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AUDIT OF
USAID/DJIBOUTI HOUSING AND
URBAN DEVELOPMENT PROJECT NO. 603-0020

AUDIT REPORT NO. 3-603-90-12
September 14, 1990

The project was making good progress in achieving its targeted outputs and project expenditures were found to be reasonable, allowable and allocable to the project. However,

- . there was no written criteria to specify who would be eligible to purchase homes and plots in the Salines Ouest Development and
 - . idle cash was maintained in the project's special account.
-

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

UNITED STATES POSTAL ADDRESS
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APO N.Y. 09875

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NAIROBI, KENYA

September 14, 1990

MEMORANDUM

TO : Fred C. Fischer, Director, REDSO/ESA

FROM : Toby L. Jarman, RIG/A/N 

SUBJECT: Audit of USAID/Djibouti Housing and Urban
Development Project No. 603-0020

Enclosed are five copies of the subject report. In preparing this report we reviewed your comments on the draft and included them as an appendix. Please respond to this report within 30 days indicating any actions planned or already taken to implement the recommendations. We appreciate the cooperation extended to our staff during the audit.

Background

The Djibouti Housing and Urban Development Project is a multi-donor program financed primarily by A.I.D. and the International Development Association. Overall, the project was intended to improve living conditions of the urban poor and to strengthen the capabilities of the Government of the Republic of Djibouti (GROD) to more effectively plan, manage and finance Djibouti's urban development.

The Project Management Unit (PMU) -- an organization under the responsibility of the GROD and funded entirely by the project -- was responsible for day-to-day project implementation and coordination with donors, the GROD and contractors. The International Development Association (IDA) had primary responsibility for managing, supervising and monitoring project activities. Contributions to the project from five donors totalled \$15.2 million of which A.I.D.'s portion was \$5.5 million (see Appendix V). The Director REDSO/ESA is responsible for A.I.D.'s involvement in this project. As of January 9, 1990, A.I.D. obligated \$5,082,174 and spent \$3,757,510. The project began in September 1984, and its scheduled completion date is December 31, 1991.

The project's overall outputs were to: (1) develop and sell 176 plots containing 106 housing units in the Salines Ouest area with paved roads, sewer systems, lighting and garbage collection; (2) provide loans to finance housing improvements and purchases; (3) construct and improve roads, drainage, water supply, lighting and garbage collection in Wards 3, 5, 6 and the Balbala settlement; and (4) strengthen GROD agencies involved in urban sector development by providing technical staff, training and equipment.

Audit Objectives

We audited USAID/Djibouti's Housing and Urban Development Project to answer the following audit objectives:

- . Was the project making progress in achieving its outputs?
- . Was A.I.D.'s share of project expenditures reasonable, allowable and allocable to the project and was it used efficiently and economically?

In answering these audit objectives we tested whether A.I.D. followed applicable internal control procedures and provisions of the grant agreement and contracts. Our tests were sufficient to provide reasonable - but not absolute - assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However because of limited time and resources we did not continue testing when we found that for the items tested, A.I.D., the Government of the Republic of Djibouti and the Project Management Unit followed the terms of the Grant Agreement and Memorandum of Understanding, and that expenditures made were reasonable, allowable and allocable to the project. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work:

- . to identify the cause and effect of the problems and
- . to make recommendations to correct the conditions and causes of the problems.

Our discussions of the scope and methodology, report on internal controls and report on compliance are in Appendix I, III and IV respectively.

Audit Findings

Was the project making progress in achieving its outputs?

The project was making good progress in achieving its targeted outputs. The construction and physical improvements were

progressing satisfactorily, and technical assistance in the form of training personnel, and equipment was provided to the Government. However, there was no written criteria that specified who would be eligible to purchase homes and plots in the Salines Ouest development.

On the positive side, the construction and development of the targeted 106 housing units and 70 building plots in Salines Ouest was progressing nicely. At the completion of our fieldwork on May 15, 1990 the off-site infrastructure (electricity, water and sewage) was complete and all 106 units were under construction.

