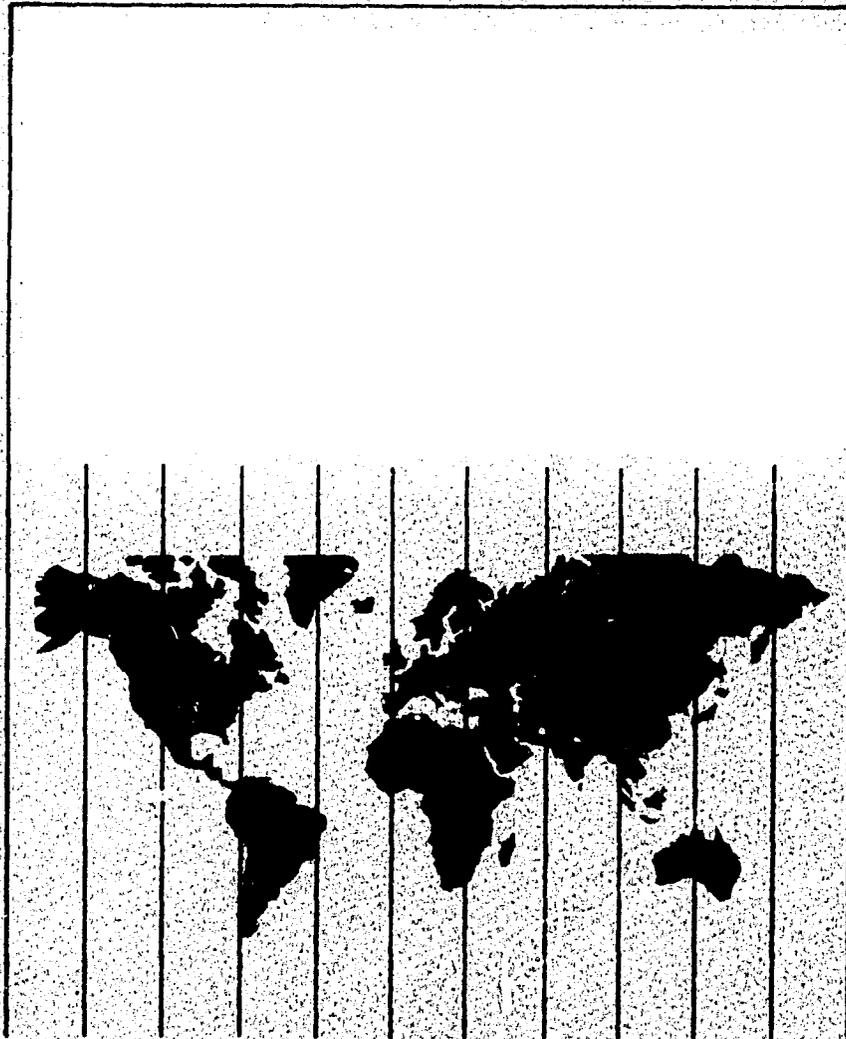


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
TEGUCIGALPA

PD-ABC-1166

ISA 693011

**AUDIT OF USAID/HAITI'S FRUIT TREE
PROJECT COMPONENTS MANAGED BY THE
ORGANIZATION FOR THE REHABILITATION
OF THE ENVIRONMENT,
JUNE 17, 1985 TO APRIL 30, 1988**

**Audit Report No. 1-521-91-05-N
November 29, 1990**

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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November 29, 1990

MEMORANDUM

TO: D/USAID/Haiti, David A. Cohen

FROM: RIG/A/T Acting, Lou Mundy



SUBJECT: Audit of USAID/Haiti's Fruit Tree Project, Components Managed by the Organization for Rehabilitation of the Environment, June 17, 1985 to April 30, 1988

This report presents the results of a non-Federal financial audit of the Fruit Tree Project (Project), USAID/Haiti Project No. 521-0182, Components Managed by the Organization for the Rehabilitation of the Environment (Organization) for the period June 17, 1985 to April 30, 1988. The accounting firm of Deloitte & Touche prepared the report which is dated November 12, 1990.

The purpose of the Project was: a) to provide grafted fruit trees for distribution and supervise planting in the Platon, Duchity, Debarriere and Saut-Mathurine areas; b) to establish two special orchards in Duchity and Platon with as extensive a range of varieties as possible; c) to locate and graft, with high quality budwood, wild and low quality sour orange trees in the field; and d) to train a team of eight promoters/technicians in grafting techniques. Funding for the Project was provided by a grant from USAID/Haiti in the amount of \$616,780. The agreement was dated June 17, 1985, and the project assistance completion date was April 30, 1988. The audit coverage included \$616,780 in A.I.D. funding as well as other revenue totaling \$1,239.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement for the Project components managed by the Organization; (2) the Organization's internal control structure with respect to Project operations; and (3) compliance by the Organization with agreement terms and applicable laws and regulations.

