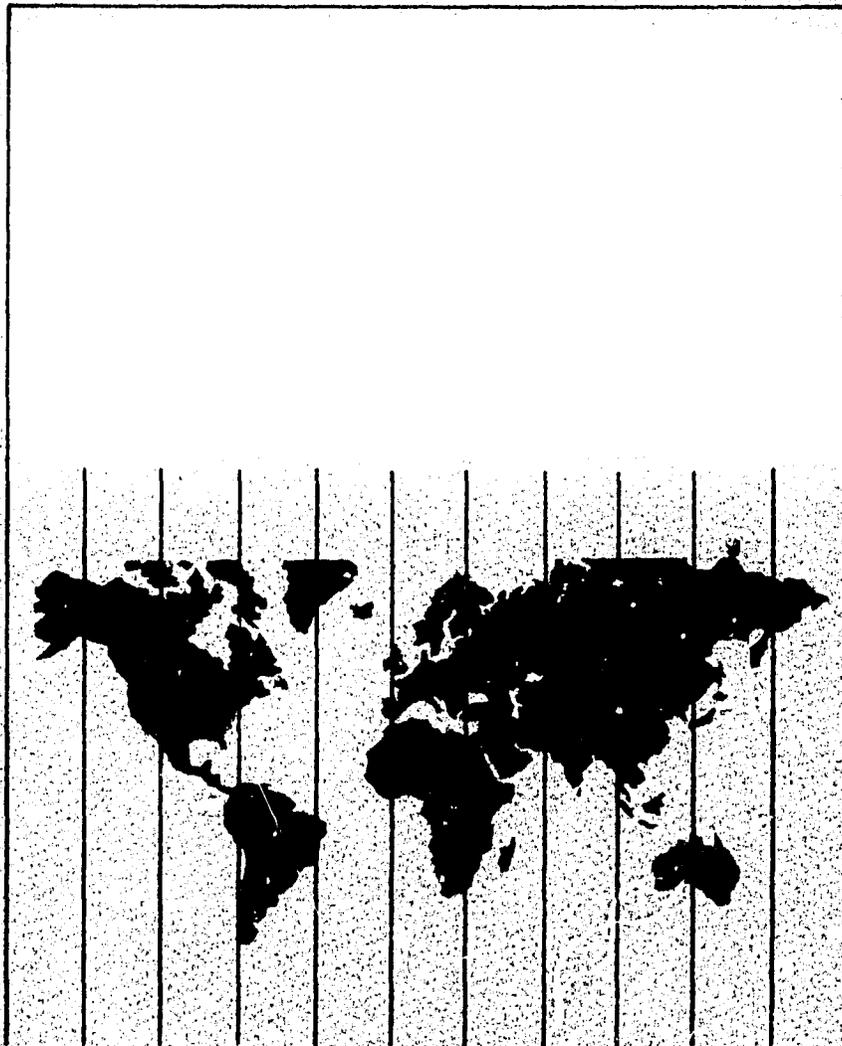


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD-ABC-167

ISA 69394

**AUDIT OF USAID/HAITI'S PROJECT SOVE TE,
A COMPONENT OF THE TARGETED
WATERSHED MANAGEMENT PROJECT,
MANAGED BY THE ORGANIZATION
FOR REHABILITATION
OF THE ENVIRONMENT,
APRIL 1, 1988 TO JUNE 30, 1989**

**Audit Report No. 1-521-91-04-N
November 29, 1990**

2

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
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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 Project Sove Té, a Component of the Targeted Watershed Management Project, Managed by the Organization for Rehabilitation of the Environment, April 1, 1988 to June 30, 1989

This report presents the results of a non-Federal financial audit of the Project Sove Té (Project), USAID/Haiti Project No. 521-0191, a component of the Targeted Watershed Management Project, managed by the Organization for Rehabilitation of the Environment (Organization) in Haiti for the period April 1, 1988 to June 30, 1989. The accounting firm of Deloitte & Touche prepared the report which is dated November 12, 1990.

The purpose of the Project was to provide assistance for promoting and providing technical assistance to peasant farmers in watershed regeneration and soil conservation in various localities in southwest Haiti. The audit coverage included \$929,392 in A.I.D. funding as well as other revenue of \$4,901.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement for the Project component 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, in all material respects, the results of operations of the Project component for the period April 1, 1988 to June 30, 1989.