Figure 1: Example of housing units under construction in Salines Ouest



In Old Wards # 3 and # 5, planned improvements to roads, drainage and the garbage collection system were complete. Similar improvements in Old Ward # 6 were 60% complete at the time of our field work in May 1990.

Figure 2: Example of an Old Ward in Djibouti that has not been rehabilitated under the project

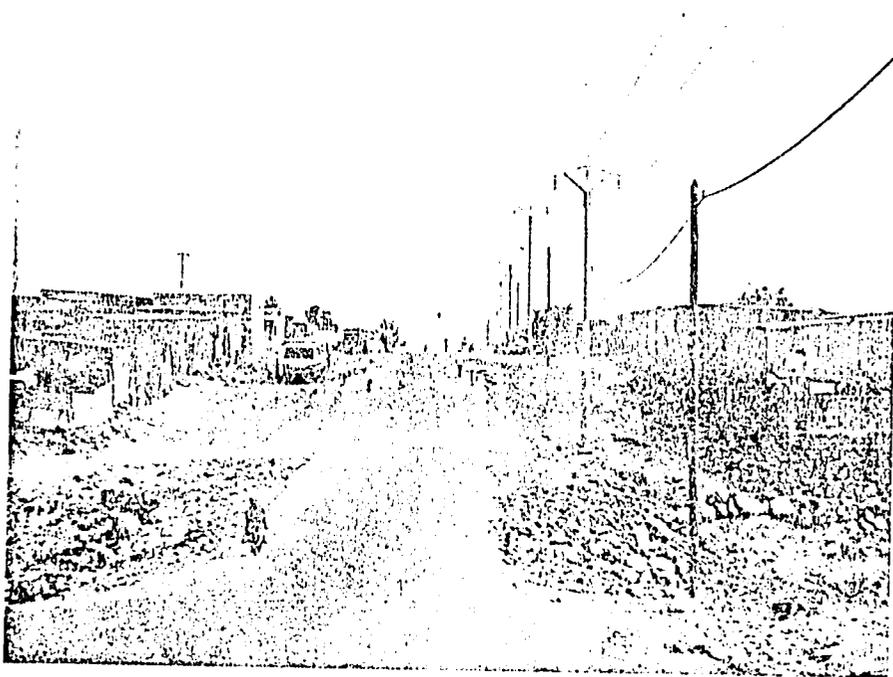


Figure 3: Example of an Old Ward that has been rehabilitated under the project



Planned improvements in the Balbala settlement were complete -- roads were paved or repaired; drainage systems were constructed; and electric lighting was provided.

Figure 4: Example of improvements made to the Balbala Settlement



The technical assistance outputs were also assisting GROD agencies involved in urban sector development. For example, 12 mechanics - the number targeted in the project paper - successfully completed training in a local vehicle repair course and were working for the Technical Services Department of the District of Djibouti. Also, the operations of the Land Registry Office were improved: project equipment such as desktop computers, survey and office equipment were in use. Four surveyors - the number targeted in the project paper - successfully completed training in France and were working for the Land Registry Office; and an "on-the-job" training program had been instituted. Through the efforts of a technical assistance advisor, financial and management improvements such as: inventorying of assets, improving accounting systems, and implementing personnel policies and procedures were taking place at the Societe Immobiliere de Djibouti (SID) -- the Government parastatal responsible for overseeing construction and administering sales of the Salines Ouest development.

For the Salines Ouest portion of the project, however, the audit found that there was no written criteria that specified who would be eligible to purchase homes and building plots in the Salines Ouest development. Because such eligibility criteria had not been established nor required in the grant agreement, achieving the project's goal of providing housing assistance to the poorer residents was not assured.

Written Criteria To Purchase Homes
and Building Plots was not Established

The project paper specified that the project was to provide assistance to the poorer residents of Djibouti by constructing housing and establishing a homeowner loan system. The grant agreement between A.I.D. and the GROD did not require written criteria to be established by the GROD that specified who would be eligible to purchase homes and building plots in Salines Ouest. At the completion of our audit fieldwork on May 15, 1990 no such criteria had been established. The Societe Immobiliere de Djibouti had not developed written criteria because it was not required in the grant agreement, and it did not believe it was necessary to establish criteria until the units were ready for sale. As a result, there was no assurance that A.I.D.'s contribution of \$113,000 for the Salines Ouest development would benefit the project's targeted population or that the objectives of the Salines Ouest and Housing Credit components would be achieved.