Deloitte & Touche found that the fund accountability statement presented fairly the results of operations except for questioned administrative expenses totaling \$3,325. The questioned costs represent expenditures incurred in excess of the allowed 15 percent over budget without prior approval of USAID/Haiti.

Deloitte & Touche found no material weakness in the Organization's internal control structure.

In its report on compliance with agreement terms and applicable laws and regulations Deloitte & Touche identified two instances of material noncompliance. Specifically, the Organization did not comply with 1) the grant agreement provision requiring USAID/Haiti's approval prior to exceeding 15 percent of budgeted line items and 2) certain Haitian tax law.

The draft report was discussed with Mission officials and Organization representatives. Management generally concurred with the findings contained in the report.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Haiti negotiate a settlement with the Organization for Rehabilitation of the Environment for \$3,325 in questioned costs identified in the Deloitte & Touche report dated November 12, 1990.

Recommendation No. 2

We recommend USAID/Haiti require that the Organization for Rehabilitation of the Environment establish procedures for obtaining A.I.D. approval prior to exceeding budgeted line items amounts as stipulated in the terms of the grant agreement.

Recommendation No. 3

We recommend that USAID/Haiti require the Organization for Rehabilitation of the Environment obtain documentation from appropriate Haitian tax authorities demonstrating that the Organization has satisfied all tax liabilities under the Project.

Please advise this office within 30 days of actions planned or taken to resolve the above recommendations.

AUDIT OF USAID FRUIT TREE PROJECT
(Implemented by the Organization for the Rehabilitation of
the Environment)
(n° 521-0182-A-00-5028-00)

USAID FRUIT TREE PROJECT
(Implemented by the Organization for the Rehabilitation of
the Environment)
(n° 521-0182-A-00-5028-00)

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Montréal, November 12, 1990

Transmitted Letter and Summary

Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras
Central America

This report presents the results of our financial audit of the Fruit Tree Project, USAID/Haiti Project No. 521-0182, implemented by the Organization for Rehabilitation of the Environment (ORE) for the period June 17, 1985 to April 30, 1988.

Background

The Organization for Rehabilitation of Environment and the United States of America entered into a cooperative agreement whereby the government of the USA, through its Agency for International Development Mission to Haiti (USAID/Haiti) provided assistance to the ORE for the implementation of a program of fruit tree improvement, and distribution of improved fruit tree seedlings to small farmers in the Macaya Region of South Western Haiti.

The specific objectives of the agreement were:

- a) To produce grafted fruit trees in plastic bags for distribution and supervise planting in the Platon, Duchity, Debarrière and Saut-Mathurine areas;
- b) To establish two special orchards in Duchity and Platon with as extensive a range of varieties as possible:
- c) To locate and graft, with high quality budwood, wild and low quality sour orange trees in the field; and
- d) To train a team of eight promoters/technicians in the grafting techniques.

In pursuance of the above project, USAID/Haiti provided a grant, under the Foreign Assistance Act of 1961 and in accordance with the agreement referred to above, in the amount of \$616,780. The agreement was dated June 17, 1985, and the project assistance completion date was April 30, 1988.

Audit objectives and scope

The overall objective was to perform a financial audit of components of the Fruit Tree Project, USAID/Haiti Project No. 521-0182, managed by the Organization for the Rehabilitation of the Environment for the period June 17, 1985 to April 30, 1988 to determine whether:

- The fund accountability statement of the project presents fairly the project's receipts and expenditures from June 17, 1985 to April 30, 1988, including a determination of whether the costs reported with agreement terms and A.I.D. regulations and to identify questionable costs if any.
- ORE's internal control structure is adequate to manage the funds for the project in accordance with USAID/Haiti's requirements.
- ORE complied with agreement terms and applicable laws and regulations, which may have an effect on the project costs.

Our audit 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 agreement terms and the applicable laws and regulations.

The scope of our work consisted of:

- a) A review of the following documents:
 1. Cooperative agreements between USAID/Haiti and ORE;
 2. Action plan and project implementation letters;
 3. O.M.B. Circular A-122 "Cost principles for Non-Profit Organizations other than Educational Organizations";
 4. Mandatory Standard Provisions for non-US, non-governmental grantees;

.../3

5. O.M.B. circular A-110 "Grants and Agreements with Institutions for Higher Education, Hospital and other Non-Profit Organizations"; and

6. A.I.D. Handbook 13, Grants:

to determine whether USAID/Haiti and the implementing entities have complied with the agreement terms, applicable laws and regulations which may have an effect on the fund accountability statement;

- b) A study and evaluation of the internal control structure as considered necessary in the circumstances;
- c) A review of bank accounts for the implementing entity to determine that receipts and disbursements from the funds of the project were properly accounted for;
- d) A performance of on-site tests, inspection and observation as considered necessary; and
- e) A review of the fund accountability statement as of April 30th, 1988.