Deloitte & Touche reported no instance of material weakness with respect to the Organization's internal control structure.

b'

In its report on compliance with agreement terms and applicable laws and regulations, Deloitte & Touche identified one instance of material noncompliance concerning the Organization's failure to comply with Haitian tax law by not withholding and remitting income taxes for Project employees.

The draft report was discussed with officials of USAID/Haiti and Organization representatives. The Mission and the Organization generally concurred with all findings and recommendations contained in the report.

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

Recommendation No. 1

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 recommendation.

AUDIT OF USAID PROJECT SOVE TÈ
(Component of the Targeted Watershed Management Project)
(n^o 521-0191-A-00-8010-00)

USAID PROJECT SOVE TÈ
(Component of the Targeted Watershed Management Project)
(n° 521-0191-A-00-8010-00)

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Montréal, November 12, 1990

Transmittal Letter and Summary

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

This report presents the result of our financial audit of the Project Sove Tè, USAID/Haiti Project No. 521-0191; a subproject of the Targeted Watershed Management Project, implemented by the Organization for Rehabilitation of The Environment (ORE) for the period April 1, 1988 to June 30, 1989.

Background

The Organization for Rehabilitation of Environment and the United States of America entered into cooperative agreement whereby the Government of U.S.A., through its Agency for International Development Mission to Haiti (USAID/Haiti), provided assistance for the purpose of promoting and providing technical assistance to peasant farmers in watershed regeneration and soil conservation in the localities of Camp Perrin, Saut-Mathurine, Formond, Rhé and Port Salut in South-western Haiti.

The project had the following activities and objectives:

1. Seed and plant material multiplication;
2. Agroforestry nurseries;
3. On-site grafting of fruit trees;

4. Research demonstration sites;
5. Farmer demonstrations in the areas surrounding the research demonstration sites;
6. Training and production of training booklets and videos;
7. Establishing agricultural supply centers at Camp Perrin and Formond;
8. Construction of water catchment systems and cisterns at Saut-Mathurine, Formond, and Port Salut;
9. Marketing research; and
10. Evaluation and monitoring of project impact and effectiveness.

In pursuance of the above project, USAID/Haiti provided a grant of two million dollars (\$2,000,000), under the Foreign Assistance Act of 1961 and in accordance with the agreement referred to above, one million four hundred and sixty-four thousand dollars (\$1,464,000) was obligated as at June 30th, 1989.

The agreement was dated March 21, 1988.

Audit Objectives and Scope

The overall objective of the examination was to perform a financial audit of the fund accountability statement of the Project Sove Tè, USAID Project No 521-0191 for the period April 1, 1988 to June 30, 1989 to determine whether:

- The fund accountability statement of the project presents fairly the project's receipts and expenditures from April 1, 1988 to June 30, 1989, including a determination of whether the costs reported are in accordance 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. Controller General's "Government Auditing Standards" (1988 Revision) and accordingly, included such tests of the accounting records and other accounting procedures as we considered necessary in the circumstances, to determine that funds were being properly accounted for and were used in accordance with the agreement terms, applicable laws and regulations.

The scope of our audit work consisted of the following:

- a) A review of the following documents:
- 1) Cooperative agreements between USAID/Haiti and the Organization for Rehabilitation of the Environment (ORE);
 - 2) Action plan and project implementation letters;
 - 3) OMB Circular A-122 "Cost Principles for Non-Profit Organizations other than Educational Organizations";
 - 4) Mandatory standards provisions for non-US, non-governmental grantees;
 - 5) OMB Circular A-110 "Grants and Agreements with Institutions for Higher Education, Hospitals and other Non-Profit Organizations and;
 - 6) Aid Handbook 13, Grants;
- to determine whether USAID/Haiti and the implementing entities have complied with the agreements terms and the applicable laws and regulations 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 are properly accounted for.
- d) A performance of on-site tests, inspection and observation as considered necessary.
- e) A review of the fund accountability statement as of June 30, 1989.