Recommendation No. 1: We recommend that the Director, Regional Economic Development Services Office/East and Southern Africa ensure that the Government of the Republic of Djibouti establish written criteria which will assure that Salines Ouest housing units and building plots are purchased by those population groups targeted under the project -- the poorer residents of Djibouti who are able to pay for homes and plots.

The project paper specified that the project was to provide assistance to the poorer residents of Djibouti by constructing housing and establishing a homeowner loan system. We were informed that under the homeowner loan system, loans for the purchase of housing are made based on the borrowers ability to repay the loan. In addition, the objectives of the grant agreement were to:

- . develop a credit program for the purchase of new housing;
- . improve the living conditions of the urban poor in Djibouti; and
- . strengthen the capabilities of the GROD to more effectively plan, manage and finance urban development in Djibouti.

At the time our audit fieldwork was completed on May 15, 1990, neither the GROD nor its parastatal, the Societe Immobiliere de Djibouti, had established criteria to ensure that the 106 housing units and 70 building plots in Salines Ouest were purchased by the poorer residents of Djibouti that were able to qualify for homeowner loans. However, on May 9, 1990 the Director of Societe Immobiliere de Djibouti stated that he intended to propose that SID's Board of Director's formalize eligibility criteria for the purchase of housing units at their next board meeting which was scheduled for the end of May 1990. This proposed eligibility criteria, if adopted, would require the applicants to: 1) be Djiboutian citizens; 2) have the required funds to obtain loan approval, make the down payment and meet the monthly repayments; 3) not own any other real estate; and 4) have a young family with children. He also stated that he would propose limiting the number of building plots -- to two -- that each individual could buy. He further stated that there is a housing shortage in Djibouti and about 12,000 applications for housing were on file with his office, dating from 1974, from which the selection would be made.

We randomly selected, reviewed, and analyzed fifty of these applications submitted to SID between February 1982 and January 1990. These contained information such as applicant's nationality, family size, profession, income, property holdings, etc. We found that all, except one, were Djiboutian citizens. Annual incomes ranged from DF 324,000 (\$1,836) to DF 9,600,000 (\$54,300), and family sizes ranged from two to eleven. Eighteen out of fifty already owned a home, and several requested the option to lease and eventually purchase -- an option not available under the project. We also noted that many of the housing applications on file were more than 10 years old and could contain outdated information.

The foregoing indicated the need to establish specific written criteria for selection because many applicants did not have the characteristics targeted by the project, and without such criteria the GROD could not ensure that the project's target population would benefit from the Salines Ouest development.

The reason written criteria had not been established was that at the time the Grant Agreement was negotiated, A.I.D. and the GROD did not include a provision in the agreement which required the Government to establish eligibility criteria for individuals wanting to purchase homes in Salines Ouest. Also, the credit agreement between the International Development Association and the GROD did not require such criteria. Although the Director of SID and the project's technical advisor agreed that written criteria was necessary, two individuals on the Board of Directors of the Societe Immobiliere de Djibouti (including the Director) explained that

SID had not developed criteria because the housing units were not ready for sale and the actual costs of the units and plots were unknown.

As a result of this lack of criteria, there was no assurance that: (1) Salines Ovest units would benefit the project's targeted population, and (2) the objective of the Salines Ovest and Housing Credit components of the project would be achieved. The lack of criteria could result in \$2,025,000 -- of which A.I.D. contributed \$113,000 -- in project funds being spent without the project achieving these intended purposes.

In conclusion, although the deferral of the establishment of written criteria may have been warranted, the Salines Ovest development is nearing completion, and housing units and plots could now be committed for sale. Thus we believe that specific written criteria should be established.

Was A.I.D.'s Share Of Project Expenditures Reasonable, Allowable and Allocable To The Project, And Were Significant Project Resources Used Efficiently and Economically?