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

- 1. We traced grant funds to bank accounts as appropriate. We obtained confirmations of banks balances and reviewed bank account reconciliations as considered necessary.
- 2. We traced and reconciled the total amount of funds obligated of \$616,780 to the grant agreement and subsequent amendments and obtained a confirmation of said amount obligated from USAID/Haiti.
- 3. We examined documentary evidences in support of disbursements for 208 transactions, representing \$412,559.
- 4. We obtained from the (ORE) representative, confirmations on the initial contribution of \$ 42,000 and the contributions from the local community of \$ 26,000.
- 5. We reviewed subsequent bank disbursements to examine accrued expenditures.
- 6. We obtained from the grantee's external counsel, a letter describing and evaluating claims and possible claims.

7. We physically compared the fixed assets of the grantee with respect to the project with the inventory of fixed assets.

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 agreement terms, Applicable Laws and Regulations.

Fund Accountability Statement

In our opinion, the fund accountability statement presents fairly the results of the obligations of the project for the Period June 17, 1985 to April 30th 1988.

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. As a result, we do not express an opinion on the internal control structure of the implementing entity taken as a whole.

However, our evaluation disclosed certain matters which came to our attention. Details of these matters are outlined in sections 2 and 3 of the Internal Control Structure section of this report.

Compliance with agreement terms, applicable Laws and Regulations

Our review of the agreement terms, applicable Laws and regulations that could have an effect on the fund accountability statement of the project disclosed that the implementing entity complied with the listed terms of such agreement, except for the findings which are described in detail in the section.

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

Other comments

We submitted a draft copy of this report to USAID/Haiti and to ORE (Organization of the Rehabilitation of the Environment). Management generally concurred with report findings.

Mr. Dev Garesan, C.A., C.P.A., Audit Manager of the Washington DC office of Deloitte & Touche proceeded to the referencing of each statement, date, number, figure, and fact in the report to the appropriate source document in the working papers on November 20 and 21, 1989.

Deloitte Touche

Deloitte & Touche

USAID FRUIT TREE PROJECT

(Implemented by the Organization for the Rehabilitation of
the Environment (ORE)

NO. 521-0182-A-00-5028-00

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of Fruit Tree Project (n° 521-0182-A-00-5028-00) for the period of June 17, 1985 to April 30, 1988. This fund accountability statement is the responsibility of the Project's management. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States of America Comptroller General's "Government Auditing standards" (1988 Revision). Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the effects of adjustments, if any, for the questionable administration and other expenditures in excess of the budget in the amount of \$3,325, as mentioned in Note 8, this fund accountability statement presents fairly the results of the operations of the project for the period of June 17, 1985 to April 30, 1988 in accordance with generally accepted accounting principles.

The accompanying fund accountability statement is intended solely for the use of 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.



Chartered Accountants

Montréal, February 1st 1990

USAID FRUIT TREE PROJECT
(no 521-0182-A-00-5028-00)

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JUNE 17, 1985 TO APRIL 30, 1988

	<u>Operations</u>	<u>Budget</u>
REVENUES		
USAID funding	\$ 616,780	\$ 616,780
Sales of budwood	<u>1,239</u>	<u>-</u>
	<u>618,019</u>	<u>616,780</u>
EXPENSES		
Budwood	38,032	39,080
Equipment (Note 8)	94,044	92,750
Salaries	351,234	355,030
Transportation	75,682	81,520
Administration and other (Note 8)	<u>58,985</u>	<u>48,400</u>
	<u>617,977</u>	<u>616,780</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 42</u>	<u>\$ -</u>

Reference - Note 3

USAID FRUIT TREE PROJECT
(no 521-0182-A-00-5028-00)

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JUNE 17, 1985 TO APRIL 30, 1988

1. STATUS AND NATURE OF THE PROJECT

ORE (Organization for the Rehabilitation of the Environment), although not officially recognized by the Haitian government, is operating like a N.G.O. (Non-government organization).

ORE and USAID/Haiti (United States Agency for the International Development Mission to Haiti) entered into an agreement whereby USAID/Haiti provided assistance to ORE. The objectives of ORE are to reverse the trends of environmental degradation on Haiti's hillsides through the production and distribution of high-quality tropical fruit trees to peasant farmers.

2. FUND ACCOUNTABILITY STATEMENT

The fund accountability statement is for the period from June 17, 1985 to April 30, 1988.