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 bank confirmations of bank balances and reviewed bank account reconciliations as considered necessary.
2. We traced and reconciled the total amount of the funds obligated to the grant agreement and subsequent amendments and obtained a confirmation of USAID obligation from USAID/Haiti.
3. We examined documentary evidence in support of disbursements for 132 transactions chosen using a statistical sample and representing \$308,989.

4. To examine accrued expenditures, we obtained confirmations from creditors and reviewed the subsequent bank operations.
5. We obtained from the Grantee's external Council a letter describing and evaluating claims and possible claims.
6. We physically compared the fixed assets of the grantee with respect to the project and 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 agreements terms, Applicable Laws and Regulations.

Fund Accountability Statement

In our opinion, the fund accountability statement presents fairly the results of the operations of the project for the period from April 1, 1988 to June 30, 1989.

Internal Accounting Controls

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 Accounting Controls section of this report.

Compliance with Agreement terms, Applicable Laws and Regulations

Our review of the agreements 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 tested terms of such agreements except for findings which are described in detail in this section.

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

Other comments

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

Mr. Dev Ganesan, C.A., C.P.A., Audit Manager of Washington DC, office of Deloitte & Touche referenced 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.

A handwritten signature in cursive script that reads "Deloitte & Touche".

Deloitte & Touche

USAID PROJECT SOVE TÈ
(Component of the Targeted Watershed Management Project)
Implemented by the Organization for Rehabilitation of the Environment
USAID/HAITI Project No 521-0191

INDEPENDENT AUDITORS' REPORT

The Office of the Inspector General

We have audited the accompanying fund accountability statement of USAID Project Sove Tè (n° 521-0191-A-00-8010-00) (Component of the Targeted Watershed Management Project) for the period of April 1, 1988 to June 30, 1989. This financial statement is the responsibility of the Project's management. Our responsibility is to express an opinion on this financial 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 require 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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, this fund accountability statement presents fairly, in all material respects, the results of the operations of the project for the period of April 1, 1988 to June 30, 1989 in conformity with generally accepted accounting principles.

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

USAID PROJECT SOVÈ TÈ
 (Component of the Targeted Watershed Management Project)
 (no 521-0191-A-00-8010-00)

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1988 TO JUNE 30, 1989

	Operations (local)	Operations (US)	Accrued	Total	Propor- tional Budget (Note 3)	
REVENUES						
USAID funding	\$ 619,381	\$ 310,011	\$ -	\$ 929,392	\$ 915,001	\$
Sales of budwood	<u>4,901</u>		<u>-</u>	<u>4,901</u>	<u>-</u>	
	<u>624,282</u>	<u>310,011</u>	<u>-</u>	<u>934,293</u>	<u>915,001</u>	-
EXPENSES						
Salaries	352,176	121,324	14,795	488,295	571,669	
Travel	21,345	15,125	-	36,470	55,753	
Equipment	8,337	95,012	-	103,349	76,438	
Commodities and supplies	75,052	50,571	4,428	130,051	90,743	
Operating expenses	99,322	27,979	1,635	128,936	107,117	
Evaluation and audit	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>6,000</u>	<u>13,281</u>	<u>-</u>
	<u>556,232</u>	<u>310,011</u>	<u>26,858</u>	<u>893,101</u>	<u>915,001</u>	-
EXCESS OF REVENUES (UNDER) OVER EXPENSES						
	<u>\$ 68,050</u>	<u>\$ -</u>	<u>\$ (26,858)</u>	<u>\$ 41,192</u>	<u>\$ -</u>	<u>\$</u>

Reference Note 4 and 5

USAID PROJECT SOVE TÈ
(Component of the Targeted Watershed Management Project)
(no 521-0191-A-00-8010-00)

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1988 TO JUNE 30, 1989

1. STATUS AND NATURE OF THE PROJECT

ORE (Organization for the Rehabilitation of the Environment) is a N.G.O. (Non-government organization).

ORE and USAID/Haiti (United States Agency of the International Development Mission to Haiti) entered into an agreement whereby USAID/Haiti provided assistance to ORE. Projet Sove Tè is a subproject of the Targeted Watershed Management Project. The objective of this project is to establish soil-conserving and watershed-regenerating technical interventions in targeted watershed regions in the south-western peninsula of Haiti.

