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AUDIT OF
GRANT NO. 612-0214-G-00-5003
TO THE CREDIT UNION NATIONAL
ASSOCIATION, INC. IN MALAWI

AUDIT REPORT NO. 3-612-91-08-N
June 25, 1991

The audit determined that of \$132,578 in local costs claimed, \$154 were unsupported.

FINANCIAL INFORMATION IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

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

UNITED STATES POSTAL ADDRESS
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INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

June 25, 1991

MEMORANDUM

TO: Carol A. Peasley, Director, USAID/Malawi
FROM: *Toby L. Jarman* / RIG/A/Nairobi
SUBJECT: Audit of Grant No. 612-0214-G-00-5003 to the Credit Union National Association, Inc. in Malawi

Enclosed are five copies of a non-Federal audit of the Credit Union National Association's operational program grant with A.I.D., funded under the Rural Enterprises and Agribusiness Development Institutions Project. The accounting firm of Price Waterhouse, Nairobi, Kenya performed the audit.

The Credit Union National Association, Inc. (CUNA) is a member of the World Council of Credit Unions, Inc. based in Madison, Wisconsin. USAID/Malawi signed an operational program grant to assist the Malawi Union of Savings and Credit Cooperatives under the Rural Enterprises and Agribusiness Development Institutions Project on its behalf. This project was designed to strengthen, diversify, and expand the economic activities of small and medium-scale Malawian entrepreneurs. From May 1985 to December 1989 A.I.D. disbursed \$908,576 to CUNA.

The audit objectives were to (1) review and express an opinion on the validity and propriety of local costs incurred by CUNA in Malawi for the period from May 1, 1985 through December 31, 1989; (2) identify, evaluate, and report on CUNA's system of internal accounting controls; and (3) determine and report on whether CUNA complied with the terms of its operational program grant and applicable U.S. laws and regulations.

- 1 -

The audit examined CUNA's local costs claimed in Malawi totalling \$132,578 for the period June 1, 1987 to December 31, 1989. Price Waterhouse concluded that CUNA's Fund Accountability Statement fairly presents the local costs claimed by CUNA as of December 31, 1989, except that the expenses claimed included unsupported costs of \$154.

In its report on internal accounting controls, Price Waterhouse did not find any material weaknesses in the internal control system. However, the auditors did make observations regarding the correct exchange rate, completed time sheets, and original receipts to support expense reports. Although important, we do not consider these observations to be of a significant nature; consequently, they will not be included in the Office of the Inspector General's audit recommendation follow-up system. Nevertheless, we expect that mission management will communicate these observations to the CUNA country representative in Malawi for implementation.

The auditors concluded that CUNA in Malawi had generally complied with those provisions of the operational program grant terms and U.S. laws and regulations in matters that could have a material effect on the Fund Accountability Statement.

The draft report and transmittal memorandum were submitted to the Mission for comment and Mission comments (Appendix 1) were incorporated in the final report.

The report contains three recommendations. While the Mission will want to ensure all applicable recommendations are implemented, only the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend that the Director, USAID/Malawi determine the allowability and recover, as appropriate, \$154 of unsupported costs from the Credit Union National Association, Inc.

Recommendation No. 1 is closed based upon the Mission Director's determination that in-country travel expenses of \$60 are not allowable but have been correctly adjusted, other direct costs of \$24 are allowable, and that \$70 have been collected from the CUNA Malawi representatives as evidenced by general receipt number A1782446.

Thank you for the cooperation and courtesy extended to Price Waterhouse and Regional Inspector General for Audit, Nairobi representatives during the audit.

AGENCY FOR INTERNATIONAL DEVELOPMENT

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT
INSTITUTIONS MALAWI
(PROJECT NO 612 - 0214)

FINANCIAL AND COMPLIANCE AUDIT OF
CREDIT UNION NATIONAL ASSOCIATION INC
FOR THE PERIOD JUNE 1, 1987
THROUGH DECEMBER 31, 1989

25 JUNE 1991

Price Waterhouse



25 June 1991

Mr T Jarman
Agency for International Development
RIG/A/N
NAIROBI

Dear Mr Jarman

RE: CONTRACT NO OTR-0000-1-00-0009-0

Delivery Order Nos 1 and 2. Financial and Compliance Audit of
Rural Enterprise and Agribusiness Development Institutions
Malawi: Grantee Credit Union National Association Inc.

We are pleased to provide you with our final report of the
financial and compliance audit of the Grant Agreement of Rural
Enterprises and Agribusiness Development Institutions Malawi:
Grantee Credit Union National Association Inc. in accordance
with the delivery orders referenced above.