As of January 9, 1990 A.I.D. had obligated \$5.1 million for its share of project costs and had spent approximately \$3.8 million -- mainly for construction and technical assistance. We examined \$895,422 or (24%) of A.I.D.'s expenditures and found that all of the items tested appeared to be reasonable, allowable and allocable to the project. The PMU and USAID's Regional Financial Management Center (RFMC) located in Nairobi, Kenya had obtained and reviewed the documentation needed to adequately support and account for the expenditures. We also examined certain construction, technical assistance and commodity resources -- as discussed in Objective # 1 -- and found that those examined were being used efficiently and economically.

However, the audit found that the project's cash was not managed efficiently. Idle cash in the project's special account averaged approximately \$287,000 per month.

Idle Cash Was Maintained in the Project's Special Account

Handbook 13 specifies that cash advances to grantees should be made only in amounts necessary to meet immediate disbursement needs -- generally for no more than a 30-day period. However, the cash balances maintained in A.I.D.'s portion of the project's special account averaged \$287,000 a month -- far above the project's immediate cash needs. These cash balances resulted from: (1) Project Implementation Letter No. 2 issued on October 30, 1985 which allowed cash advances to be issued on

a quarterly basis; (2) communication and coordination difficulties between the Project Management Unit, IDA and A.I.D. in processing, approving and paying expenses and making cash advances; and (3) the time lag between the GROD's receiving an invoice and actually paying it. Thus, since January 1986, the U.S. Government had advanced funds which resulted in an average monthly balance of \$287,000 which was not needed by the project to meet its immediate expenditures. Because of the U.S. budget deficit and borrowing needs, these excess advances resulted in increased interest costs to the U.S. Government of an estimated \$83,559 from January 1986 through April 1990. We project that an additional \$23,502 in interest costs could be saved over the remaining life of the project if this excess cash balance is reduced.^{1/}

Recommendation No. 2: We recommend that the Director, Regional Financial Management Center take immediate action to reduce the cash balances maintained in A.I.D.'s portion of the project's special account -- to a level necessary to fund the project's disbursement needs for 30 day periods.

A.I.D.'s Handbook 13 states that cash advances should generally be made for no more than a project's cash requirements for a 30-day period. The Handbook specifies that cash advances should be based on an analysis of the project's cash requirements in order to limit amounts approved to cover immediate disbursement needs.

During the life of the project, A.I.D. made cash advances to a special project account at the "Banque pour le Commerce et L'Industrie (Mer Rouge)" in Djibouti. These payments were generally made three times throughout each year. Cash in this account was then used by the GROD to pay for project expenditures. For the period January 1986 through April 1990 the monthly cash balance in this account averaged \$287,000.

Several factors caused this unnecessarily large cash balance. First, Project Implementation Letter No. 2 issued on October 30, 1985 allowed cash advances to be issued on a quarterly basis, based on a projection of cash needs by the PMU. Thus the PMU requested, and RFMC processed and made advances large enough to fund project activities for three to four months. The advances made to fund three to four months of expenditures were naturally larger than what was needed to cover expenditures for 30 days.

^{1/} Appendix I describes the methodology the auditors used in arriving at past interest costs incurred and potential future savings.

Second, the processing of expenditure and advance requests was hampered by communication and coordination difficulties between the Government, the Project Management Unit, IDA, and A.I.D. Because there were four organizations involved in the funding and payment of project expenditures, the process was complex and lengthy. The PMU prepared a request for funds which was first submitted to IDA which approved the expenditure and paid its portion to the project's special account. The request was then submitted to A.I.D. which submitted its share of the funding to the project's special account. The PMU would submit project invoices to the GROD for payment only after funds from IDA and A.I.D. were on deposit in the project's special account. To reduce the risk of a cash shortage because of the involved payment and approval process among the four organizations, the PMU's estimates of its future cash needs were often higher than necessary.

Third, the GROD would generally pay project invoices 4 to 6 weeks after receiving the approved invoices from the PMU. The PMU did not submit invoices to the Government for payment until funds to pay the invoices were in the project's special account. Thus funds sat idle in the project's special account for this period while the invoices were being processed for payment by the GROD.