2. FUND ACCOUNTABILITY STATEMENT

The fund accountability statement is for the period April 1, 1988 through June 30, 1989.

3. BUDGET

The comparative budget is a fifteen months proportion of the obligated budget which covered the period of two years, from April 1, 1988 to March 31, 1990.

4. SIGNIFICANT ACCOUNTING POLICIES

This 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 rate of exchange prevailing at the 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 in the funds accountability statement.

USAID PROJECT SOVE TÈ
 (Component of the Targeted Watershed Management Project)
 (no 521-0191-A-00-8010-00)

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1988 TO JUNE 30, 1989

5. ENGAGEMENT

ORE (Organization for the Rehabilitation of the Environment) is bound by contracts of land leases for \$47,562. If USAID (United States Agency for International Development-Mission to Haïti) funding is stopped, these contracts are automatically cancelled. Minimum payments are as follows:

1990	-	\$ 23,366
1991	-	\$ 3,366
1992	-	\$ 3,366
1993	-	\$ 3,366
1994	-	\$ 3,366
1995-1996	-	\$ 6,732

6. CONTINGENCY

During the project, ORE did not fully comply with the Haitian tax law. The possible assessment by Direction Générale des Impôts is estimated to be \$11,186.

7. STATEMENT OF CASH FLOW

OPERATING ACTIVITIES		
Excess of revenues over expenses		\$ 41,192
Increase (decrease) in non-cash operating working capital		
Advances to employees		(19,315)
Accrued charges		26,858
Advances from administrators		<u>(685)</u>
NET CASH INFLOW		48,050
CASH, BEGINNING OF PERIOD		<u>727</u>
CASH, END OF PERIOD		<u>\$ 48,777</u>

USAID PROJECT SOVE TÈ
 (Component of the Targeted Watershed Management Project)
 (no 521-0191-A-00-8010-00)

SCHEDULE OF OPERATING EXPENSES

FOR THE PERIOD APRIL 1, 1988 TO JUNE 30, 1989

	<u>Operations</u> <u>(combined)</u>	<u>Accrued</u>	<u>Total</u>	Pr
OPERATING EXPENSES				
International transportation	\$ 6,710	\$	\$ 6,710	\$
Local transportation	5,987		5,987	
Communications	3,408		3,408	
Vehicles - repairs and maintenance	53,670		53,670	
Non-vehicle equipment - repairs and maintenance	15,071		15,071	
Office furnitures	28,735	1,635	30,370	
Publications and printing	5,202		5,202	
Training	3,616		3,616	
Insurance	4,351		4,351	
Bank charges	551		551	
	<u>\$ 127,301</u>	<u>\$ 1,635</u>	<u>\$ 128,936</u>	<u>\$</u>

USAID PROJECT SOVE TÈ
(Component of the Targeted Watershed Management Project)
Implemented by the Organization for Rehabilitation of the Environment
USAID/HAITI Project No 521-0191

INTERNAL CONTROL STRUCTURE

1) INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of USAID Project Sove Tè (Component of the Targeted Watershed Management Project) (n° 521-0191-A-00-8010-00) for the period April 1, 1988 to June 30, 1989 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 Project Sove Tè for the period ended June 30, 1989, 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 Projet Sove Tè ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial 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

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 fund accountability 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 deteriorate.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS

a) REVENUES

Condition

ORE was missing copies of vouchers (forms SF1034 and SF1034A) used to obtain 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. Also, if ever the voucher was misplaced, ORE would be hard-pressed to come up with the information.

Recommendation

ORE must make a photocopy of the voucher before sending it to USAID and must obtain the 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 these vouchers be supplied.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

b) CASH SALES

Condition

Cash sales to the locals were not supported by invoices. These sales are not significant, but in the future they may become significant.

Criteria

There should be bills issued when sales are made to the locals.

Cause

At present, the sales are not significant. The supervisors now produce sales reports of the sales made.

Effect

Sales could be made and not entirely reported and deposited in the ORE bank account.

Recommendation

A bill must be issued for all sales made to the locals.