3. SIGNIFICANT ACCOUNTING POLICIES

The fund accountability statement has been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) applicable to non-governmental organizations. The following policies have been adopted where alternatives are available under GAAP:

Exchange rate

The basic records of the project are kept in United States dollars. Disbursements made in Haitian dollars are translated to United States dollars at the rates of exchange prevailing at transaction date (one Haitian dollar equalled one United States dollar).

Assets

The acquisitions of assets are assumed directly by the project. No amortization is accounted for the funds accountability statement.

USAID FRUIT TREE PROJECT
(no 521-0182-A-00-5028-00)

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JUNE 17, 1985 TO APRIL 30, 1988

4. CONTINGENCY

During the project, ORE did not comply with certain Haïtian taxation laws. The possible assessment from La Direction Générale des Impôts is estimated to be \$22,748.

5. RELATED PARTY TRANSACTIONS

At the beginning of the project, ORE initial contributions consisted of the following elements:

Nursery and training site	\$	30,000
Office		4,000
Warehouse		3,000
Computers		<u>5,000</u>
	\$	<u>42,000</u>

During the project, the following expenses were paid to ORE:

Computer depreciation	\$	4,000
Office rental		3,500
Warehouse rental		<u>1,750</u>
	\$	<u>9,250</u>

6. CONTRIBUTIONS FROM THE LOCAL COMMUNITY

In accordance with the USAID Fruit Tree Project (no 521-0182-A-00-5028-00) agreement, the contributions from the local community were as follows:

Site preparation	\$	5,200
Tree maintenance		15,600
Maintenance of the site grafted trees		<u>5,200</u>
	\$	<u>26,000</u>

USAID FRUIT TREE PROJECT
(no 521-0182-A-00-5028-00)

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JUNE 17, 1988 TO APRIL 30, 1988

7. STATEMENT OF CASH FLOW

OPERATING ACTIVITIES

Excess of revenues over expenses	\$ 42
Advances from the administrators	685
	685
NET CASH INFLOW	727
CASH, BEGINNING OF PERIOD	-
	-
CASH, END OF PERIOD	\$ 727
	727

8. VARIANCES FROM BUDGET AND QUESTIONABLE COSTS

According to A.I.D. applicable regulations, costs charged to a project must meet the following generally criteria:

- a. Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c. Conform to any limitations or exclusion set forth in the agreement in which the project is based.
- d. Be adequately documented.

Ineligible costs are all those costs unallocable and or unallowable in accordance with the terms of the agreements and applicable laws, regulations. Unsupported costs are all those costs not properly supported by the recipient, in excess of the budgeted amount per line item and costs considered unreasonable under the circumstances.

The following are costs incurred by Fruit Tree Project that were determined to be questionable because they did not conform with one of the above-mentioned criteria.

USAID FRUIT TREE PROJECT
(no 521-0182-A-00-5028-00)

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JUNE 17, 1988 TO APRIL 30, 1988

8. VARIANCES FROM BUDGET AND QUESTIONABLE COSTS (cont'd)

The Project Grant Agreement stipulated that variances of disbursements should not exceed 15% from budget, without prior approval from USAID.

We found these variances during this Project (in comparison with budgeted expenses).

1. Budwood	-1,048 \$	(- 3%)
2. Equipment	+1,294	(+ 1%)
3. Salaries	-3,796	(- 1%)
4. Transportation	-5,838	(- 7%)
5. Administration and other	+10,585	(+22%)

Consequently, administration and other expenditures in excess of budget in the amount of \$3,325 are considered questionable costs.

USAID FRUIT TREE PROJECT
(Implemented by the Organisation for the Rehabilitation of
the Environment (ORE))

NO 521-0182-A-00-5028-00

INTERNAL CONTROL STRUCTURE

1) INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of USAID Fruit Tree Project (n^o 521-0182-A-00-5028-00) for the period June 17, 1985 to April 30, 1988 and have issued our report thereon dated February 1st, 1990.

We conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards", (1988 Revision)" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the USAID Fruit Tree Project (n^o 521-0182-A-00-5028-00) period June 17, 1985 to April 30, 1988, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

A description of the responsibility of management for establishing and maintaining the internal control structure, and the objectives of and inherent limitations in such a structure, is set forth in the attached Appendix, and should be read in conjunction with this letter.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- a. Generalities
- b. Revenues
- c. Disbursements
- d. Salaries

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and 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 under standards established by the American Institute of Certified Public Accountants. 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 the Fruit Tree

Project ability to record, process, summarize, and report fund accountability data consistent with the assertions of management in the fund accountability statement.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure 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 fund accountability statement 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 and defined above. However, we believe none of the reportable conditions described above is a material weakness.