From January 1986 through April 1990 the A.I.D. funds in the special account averaged \$287,000. As a result, we calculated that the U.S. Government incurred interest costs of \$83,559 because these excess balances were maintained in the account. In addition, we project that the U.S. Government could save an additional \$23,502 in interest costs over the remaining life of the project, if this cash balance is reduced to cover the project's needs on a 30-day basis. Thus we believe that cash advanced to the project should only be made to cover its immediate needs -- for a 30-day period.

Management Comments and Our Evaluation

USAID's Regional Economic Development Services Office/East and Southern Africa generally agreed with the report's findings and recommendations, and has already initiated actions to implement the recommendations.

Management's comments were responsive to the report and its recommendations. We carefully considered management's comments and made certain appropriate changes to the report that were suggested by management. Recommendation Nos. 1 and 2 are both considered resolved. Recommendation No. 1 can be closed upon receipt by this office of written criteria for eligibility to purchase homes and plots in the Salines Ouest development.

Recommendation No. 2 can be closed upon receipt by this office of a properly executed Project Implementation Letter that reduces the idle cash in the project's special account to a 30 day required balance.

SCOPE AND METHODOLOGY

Scope

We audited the Djibouti Housing and Urban Development Project in accordance with generally accepted government auditing standards. The audit was conducted from April 3, 1990 through May 15, 1990. In Djibouti, we conducted our field work primarily within the Project Management Unit, offices of the Government of the Republic of Djibouti, and related parastatal and private sector organizations, as well as the project's construction sites (see Appendix VI). We also performed audit work at USAID's Regional Financial Management Center and its Regional Housing and Urban Development Office in Nairobi, Kenya. We reviewed the project's performance from its inception on September 25, 1984 through April 30, 1990 and examined \$895,422 of A.I.D.'s project expenditures. The expenditures tested were randomly selected and represented 24% of A.I.D.'s total project expenditures of \$3,757,510 through January 9, 1990.

The internal controls of the Project Management Unit and A.I.D.'s controls applicable to the project were also reviewed.

Methodology

The methodology for each audit objective follows:

Audit Objective One

The first audit objective consisted of gathering and verifying information to determine the progress of the project. To accomplish this objective, we determined whether (1) improvements were made to roads, drainage and the garbage collection system in Old Wards #3, #5 and #6, (2) the construction of 106 housing units and the development of 70 building plots was progressing as planned in the Salines Ouest area, (3) road, drainage and electric lighting improvements were made in the Balbala settlement, (4) the poorer residents of Djibouti were benefiting from the above mentioned construction and physical improvements, (5) technical assistance and training were being provided to the Land Registry Office, the Technical Services Department, and Societe Immobiliere de Djibouti and (6) commodities were being provided and used as targeted in the project paper.

To accomplish the above we interviewed host country, contractor, technical assistance and mission personnel involved in the project. We inspected the project's construction sites and observed the use of project commodities. We also examined A.I.D.'s correspondence files and housing applications on file at the Societe Immobiliere de Djibouti. The correspondence files we examined included project implementation letters, site visit reports, the project agreement, memorandum of understanding, waivers, contracts with project vendors, contractor bidding and selection documentation, and general correspondence.

Audit Objective Two

The second audit objective consisted of gathering, testing and analyzing information to determine if A.I.D.'s share of project expenditures were reasonable, allowable and allocable to the project and whether significant project resources were used efficiently and economically. To accomplish this objective, we determined whether (1) the internal financial controls of A.I.D. and the Project Management Unit were adequate, (2) expenditures were properly authorized and approved by the PMU, IDA and A.I.D., (3) expenditure documentation was adequate to support the expenses reported, (4) project resources were being used efficiently and economically and (5) expenditures reimbursed by A.I.D. were reasonable, allowable and allocable to the project.

To accomplish the above we studied and evaluated the Project Management Unit's and A.I.D.'s financial controls. We reviewed the accounting ledgers, expenditure approvals and other financial records of the Project Management Unit and A.I.D.. We examined and tested invoices totalling \$895,422 -- 24% of A.I.D.'s project expenditures -- to determine their allowability, reasonableness and allocability to the project. We also analyzed and observed the use of project resources to determine if project resources were used efficiently and economically.