Management comments

All sales are currently reported in detail to the administration, and reported monthly to USAID. Bills exist for sales of trees from the nursery. It is difficult to obtain receipts from peasants in the marketplace. Crop sales from PST sites are estimated by the supervisor prior to sales. We accept the recommendation to supply bills for each, whenever possible.

c) EMPLOYEE ADVANCES (FOR PROJECT'S PURCHASES)

Condition

The control over employee advances was informal.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

c) EMPLOYEE ADVANCES (FOR PROJECT'S PURCHASES) (cont'd)

Criteria

ORE should formalize the system. They should have an auxiliary account receivable system with sheets for each employee with the follow-up of advances and purchases.

Cause

The actual system was meeting the initial needs for employee advances.

Effect

Difficulties on the follow-up of these advances. Some advances can be made and subsequently, not entirely justified.

Recommendation

An auxiliary account receivable system must be established.

Management comments

We accept that formal follow-up should be restructured as recommended.

d) CANCELLATION OF CHECKS

Condition

Checks that were cancelled were not retained.

Criteria

All checks 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 checks cannot be put back into circulation.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

d) CANCELLATION OF CHECKS (cont'd)

Effect

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

Recommendation

ORE must retain all checks cancelled or returned by the bank, should be marked "void" and remove the signature portion.

Management comments

No comments.

e) REGISTRATION OF CARS AND TRUCKS

Condition

Certain cars and trucks were registered in the name of "ORE/ Atelier École de Camp Perrin".

Criteria

These vehicles should be registered and insured under ORE only.

Cause

Because ORE was not recognized as an NGO, they have had to import under another NGO franchise (in order to import duty free).

Effect

The effect is that ORE did not have a clear ownership title of the vehicles. Although this was not in compliance with USAID regulations, ORE had authorization from USAID for this transaction.

Recommendation

Vehicles should be registered and insured under ORE since ORE has obtained franchise status.

INTERNAL CONTROL STRUCTURE

2) AUDIT FINDINGS (cont'd)

e) REGISTRATION OF CARS AND TRUCKS (cont'd)

Management comments

Imported vehicles are registered in the name of "ORE/Atelier École de Camp Perrin" as per a written agreement of the Project Officer on USAID authorization letter. ORE's franchise status as an NGO was not clarified until official announcement on June 16, 1989.

f) PETTY CASH

Condition

ORE doesn't have a fixed petty cash system.

Criteria

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

Cause

The Project director 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 must establish a fixed petty cash system to have a better control over the cash expenditures.

Management comments

Not obtained.

USAID PROJECT SOVE TÈ
(Component of the Targeted Watershed Management Project)
Implemented by the Organization for Rehabilitation of the Environment
USAID/HAITI Project No 521-0191

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

1) INDEPENDENT AUDITORS' REPORT

We have performed a financial audit of the fund accountability statement of Project Sove Tè (Component of the Targeted Watershed Management Project) n° 521-0191-A-00-8010-00 for the period April 1, 1988 to June 30, 1989 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 financial statement is free of material misstatement.

Compliance with laws, regulations contracts and grants applicable to the Project Sove Tè is the responsibility of the Project management. As part of obtaining reasonable assurance about whether the general purpose financial statement is free of material misstatement, we performed tests of the Project Sove Tè 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 finding No 3, with respect to the items tested, the Project Sove Tè (No 521-0191-A-00-8010-00) 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 Projet Sove Tè 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 TERMS AND APPLICABLE LAWS AND REGULATIONS

2) AUDIT FINDINGS

a) BANK ACCOUNTS

Condition

USAID Project Sove Tè No 521-0191-A-00-8010-00 began in April 1988 and USAID Fruit Tree Project No 521-0182-A-00-5028-00 ended in April 30, 1989. The same bank account was used during the month of April.

Criteria

The Project Grant Agreement stipulates that separate bank accounts be maintained for separate projects.

Effect

The management have not considered the utility of maintaining separate bank accounts. Difficulties have been encountered to identify the expenses for each project.

Recommendation

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

b) NON USAID FUNDING

Condition

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.

Criteria

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

Cause

Due to a shortage of funding (delayed vouchers).

Effect

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

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

2) AUDIT FINDINGS (cont'd)

Recommendation

Emergency funding procedure should be established by USAID.

c) HAITIAN TAX LAW

Condition

During the audit, we became aware that (ORE) did not fully comply with Haitian Tax Law (Taxe sur la masse salariale).