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.

Deloitte & Touche

Deloitte & Touche

Montréal, February 1st 1990

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES
AND LIMITATIONS OF THE INTERNAL CONTROL STRUCTURE

The following comments concerning management's responsibility for the internal control structure and the objectives of and the inherent limitations in the internal control structure are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining the internal control structure. 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.

Objectives

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 to permit the preparation of financial statement in accordance with generally accepted accounting principles.

Limitations

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 become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS

a) REVENUES

Condition

ORE was missing copies of vouchers (Forms SF1034 and SF1034A) used for obtaining reimbursements of expenditures from USAID.

Criteria

ORE should always have a photocopy of the voucher before they send it to USAID (ARD) in case the signed copy is not returned.

Cause

On certain occasions, the time factor in sending these forms to USAID (ARD) was critical and ORE forgot to keep a copy.

USAID (ARD) did not always return the approved copy of the voucher to ORE

Effect

ORE may have difficulties following each voucher and may not be aware that some expenses have been disallowed etc. Also, if ever the voucher was misplaced, ORE would be hard-pressed to come up with the information.

Recommendation

ORE should make photocopies of vouchers before submission to USAID and request copies of missing vouchers.

Management comments

USAID does not always supply copies of approved vouchers (Forms SF1034 and SF1034A) even when adjustments or disallowances are made. ORE requested that these vouchers be supplied.

b) PETTY CASH RECONCILIATIONS (ADDITIONS)

Condition

During the course of the audit, we discovered several petty cash reconciliations that contained errors in addition.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

b) PETTY CASH RECONCILIATIONS (ADDITIONS) (cont'd)

Criteria

An independent person should verify the reconciliations before the postings are done at month-end.

Cause

This occurred because Mr. Finnigan did not have any experience in accounting and he was the only person doing the accounting.

Effect

An independent verification of the petty cash reconciliations would minimize the errors.

Recommendation

Petty cash reconciliations should be conducted by an independent and adequately trained employee.

Management comments

An independent person has verified reconciliations as of April 1988.

c) PETTY CASH RECONCILIATIONS (SUPPORTING DOCUMENTS)

Condition

With respect to petty cash reconciliations we found that the total of line items did not equal the total of supporting documents.

Criteria

An independent person should verify that the total of the line items is supported by the proper documents.

Cause

At the time, Mr. Finnigan was the only person in the accounting department.

Effect

An independent verification would eliminate the errors in reporting.

Recommendation

Petty cash reconciliations should be performed by an independent and adequately trained employee.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

c) PETTY CASH RECONCILIATIONS (SUPPORTING DOCUMENTS) (cont'd)

Management comments

S. Goodwin performed an internal audit and found these errors which he adjusted in December 1987.

d) PROFORMA INVOICES

Condition

For purchase of items over \$250, ORE must obtain 3 proforma invoices (USAID regulation). This is not always done.

Criteria

All purchases of items over \$250 must be accompanied by 3 proforma invoices or documentation as to why ORE cannot obtain them.

Cause

Often there is only one possible supplier in Haiti for the goods and it is therefore impossible to obtain 3 proforma invoices.

Effect

If ORE cannot obtain 3 proforma invoices they should document this fact and attach it to the invoice.

Recommendation

Written justification must be provided by management with USAID approval if acquisitions are made without soliciting three (3) proforma invoices. Such justifications must indicate that there were not a sufficient number of vendors.

Management comments

Difficulties in obtaining 3 quotes - where 3 suppliers were not available were not documented on the invoices. Following the internal audit in October 1987, 3 quotes were supplied.

e) CLASSIFICATION OF EXPENSES

Condition

We found errors where the expense was debited to the wrong line item. The transport cost was included in nursery equipment.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

e) CLASSIFICATION OF EXPENSES (cont'd)

Criteria

O.R.E should have an independent person verify that the items are debited to the right account.

Cause

At the time, Mr. Finnigan was the only one doing all the accounting.

Effect

By having an independent person verify the work done by ORE, these types of errors would diminish.

Recommendation

ORE should assign an independent person in the accounting department to verify that items are debited to the proper account.

Management comments

Expenses debited to different line items (such as a transport cost included in a nursery equipment) were the source of errors. These amounts were relatively small.

f) CANCELLATION OF CHECKS

Condition

Cheques that are cancelled are not retained.

Criteria

All cheques that are cancelled or returned should be retained by ORE. They should be clearly marked "void" and the signature portion should be removed.

Cause

It is essential to keep all cancelled checks to prove that they are not in circulation. It is also important to destroy the signature portion to assure that the cheque cannot be put back into circulation.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

f) CANCELLATION OF CHECKS (cont'd)

Effect

The fact that (ORE) does not keep the cancelled checks can make it difficult to prove, for bank reconciliation purposes, that they are not in circulation.

