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AUDIT OF
USAID/JAMAICA EMERGENCY
REHABILITATION PROJECT
PART IV - KINGSTON RESTORATION
COMPANY LIMITED

Audit Report No. 1-532-89-40-N
July 28, 1989

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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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July 28, 1989

MEMORANDUM

TO : USAID/Jamaica, Director, William R. Joslin
FROM : RIG/A/T, ^{*George N. Gothard*} George N. Gothard, Jr.
SUBJECT: Audit of USAID/Jamaica Emergency Rehabilitation Project: Part IV, Kingston Restoration Company Limited, Report No. 1-532-89-40-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 Kingston Restoration Company's 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. Nothing came to their attention to indicate non-compliance with items not tested.

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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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 **Touche Ross**

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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 Kingston Restoration Company (KRC) Component, of the Emergency Rehabilitation Project, USAID/Jamaica Project No. 532-0185 for the period September 28, 1988 to February 25, 1989.

BACKGROUND

Under the KRC Component, USAID/Jamaica granted US\$370,225 to be used in relief activities in the downtown area.

AUDIT OBJECTIVES AND SCOPE

The overall objective of the examination was to perform a financial audit of the fund accountability statement of the KRC 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;

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July 14, 1989

AUDIT OBJECTIVES AND SCOPE (Cont'd)

- (c) a review of the agreement under which funds were granted to determine whether USAID/Jamaica and KRC have complied with the applicable laws, regulations and agreements which may have an effect on the fund accountability statement;
- (d) a review of the reconciliation of the special bank account to determine that receipts and disbursements from the funds of the project, are properly accounted for;
- (e) performance of 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 \$370,225 to the Grant Agreement and subsequent amendments along with journal vouchers.

2. Earmarks

We compared \$370,225 in earmarks to the Project Implementation Orders for Technical Services (PIO/Ts).

3. Commitments

We compared commitments of \$370,225 to the commitment documents and to the related PIO/Ts.

4. Disbursements

We examined documentary evidence in support of disbursements totalling \$1,797.

5. Accrued Expenditure

We examined documentary evidence at KRC in support of disbursements totalling \$306,074.

6. Bank Account

We traced grant funds to the special bank account. We also obtained bank confirmation of the bank balance and reviewed the bank account reconciliation.

July 14, 1989

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 KRC taken as a whole.

However, our evaluation disclosed certain matters which came to our attention. Details of these matters are outlined in Sections 4.2.2 and 4.2.3 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 KRC complied with the tested terms of such agreements.

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.

Touche, Ross, Thibault & Co.

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

- 4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)
4.1.1 AUDITOR'S OPINION - FUND ACCOUNTABILITY STATEMENT

We have examined the fund accountability statement of the KRC 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 solely intended 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

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

4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)

4.1.2 FUND ACCOUNTABILITY STATEMENT

FEBRUARY 25, 1989
(All amounts in US\$)

<u>ELEMENT</u>	(1) <u>OBLIGATIONS</u> \$	(2) <u>EARMARKS</u> \$	(3) <u>COMMITMENTS</u> \$	(4) <u>DISBURSEMENTS</u> \$	(5) <u>ACCRUED</u> <u>EXPENDITURE</u> \$
Kingston Restoration Company	370,225	370,225	370,225	1,797	367,622

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

- 4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)
4.1.3 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FEBRUARY 25, 1989

NOTE 1. OBJECTIVE OF PROJECT

USAID/Jamaica provided KRC with a grant to be used in relief activities in the downtown Kingston area.

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.

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

4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)
4.2.1 AUDITOR'S OPINION - INTERNAL ACCOUNTING CONTROL

In planning and performing the audit of the fund accountability statement of the KRC Component of the Project for the period September 28, 1988 to February 25, 1989, we considered the internal control structure of KRC 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 significant controls in the following areas:

1. Receipt of Grant
2. Community Based Organisations
3. Procurement
4. Inventory
5. Disbursement of Grant Funds
6. Distribution of Roofing Materials
7. Distribution of Food Vouchers
8. Operation of Clinic
9. Accounting and Reporting

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

- 4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)
4.2.1 AUDITOR'S OPINION - INTERNAL ACCOUNTING CONTROL

- 2 -

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.

Reportable conditions are described in Sections 4.2.2 and 4.2.3 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, Thiburn & Co

Kingston, Jamaica,
May 25, 1989

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

4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)

4.2.2 INTERNAL ACCOUNTING CONTROL EVALUATION

<u>Area</u>	<u>Control Feature</u>	<u>Evaluation</u>
1. Receipt of Grant	- Acknowledgement of receipt of funds.	Satisfactory.
	- Funds lodged to Bank Account.	Satisfactory.
2. Community Based Organisations (CBO's)	- Names of CBO's included in project proposal approved by USAID.	Satisfactory.
	- Sub-grant agreements signed by KRC and CBO's.	Satisfactory.
3. Procurement	- Quotations obtained and approval of suppliers by Directors.	Satisfactory.
4. Inventory	- Materials Control Cards maintained.	Satisfactory. However, see section 4.2.3.
5. Disbursement of Grant Funds	- Disbursements supported by Invoices and Delivery Notes/Sub-Grant Agreements/Employee Contracts/Other documents.	Satisfactory.
	- All payments approved by Project Officer and by Director.	Satisfactory.
	- Cheques signed by two authorised signatories.	Satisfactory.
6. Distribution of Roofing Materials	- Roof survey carried out and work orders prepared by KRC's Clerk of Works.	Satisfactory.
	- Completed Work Orders signed by beneficiary.	Satisfactory.

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

4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)

4.2.2 INTERNAL ACCOUNTING CONTROL EVALUATION (CONT'D)

<u>Area</u>	<u>Control Feature</u>	<u>Evaluation</u>
7. Distribution of Food Vouchers	- Survey done by CBO's and documentation of results.	Satisfactory.
	- Distribution records maintained by CBO's signed by beneficiary.	Satisfactory.
8. Operation of Clinic	- Registration of Patients.	Satisfactory.
	- Supervision by project administrator.	Satisfactory.
9. Accounting and Reporting	- Preparation of monthly listing of cheque disbursements.	Satisfactory.
	- Preparation of monthly bank reconciliation.	Not evaluated. Bank reconciliation reviewed at PACD.
	- Federal Cash Advance Status Report supported by listing of disbursements.	Satisfactory.

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

4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)

4.2.3 OTHER PERTINENT MATTERS - INTERNAL ACCOUNTING CONTROL

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

1. Inventory - Materials Control Cards

Materials Control Cards were established after the commencement of the project activities. In the initial stages, therefore, there were receipts and issues of materials which were not recorded on the Materials Control Cards when they occurred.

2. Inventory - Food Voucher Record

The record indicated issues of vouchers and not receipts. Accordingly, it was not practicable to determine whether all food vouchers had been accounted for.

3. Distribution of Food Vouchers

Monthly reports were not submitted by the CBO's on a regular basis.

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

4.0 KINGSTON RESTORATION COMPANY LIMITED (KRC)

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

We have performed a financial audit of the fund accountability statement of the KRC Component of the Project, 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, KRC was in compliance with the applicable laws, regulations and agreement terms. 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.

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Touche, Ross, Thorburn & Co.

Kingston, Jamaica,
May 25, 1989

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