FEBRUARY 25, 1989

NOTE 1. OBJECTIVES OF THE RESTORATION OF ESSENTIAL SERVICES

Five major objectives of the restoration of essential services were:

(i) Power - restoration of electric power service

(ii) Shelter - provision of zinc roofing, related building materials, and prefabricated houses

(iii) Water - restoration of potable water and sewage disposal

(iv) Health - restocking critical medical supplies and equipment

(v) Agriculture - providing seeds and related inputs to farmers for replanting damaged fields.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Expenditures of the project are reflected in the fund accountability statement on the accrual basis.

Exchange Rate

The basic records of the project are kept in United States dollars. Disbursements made in Jamaican dollars are translated to United States dollars at the rate of exchange prevailing at transaction date.

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EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.2.1 AUDITOR'S OPINION - INTERNAL ACCOUNTING CONTROL

In planning and performing the audit of the fund accountability statement of the Restoration of Essential Services Component of the Project for the period September 28, 1988 to February 25, 1989, we considered the internal control structure of the relevant implementing entities in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure. Our evaluation was limited to an understanding of the control environment and the flow of transactions through the accounting system in relation to the project activities.

For the purposes of this report, we considered the significant controls in the following areas:

1. Jamaica Public Service Company Limited

   ... Electrical materials

2. Jamaica Commodity Trading Company Limited

   ... Roofing materials

3. National Water Commission

   ... Pipes and fittings

Our evaluation of the internal control structure disclosed certain matters involving the project's execution that we consider reportable conditions in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Reportable matters involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure of certain implementing entities that, in our opinion, could adversely affect the ability of those entities to record, process, summarise and report financial data consistent with the assertions in the fund accountability statement.

.../2

Partners: E. Carroll Thorburn, Philmore H. Ogle, Carl M. Findlay, T. Sydney Fernando, Donald S. Reynolds, Donneth C. Chin, Winston A. Milwood, Lloyd L. Duncan, Carey O. Metz

Touche Ross International

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.2.1 AUDITOR'S OPINION - INTERNAL ACCOUNTING CONTROL

Reportable conditions are described in Sections 2.2.2 and 2.2.3 of this report, in which we include all the specific controls evaluated and the results of that evaluation.

This report is intended solely for the use of the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Touche, Ross, Thurburn & Co.

Kingston, Jamaica,
May 25, 1989

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.2.2 INTERNAL ACCOUNTING CONTROL EVALUATION

Area	Control Feature	Evaluation
Jamaica Public Service Company Limited		
Electrical materials	- Goods received note prepared by store-keeper on receipt of goods.	Unsatisfactory. Substantive approach adopted: - Observation - Supporting documentation
Jamaica Commodity Trading Company Limited.		
Roofing materials	- Tally sheets are prepared on receipt of goods. - Delivery notes (i.e. waybills) are prepared when goods are delivered to customer. - Payments by customers are received by someone other than those who receive and deliver goods.	At the PACD a substantial portion of the roofing materials had not been cleared from the wharf, and therefore had not formally entered the inventory system. Accordingly, a substantive approach was adopted, i.e. obtaining receival report from JCTC.
National Water Commission		
Pipes and fittings	- Goods received notes are prepared on receipt of materials.	Unsatisfactory. Substantive approach adopted: - Observation - Supporting documentation

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.2.3 OTHER PERTINENT MATTERS - INTERNAL ACCOUNTING CONTROL

Certain exceptions revealed during the course of our audit are as follows:

1. Power - Jamaica Public Service Co. Ltd. (JPS)

   The assistance (electrical materials, equipment and motor vehicles) provided under the power component had not been completely recorded in the books of accounts at JPS at February 25, 1989.

2. Water - National Water Commission (NWC)

   The assistance (pipes and fittings, equipment and motor vehicles) provided under the water component had not been entered in the records of NWC of February 25, 1989.

3. Agriculture - Ministry of Agriculture (MOA)

   We observed that the distribution of pruning shears was not in accordance with the new allocation list issued by MOA. This is because distributions had already been made based on the previous allocation list, by the time the new list was issued. Steps should be taken to either redistribute the pruning shears or revise the allocation.

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EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.3.1 AUDITOR'S OPINION - COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS

We have performed a financial audit of the fund accountability statement of the Restoration of Essential Services Component of the Project for the period September 28, 1988 to February 25, 1989, and have issued our report thereon dated May 25, 1989. Our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

In connection with our examination, we selected and tested transactions and records to determine compliance with agreement terms and applicable laws and regulations as considered necessary in the circumstances.

The results of our review indicated that for the items tested, the implementing entities were in compliance with the applicable laws, regulations and agreement terms, except as described in Section 2.3.2 of this report. Additionally, nothing came to our attention that caused us to believe that items not tested were not in compliance with applicable laws, regulations and agreement terms.

This report is intended solely for the use of the United States Agency for International Development. This restriction is not intended to limit distribution of this report, which upon acceptance by the Office of the Inspector General, is a matter of public record.

Touche, Ross, Thorburn & Co.

Kingston, Jamaica,
May 25, 1989

Partners: E. Carroll Thorburn, Philmore H. Ogle, Carl M. Findlay, T. Sydney Fernando, Donald S. Reynolds, Donneth C. Chin, Winston A. Milwood, Lloyd L. Duncan, Carey O. Metz.

Touche Ross International

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

2.0 RESTORATION OF ESSENTIAL SERVICES

2.3.2 OTHER PERTINENT MATTERS - COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS

The following exceptions were revealed during the course of our audit:

1. Roofing materials and related supplies

   The Project Grant Agreement stipulates that roofing materials and supplies be sold by the Grantee to private Jamaican wholesalers.

   Four of the six shipments of roofing materials and related supplies had arrived in Jamaica. These were substantially unsold at the PACD for the reason that large amounts of roofing materials and related supplies had also been acquired by the Government of Jamaica from other sources.

   It was, therefore, not possible for the proceeds of these sales to be utilised to fund a programme of vouchers for hardware and building supplies, as stipulated in the Project Grant Agreement.

2. Agricultural commodities

   The Project Grant Agreement requires that books and records relating to the Project and the Project Agreement be maintained in such a way as to show the receipt and use of goods and services provided under the Grant.

   The Ministry of Agriculture (MOA) did not prepare a separate report for agricultural commodities provided under this Grant, nor were there any reports indicating the amount of commodities distributed to each farmer.

   It was not practicable to track the agricultural commodities beyond receipt by the Parish Land Authorities because -

   (a) the distribution records did not segregate details of commodities provided under this project from those provided from other sources;

   (b) reports specific to this project, which were intended to be derived from the computer system, were not prepared.

3. Shelter - Urban Development Corporation (UDC)

In December 1988, the shelter component of the Project was expanded to include pre-fabricated houses. UDC was designated the implementing agency. USAID requested that UDC submit an implementation plan to show how the houses would be distributed and tracked to the end user. However, as at the PACD, UDC had not done so.

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