Recommendation

ORE should retain cancelled checks.

Management comments

No comments.

g) PRENUMBERED CHECKS

Condition

Two of the three bank accounts do not have prenumbered cheques.

Criteria

Each bank account should have prenumbered checks. Each check should be accounted for when it is issued or cancelled. When the check books are received, they should be immediately prenumbered by an assistant in the accounting department.

Cause

BUH (Banque de l'union Haïtienne) Les Cayes and BUH Port-au-Prince do not have prenumbered checks.

Effect

When the checks are not prenumbered, it is very difficult for (ORE) to account for every cheque as some do not have numbers.

Recommendation

ORE should prenumber checks used for all bank accounts.

Management comments

BUH does not supply numbered checks. (ORE) has had prenumbered checks since April 1988.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

h) DAILY LABOR CONTROL SHEET

Condition

The supervisor does not sign the labor control sheet daily.

Criteria

The supervisor should sign the labor control sheet daily before giving it to the accounting department.

Cause

Supervisors are aware of this procedure, but do not follow the established policy.

Effect

At present, there is no way to verify who actually filled out the sheet and who calculated the hours worked and the pay owed to employees.

Recommendation

ORE must require that supervisors comply with established procedures for signing labor control sheets on a daily basis.

Management comments

No comments.

i) DAILY LABOR CONTROL SHEET

Condition

The accounting department reviews the labor control sheets daily but does not sign them.

Criteria

The accounting department should initial these sheets to show that they have been reviewed.

Cause

People are aware of this procedure, but forget to follow the established policy.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

i) DAILY LABOR CONTROL SHEET (cont'd)

Effect

The accounting department cannot control the salaries paid.

Recommendation

The accounting department should initial labor control sheets to show that they have been reviewed.

Management comments

This policy was instituted in April 1988.

j) EMPLOYEE FILE

Condition

There are no employee files for each employee.

Criteria

(ORE) should have a file for each employee containing the following information: identity, number, name, address, date hired, current salary and authorization for any increases and authorization for hiring. This should be done for all regular employees. Occasional workers would have their time sheet authorized.

Cause

Taking into account the Haïtian context, necessary documentation is difficult to obtain.

Effect

Management can be aware of the hiring of new employees and of any changes in their pay rate if this information is available.

Recommendation

ORE should establish and maintain employee files for each employee.

Management comments

Started implementation in April 1988.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

k) PETTY CASH

Condition

(ORE) doesn't have a fixed petty cash system.

Criteria

Petty cash expenditures have to be strictly controlled, since a large number of disbursements are made in cash.

Cause

Mr. Finnigan does not want to have large amounts of cash on hand.

Effect

(ORE) may have some difficulties controlling cash expenditures and correctly accounting for them.

Recommendation

ORE should establish a fixed petty cash system as soon as possible.

Management comments

Not obtained.

USAID FRUIT TREE PROJECT
(Implemented by the Organisation for the Rehabilitation of
the Environment (ORE))
NO 521-0182-A-00-5028-00

COMPLIANCE WITH AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS

1) AUDITORS' REPORT

We have audited the fund accountability statement of USAID Fruit Tree Project (n° 521-0182-A-00-5028-00) for the period June 17 1985 to April 30, 1988 and have issued our report thereon dated February 1st, 1990.

We conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards", (1988, Revisions)" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations contracts and grants applicable to the ORE (Organization for Rehabilitation of Environment) is the responsibility of the ORE management. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the project compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, except for the conditions described under findings no 3 and 4, with respect to the items tested, the USAID Fruit Tree Project (n° 521-0182-A-00-5028-00) complied in all material respects, with the provisions referred to in the proceeding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the ORE had not complied, in all material respects, with those provisions.

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 Inspector General, is a matter of Public record.



Deloitte & Touche

Montréal, February 1st 1990

COMPLIANCE WITH AGREEMENT TERM, APPLICABLE LAWS AND REGULATIONS

2) AUDIT FINDINGS

1. Bank Accounts

Condition

USAID Project Sové Tè Project n° 521-0191-A-00-8010-00 began in April 1988, and USAID Fruit Tree Project n° 521-0182-A-00-5028-00 ended in April 30, 1989. ORE didn't maintain separate bank accounts for the two projects.

Criteria

The project grant agreement stipulates that separate bank account, be maintained for separate projects.

Cause

The management have not considered the utility of maintaining separate bank accounts.

Effect

Difficulties have been encountered to identify the expenses of each project.

Recommendation

ORE must establish separate bank accounts for all USAID funded projects.