To calculate the increased interest costs to the U.S. Government for funds that had to to be borrowed to make excess cash advances, we:

- . Calculated an average cash balance of \$286,517 in A.I.D.'s part of the Project's special account by using the month end balance in the A.I.D. part of the account from January 1986 through April 1990.

- . Applied the actual average United States Treasury Bill rate of 6.73% that existed during the period January 1986 through April 1990 to the average cash balance.

To project future savings if advances are made based only to cover 30-days needs we:

- . Reviewed the cash flow projection prepared by the PMU for the period July 1, 1990 through the project completion assistance date of December 31, 1991. Based on this cash flow projection we calculated the average anticipated cash balance of A.I.D. funds in the special account to be \$201,915.
 - . Applied the actual January to April 1990 average Treasury Bill rate of 7.76% to the projected average cash balance in A.I.D.'s part of the special account.
-

UNITED STATES GOVERNMENT

memorandum

RECEIVED

28 AUG 1990

RIG/A/N

DATE: August 27, 1990

REPLY TO
ATTN OF: Fred C. Fischer, Director, REDSOSUBJECT: Audit of USAID/Djibouti Housing and Urban Development Project
No. 603-0020

TO: Toby Jarman, Director, RIG/A/N

We have reviewed the draft of the subject report and appreciate the opportunity to provide our reactions and comments. We found the report to provide an accurate description overall of the project and are satisfied with the analyses and recommendations.

Our specific responses to the two audit recommendations are discussed below. In addition, we believe that to be most useful to the Djiboutians who are implementing and managing the project, the final version of the report should also be produced in a French language version.

Recommendation No. 1

We are in agreement with the audit finding regarding the need for written criteria for household eligibility to purchase homes and plots in the Salines Ouest Project. This issue has been raised in the past with the Government of Djibouti and Societe Immobiliere de Djibouti, and we expect them to produce written criteria in the near future. With respect to the presentation of this audit finding in the report, however, we suggest the following:

The finding is mentioned on page 4 in the midst of a discussion of the progress of the project construction. It seems out of place and detracts from the positive discussion of the work that is underway or has been completed. We recommend the deletion of this reference.

On page 8, the discussion of this finding gives the misleading impression that the project goal of assisting the poor would fail to be achieved in its entirety in the absence of written criteria for household eligibility. Much of the project resources went to infrastructure improvements in neighborhoods occupied by poorer households, who are the beneficiaries. The report should make clear that the Salines Oeust housing is only one aspect of the project that provides benefits to the poor.

ACTION COPY

Action taken

No action necessary

(Initials) (Date)

-15-

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

GPO : 1985 O - 461-275 (411)

- 2 -

It should be noted on page 8 that no household selection criteria were specified in the original agreements between the Government, USAID and IDA. This is not mentioned until page 12.

Recommendation No. 2

We also agree with your recommendation to reduce the cash advances provided by A.I.D. to a 30 day requirement. We will issue a Project Implementation Letter requiring the PMU to report every month the status of the A.I.D. funds and the projected requirements for the next 90 days. A.I.D. will provide funds based on actual disbursements and the projected requirements. The 90 days is not intended to allow the funds to remain idle in the PMU account, it is to allow A.I.D. adequate time to process a check before the account runs out of funds. Requiring the PMU to report monthly will serve to bring the cash balance on hand to the 30 day requirement.

DRAFT:3386F:HSumka:8/27/99

CLEARED: RFMC:TCully

RHUDO:MLippe

REPORT ON
INTERNAL CONTROLS

We have made a study and evaluation of the system of internal accounting control of A.I.D. and the Project Management Unit for the Djibouti Housing and Urban Development Project. Our study and evaluation was conducted in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- . assess the applicable internal controls when necessary to satisfy the audit objectives and
- . report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s and the PMU's internal control structure to determine our auditing procedures in order to answer the audit objective and not to provide assurance on the internal control structure.

The management of the Project Management Unit was primarily responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures applicable to each of the audit objectives by categories. For each category we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect A.I.D.'s and the PMU's ability to ensure that project resources are safeguarded against waste, loss and misuse and that reliable data is obtained and disclosed in reports.