Criteria

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

Cause

Management lacked knowledge of Haitian taxation laws.

Effect

The effect is that ORE could be assessed for T.M.S. (including interest and penalties).

Recommendation

(ORE) must acquire an understanding of all Haitian Tax Law pertaining to project operations and must fully satisfy any tax liabilities outstanding.

Management comments

(ORE) has paid O.F.A.T.M.A. a total of all salaries and O.N.A. following O.N.A.'S local representative recommendations. Local tax collection never requested T.M.S. during meetings to discuss employees taxes.

USAID PROJECT SOVE TÈ
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LIST OF REPORT RECOMMANDATIONS

1) INTERNAL CONTROL STRUCTURE

Recommandations

- 1) Photocopy of vouchers must be made before sending it to USAID.
- 2) A bill must be issued for all sales made to the locals.
- 3) An auxiliary account receivable system must be established.
- 4) All cancelled checks must be retained and marked "Void".
- 5) Vehicles should be registered and insured under ORE.
- 6) A fixed petty cash system should be established.

2) COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommandations

- 1) ORE must establish separate bank accounts for all USAID funded projects.
- 2) Emergency funding procedure should be established by USAID.
- 3) ORE must acquire an understanding of all Tax Haïtian Law and must fully satisfy any tax liabilities outstanding.

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INTERNAL CONTROL STRUCTURE

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.
	- Data processing protection	Satisfactory. Codes of access are used only by authorized personnel. Back-up copies are kept in a secured 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	Satisfactory.
	Presence of monthly bank reconciliation	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.

INTERNAL CONTROL STRUCTURE

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	Satisfactory.
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/Haïti	Satisfactory.
	Authorization for any bonus or additional remuneration	Satisfactory.
	Expense debited to the proper account	Satisfactory.

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REVIEW OF THE INTERNAL AUDITOR'S RECOMMENDATIONS

The internal auditor has made, for the Project Sove Tè, a procedure manual establishing specific policies and procedures. During our audit, we reviewed the application of this manual.

a) Checks

- All cheques over \$5,000 require the co-signature of the director and the assistant-director.
- Checks under \$5,000 require two signatures but any two employees authorized to sign may fulfil this requirement.

This procedure has been implemented.

b) Cash disbursements

- All cash expenditures should be approved by the director/administrator by signing a cash voucher.

This procedure has been implemented.

- A petty cash report should be issued for the replenishment of the cash box.
- The box should be counted once a month in the presence of the employee.

These two procedures have not been completely implemented.

c) Source document

- All disbursements should be made from a RD (request for disbursement).

This document is present.

- All deposits should be recorded with a deposit memo (DM).

This document is not present (this element could be applied to cash sales to peasant farmers).

- All entries which are not a cheque or deposit should be recorded by a general journal entry (GJE).

This procedure has been implemented.

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

d) Monthly accounting procedures

As described in the internal auditors, specific monthly procedures should be followed.

All procedures complied with recommendation, except for the followings:

- The cash accounts are not reconciled to the physical count in the box.
- The original documents are not sent to the United States.

e) Purchases over \$1,000

ORE should follow USAID regulations concerning these elements:

- Purchase of items over \$1,000 should have 3 comparative quotes.
- Unallowable costs won't be subject to any refund.
- No personal advances, other than for normal project operating expenses, should be made.

Our testings have shown that ORE has followed these USAID regulations.

f) Purchase order

Items to be purchased should be listed on a purchase order which will be approved by the director.

This procedure has been implemented.

g) Advances to employees

Advances to employees, for normal project operating expenses, should be followed as such:

- Cash advances: A cash-out slip should be signed and the receipts submitted to the person in charge of the cash box.
- Checks advances: An expense report should be made listing expenses.

These procedures have been implemented.

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

h) Travel

All travel expenses must be approved in advance by the director/ administrator. Proper documentation has to be attached to the report for reimbursement.

This procedure has been implemented.

i) Per diem

ORE should not exceed USAID's regulations regarding rates of per diem.

Based on our testing ORE has followed USAID's regulations.

j) Inventories

Physical counts should be made twice a year.

Physical counts have been made once a year instead of twice a year.

k) Fixed assets

All fixed assets should be listed.