2. Non-USAID funding

Condition

The project Grant Agreement stipulates that non-USAID funds be identified and maintained separately from USAID funds.

Criteria

During the course of the Project, due to a shortage of funding (delayed vouchers), the Project Manager and Assistant Project Manager have had to put their own salary into the project, allowing the project to pay its expenses.

Cause

Due to a shortage of funding (delayed vouchers)

Effect

Non USAID funds not identified and maintained separately from USAID funds.

COMPLIANCE WITH AGREEMENT TERM, APPLICABLE LAWS AND REGULATIONS

2) AUDIT FINDINGS

2. Non-USAID funding (cont'd)

Recommendation

Emergency funding (in case of delayed vouchers) procedures by USAID could have prevented departure from the agency's rules.

3. Variances from Budget

Condition

The Project Grant Agreement stipulates that variances of disbursements should not exceed 15% from budget, without prior approval from USAID.

The excess of administration and other expenditures over the budget is \$10,585 for 22%.

Effect

The excess from the budget in the amount of \$3,325 could be considered as questionable (suspended) cost.

Recommendation

ORE must comply with all the provisions of the grant agreement.

4. Haïtian taxation laws

Condition

During the audit, we became aware that ORE was not paying certain Haïtian taxes in full.

Criteria

Management should be aware of any new taxation rules so that they can promptly implement them.

Cause

Management lacked knowledge of certain Haïtian taxation laws.

Effect

The effect is that ORE could be liable for T.M.S. (taxe sur la masse salariale).

2) AUDIT FINDINGS

4. Haitian taxation laws (cont'd)

Recommendation

ORE must acquire an understanding of all pertinens Haitian tax law pertaining to the project operations and must fully satisfy any tax liabilities outstanding.

Management comments

Because taxation laws change frequently, it is difficult to obtain accurate information from the local officials; their verbal recommendations were often incorrect.

USAID FRUIT TREE PROJECT
(Implemented by the Organisation for the Rehabilitation of
the Environment)
(N° 521-0182-A-00-5028-00)

LIST OF REPORT RECOMMANDATIONS

1) INTERNAL CONTROL STRUCTURE

Recommandations

- 1) Photocopies of vouchers should be made before submission to USAID.
- 2) Petty cash reconciliations should be conducted by an independant and adequately trained employee.
- 3) Written justification must be provided if acquisitions are made without soliciting three proforma invoice.
- 4) A independant person should verify that items are debited to the proper account.
- 5) Cancelled checks should be retained.
- 6) Prenumber checks should be used for all banks accounts.
- 7) Labor control sheets should be signed on a early basis.
- 8) Labor control sheets should be initialed by accounting department.
- 9) Employee files should be established and maintained.
- 10) Establish a fixed petty cash.

2) COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

- 1) Establish separate bank accounts for all USAID funded projects.
- 2) Emergency funding could prevent departure from the agency's rules.
- 3) ORE must comply with all the provisions of the grant agreement.
- 4) ORE must fully satisfy any tax liabilities and acquire an understanding of all pertinents Haïtian Tax Law.

1) EVALUATION OF THE INTERNAL CONTROL STRUCTURE

<u>Area</u>	<u>Control Feature</u>	<u>Evaluation</u>
a) Generalities	Assets and goods are kept in a warehouse	Satisfactory.
	Detailed listing of fixed assets maintained	Satisfactory.
	Controls over the electronic equipment:	
	- Data processing protection	Satisfactory. Codes of access are used only by authorized personnel. Back-up copies are kept in a secure place.
	- Physical protection of the computers	Unsatisfactory. We did not see a fire system detector and the computers could be subject to natural destruction.
	Petty cash expenses are supported by proper documentation	Unsatisfactory. We have found some errors of reconciliation on petty cash documents. No fixed petty cash system is in place.
	Presence of monthly bank reconciliations	Satisfactory.
b) Revenues	Concerning USAID funding	
	- Presence of vouchers (SF1034 and SF1034A) and supporting documents	Unsatisfactory. Some copies were missing.
	Concerning other revenues (cash sales)	
	- Presence of an accounting system for their registration	Unsatisfactory. Sales are only supported by supervisor's reports.

EXHIBIT 1

1) EVALUATION OF THE INTERNAL CONTROL STRUCTURE (cont'd)

<u>Area</u>	<u>Control Feature</u>	<u>Evaluation</u>
c) Disbursements	Presence of purchase orders (for items over \$250) with proper authorization	Satisfactory.
	Invoices are cancelled upon payment	Satisfactory.
	Invoices and receipts are kept and verified	Satisfactory.
	Expense is debited to the proper account	Unsatisfactory. Some errors were noted.
d) Salaries	For regular employees, presence of day labor sheets which are authorized by the supervisor	Unsatisfactory. Day labor sheets were not always signed by the supervisors.
	Extensions and additions of day labor sheets are made	Satisfactory.
	For staff employees, presence of justifications in the budgets of USAID/Haiti	Satisfactory.
	Authorization for any bonus or additional remuneration	Satisfactory.
	Expense debited to the proper account	Satisfactory.