Audit Objective One

The first audit objective was to determine the progress of the project. In planning and performing our audit of the project's progress we considered the objectives, purposes and targets specified in the Grant Agreement, and Project Paper. For purposes of this report we have classified the relevant targets and measures of progress into the following categories: physical construction and improvements in Balbala, Old Wards and Salines Ouest areas, technical assistance to SID; commodity assistance to the Land Registry Office and training assistance to both the Land Registry Office and the District of Djibouti's vehicle garage. We noted the following reportable condition:

the Government of the Republic of Djibouti had not established written criteria to specify who would be eligible to purchase homes and plots in the Salines Ouest development.

This weakness in internal controls could result in individuals purchasing homes and plots in Salines Ouest who were outside the project's target population.

Audit Objective Two

This objective relates to the reasonableness, allowability and allocability of project expenditures and the efficient and economic use of significant project resources. In planning and performing our audit of project expenditures we considered the applicable internal control policies cited in A.I.D. Handbook 13, and the applicable procedures cited in the Grant Agreement between A.I.D. the GROD, and the Memorandum of Understanding between A.I.D. and IDA. For purposes of this report we have classified the relevant policies and procedures into the following categories: cash management, expenditure reporting, contracting, procurement, and invoice approval.

We noted the following reportable condition:

idle cash was maintained in the project's special account.

This weakness in internal controls resulted in increased interest costs to the U.S. Government calculated at \$83,559 between January 1986 and April 30, 1990; projected interest costs of \$23,502 could be saved over the remaining life of the project if the excess cash balance is reduced.

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on projects funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

REPORT ON
COMPLIANCE

We have audited USAID/Djibouti's Housing and Urban Development Project for the period September 25, 1984 through April 30, 1990, and have issued our report thereon dated September 14, 1990.

We conducted our audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- . assess compliance with applicable requirements of regulations, contracts and grants when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- . report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with regulations, contracts, and grants applicable to the project is the overall responsibility of the Project Management Unit and the International Development Association. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of A.I.D., Project Management Unit and host-government compliance with certain provisions of regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance disclosed the following significant instance of noncompliance.

Audit Objective No. 2 - idle cash averaging \$287,000 was maintained in the projects special account, in violation of A.I.D. Handbook 13 which implements U.S. Treasury Regulations (See page 9).

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, A.I.D., the Project Management Unit and the Government of the Republic of Djibouti complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that A.I.D., the Project Management Unit and the Government of the Republic of Djibouti had not complied, in all significant respects, with those provisions.

List of Project Donors

<u>NAME</u>	<u>RESPONSIBILITY</u>
International Development Association (IDA)	Primary responsibility for managing supervising and monitoring project activities. Also committed to contribute \$5.0 million.
Agency for International Development (A.I.D.)	Agreed to contribute \$5.5 million for overall project activities.
Government of the Republic of Djibouti (GROD)	Responsible for providing funding, including costs borne on an "in-kind" basis of \$2.7 million for overall project activities.
Societe Immobiliere de Djibouti	Responsible for providing funding of \$1.0 million and day to day implementation of the Salines Ouest development.
Caisse Centrale de Cooperation Economique	Responsible for loaning \$1.0 million to the GROD, to enable the GROD to supplement its contribution to the project.

Organizations and Locations Where Field Work
Was Performed In Djibouti

Salines Ouest
Old Wards # 3, 5 and 6
Balbala Settlement
Project Management Unit Offices
Ministry of Finance of GROD
Caisse de Development de Djibouti
Banque pour le Commerce et L'Industrie (Mer Rouge)
Societe Immobiliere de Djibouti
Land Registry Office of GROD
Technical Services Division of the District of Djibouti

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Director, REDSO/ESA	5
AA/AFR	1
AFR/EA/SSED	1
AFR/CONT	1
AA/XA	2
XA/PR	1
AA/LEG	1
GC	1
AA/MS	2
PFM/FM/FS	2
SAA/S&T	1
RHUDO	1
PPC/CDIE	3
MS/MO	1
REDSO/Library	1
RFMC/Nairobi	1
IG	1
AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	12
AIG/I	1
RIG/I/N	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1