This procedure has been implemented.

l) Contracts

All administrative personnel (with authority) would be required to have a written contract describing their functions and conditions.

This procedure has been implemented.

m) Cash sales

Cash receipts should be issued for all cash sales and a listing of these cash sales should be prepared at the end of each month.

Receipts are not issued but a sales report is prepared by the supervisors.

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REVIEW OF THE RECOMMENDATIONS MADE BY ARD MANAGEMENT CONSULTANT

On September 25, 1989, ARD management consultant, made the following recommendations relating to Project Sove Tè (No 521-0191-A-00-8010-00).

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

a) Bank statements

N.G.O. (Non-government Organization) should send copies of their bank statements with the vouchers.

This procedure has been implemented.

b) Bank reconciliation

N.G.O. should prepare monthly bank reconciliations.

This procedure has existed at Camp Perin since the beginning of Projet Sove Tè.

c) Control sheet (Funds)

N.G.O. should prepare a control sheet of funds for each voucher.

This procedure has been implemented.

d) Control sheet (Advances)

N.G.O. should prepare control sheets of advances.

This procedure has not been implemented on a satisfactory basis.

e) Documentation

All of the documentation should be stamped by a seal, with the date and signature of the person who is paying the bill.

This procedure has not always been followed.

REVIEW OF THE RECOMMENDATIONS MADE BY ARD MANAGEMENT CONSULTANT (cont'd)

f) Voucher submission date

Vouchers should be submitted before the 15th of the following month.

Taking into account unpredictable situations, ORE has, most of the time, followed that recommendation.

g) Interest revenues

N.G.O. should establish an interest-bearing bank account in which to deposit funds.

This has not been implemented yet.

h) Advances for future purchases

N.G.O. should report on their budget the advances made for future purchases.

This procedure has been implemented.

i) General journal of engagements

N.G.O. should not have a General Journal of Engagements.

There is no General Journal of Engagements.

j) Available budget

N.G.O. should not re-establish their available budget after each expense. It should be done on a monthly basis.

This procedure has been implemented.

k) Auxiliary Engagements Journal

The Auxiliary Engagements Journal should be transformed into a traditional General Ledger.

This Procedure has been implemented.

REVIEW OF THE RECOMMENDATIONS MADE BY ARD MANAGEMENT CONSULTANT (cont'd)

l) Submission of documents

Advance control sheets, bank statements and reconciliations should be submitted on a monthly basis with the vouchers.

This procedure has been implemented.

m) Petty cash

Petty cash should be reconciled on a monthly basis, on ARD sheets.

This procedure has been implemented.

n) Inventory

Inventory listings of assets should be prepared.

This procedure has been implemented.

o) Computer programming

N.G.O. should hire a specialist in computer programming for the implementation of ARD's recommendations regarding computer modifications.

This recommendation has been implemented.

p) Travel and transportation

N.G.O. should, whenever possible, use US flag air travellers and sea carriers. Any derogations should be justified.

This procedure has been implemented.

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FOR THE PERIOD APRIL 1, 1988 TO JUNE 30, 1989

SUPPLEMENTARY INFORMATION - FIXED ASSETS AT DEPRECIATED VALUE

As stated in Note 4, the cost of fixed assets is expended as incurred. The following information reflects the cost of fixed asset acquisitions and the net book value as if the assets had been depreciated using the diminishing balance method.

	<u>Automotive equipment</u>	<u>Store equipment</u>	<u>Electronic equipment</u>	<u>Total</u>
Cost, at beginning (net book value transferred from Fruit Tree Project)	\$ 10,652	\$ 3,014	\$ 6,122	\$ 19,788
Acquisitions	<u>75,189</u>	<u>14,687</u>	<u>10,408</u>	<u>100,284</u>
Cost, at end	85,841	17,701	16,530	120,072
Accumulated depreciation	<u>29,971</u>	<u>3,823</u>	<u>3,329</u>	<u>37,123</u>
Net book value	<u>\$ 55,870</u>	<u>\$ 13,878</u>	<u>\$ 13,201</u>	<u>\$ 82,949</u>
Depreciation rates	<u>30%</u>	<u>20%</u>	<u>20%</u>	