2) REVIEW OF THE INTERNAL AUDITOR'S RECOMMENDATIONS

On October 30, 1987, the internal auditor made recommendations concerning the Fruit Tree Project (n^o 521-0182-A-00-5028-00).

During our audit, we reviewed the application of these recommendations:

a) Bank accounts

Bank accounts should be reconciled on a monthly basis.

Observation

All bank accounts are now reconciled to the books on a monthly basis.

b) Disbursements

All disbursements should be verified (extensions and totalled twice).

Observation

The accounting clerk makes the first verification and the Assistant Project Manager, makes the second one.

c) Insurance

ORE should secure adequate insurance for cash-in-transit, cash-on-premise and fidelity bonding of all employees that handle cash or that have check signing authority.

Observation

ORE told us that no insurance company wants to insure this kind of risk in the Les Cayes regions (since the "dechoukaj").

d) Check signing policy

Concerning the check signing policy, the Project Manager, should co-sign all checks over \$5,000. All checks under \$5,000 would require two signatures, but any two employees authorized to sign will fulfil this requirement.

Observation

This is the policy now in place.

2) REVIEW OF THE INTERNAL AUDITOR'S RECOMMENDATIONS (cont'd)

e) Inventory

Regarding the control of trees inventory, control tests of trees on hand should be made.

Observation

This procedure is now in place.

f) Fixed assets

ORE should have a separate list of fixed assets.

Observation

This list has been established with a proper description of the items.

g) Cash expenditures

For a better control over cash expenditures:

All cash vouchers should be approved by someone other than the paying clerk.

Observation

The assistant Project Manager

h) Budgets of supervisors

Weekly approved budgets of supervisors should be checked against actual expenses from cash.

Observation

According to Mr. and Mrs. Finnigan, weekly is not convenient. This is now done on a monthly basis.

2) REVIEW OF THE INTERNAL AUDITOR'S RECOMMENDATIONS (cont'd)

i) Petty cash

The term "petty cash" should be dropped and replaced by "cash box".

Observation

This has not been implemented.

j) Disbursement's policy

All amounts over \$100 should be paid by checks.

Observation

ORE is trying to pay all amounts over \$100 by checks, but, taking into account the Haitian context, this is not always possible.

k) Cash expenditures report

The cash expenditures report should be verified and approved before being posted to the books.

Observation

This procedure is actually done by Mrs. Finnigan.

l) Request for disbursement

Copies of documentation should be placed with the request for disbursement and cash expenditures.

Observation

This procedure has been implemented.

m) Purchase orders transactions

ORE should charge P/O transactions to an advance "accounts receivable" account until the invoice and goods arrive, then credit that advance and charge the expense account.

Observation

This practice has been implemented in the second Project ("Project Sove Tè") only.

2) REVIEW OF THE INTERNAL AUDITOR'S RECOMMENDATIONS (cont'd)

n) Travel advances

Travel advances to staff should include how long the trip lasted, the purpose of the trip, the daily rate and approval for travel.

Observation

This procedure has been implemented.

o) Manual of procedures

ORE should have a written manual of procedures describing the day-to-day administrative and financial activities.

Observation

For the second Project ("Project Sove Tè), this has been implemented.

p) Bookkeeper

ORE should have a qualified bookkeeper, allowing Mr. Sean Finnigan to concentrate on other tasks.

Observation

The Assistant Project Manager and the check accountant are now both in charge of the accounting operations.

EXHIBIT 3

3. SUPPLEMENTARY INFORMATION - FIXED ASSETS AT DEPRECIATED VALUE

As stated in Notes to fund accountability statement, the cost of fixed assets are expended as incurred. The following information reflects the cost of fixed asset acquisition and the net book value as if the assets had been depreciated using the diminishing balance method.

Costs at beginning	\$ -	\$ -	\$ -	\$ -
Acquisitions	<u>26,740</u>	<u>4,465</u>	<u>7,822</u>	<u>39,027</u>
Costs at end	26,740	4,465	7,822	39,027
Accumulated depreciation	<u>16,088</u>	<u>1,451</u>	<u>1,700</u>	<u>19,239</u>
Net book value	<u>\$ 10,652</u>	<u>\$ 3,014</u>	<u>\$ 6,122</u>	<u>\$ 19,788</u>
Depreciation rates	<u>30%</u>	<u>20%</u>	<u>20%</u>	