If you have any questions in respect to this report please
contact Mark Hoffman at Nairobi 221244.

Yours sincerely

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT
INSTITUTIONS MALAWI

CREDIT UNION NATIONAL ASSOCIATION INC

FINANCIAL AND COMPLIANCE AUDIT

FOR THE PERIOD 1 JUNE 1987
THROUGH 31 DECEMBER 1989

TABLE OF CONTENTS

SECTION

- I EXECUTIVE SUMMARY
- II REPORT ON FUND ACCOUNTABILITY STATEMENT
- III REPORT ON INTERNAL ACCOUNTING CONTROLS
- IV REPORT ON COMPLIANCE WITH GRANT AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

I EXECUTIVE SUMMARY

A **THE RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS PROJECT**

The Rural Enterprises and Agribusiness Development Institutions (READI) project was designed to strengthen, diversify and expand the economic activities of small and medium scale Malawian entrepreneurs, especially entrepreneurs involved in the following private sector activities:

- . agricultural production, processing, marketing or the manufacture of agriculture related inputs
- . on or off farm rural employment generating activities and
- . import substitution or foreign exchange earning types of light industry and manufacturing activities which can be expected to benefit rural consumers.

The project goals were to contribute to the national, social and economic objectives of:

- . generating rural employment and income
- . diversifying agricultural production
- . improving Malawi's balance of payments position by reducing foreign exchange expenditures and increasing foreign exchange earnings.

The expected benefits include stronger financial institutions serving small and medium scale entrepreneurs. These institutions will be stronger in terms of financial position, management capability and efficiency of operations. It is expected that this will lead to better coordinated and more effective private sector support services for small and medium scale entrepreneurs including credit services, business advisory services and technical support services.

Credit Union National Association Inc (CUNA) has been contracted by USAID/Malawi to assist in the institutional strengthening of Malawi Union of Savings and Credit Cooperatives (MUSCCO). CUNA is a member of the World Council of Credit Unions Inc (WOCCU), based in Madison, Wisconsin.

The grant covers the period from May 1, 1985 to December 31, 1990. The funds authorized to December 31 1989 were \$1,115,00 and \$908,576 was expended during this period. Our audit covered only local Malawi Kwacha expenditures from June 1987 to December 1989. The value of expenditure in this period was \$134,773, or approximately Kwacha 352,400.

B ACCOUNTING AND CONTRACT MONITORING SYSTEMS

The overall responsibility for accounting and financial monitoring resides with WOCCU/Madison, Wisconsin.

Expenditure reports are prepared at the headquarters in Madison where the accounting ledgers for the headquarters and the field operations are maintained. The original supporting documentation for local transactions of the field offices is maintained at the WOCCU headquarters. Copies of the supporting documentation for local Kwacha transactions are retained in Malawi.

The financial statements at WOCCU are audited by an independent auditing firm.

C AUDIT OBJECTIVE AND SCOPE

Price Waterhouse has performed a financial and compliance audit of the local costs claimed by CUNA through an Operational Program Grant under the Rural Enterprises and Agribusiness Development Institutions project for the period May 1, 1985 to December 31, 1989. The funds authorized were \$1,115,000 and \$908,576 was expended during this period.

The objectives of this audit were to:

- . review direct costs to assure the propriety and allocability of charges to USAID
- . determine whether the contractor or grantee has complied with applicable laws, regulations and terms of the contract agreement
- . identify and evaluate internal controls
- . prepare audit reports analyzing problem areas in need of improvement, propose recommendations and itemize costs recommended for acceptance, questioned and requiring further negotiations (unsupported costs).

Our examination was performed in accordance with generally accepted auditing standards and the standards contained in the Government Auditing Standards by the Comptroller General of the United States (1988 Revision) and, accordingly, included such tests of the contractor's data, records and other auditing procedures as were considered necessary in the circumstances.

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The audit was performed under the supervision of the Regional Inspector General Audit office based in Nairobi, and was conducted in accordance with the Government Auditing Standards 1988 Revision. Price Waterhouse auditors also adhered to the guidelines contained in various chapters of "Guidelines for Financial and Compliance Audits of AID-Financed Agreements" and "Guidelines for Audits of Federal Awards to Non-Profit Institutions".

A team from Price Waterhouse visited Lilongwe from April 23 to April 28, 1990 to perform a survey of CUNA. The purpose of the survey was to secure an understanding of the grant recipient's accounting system, assess the overall strength of the system of internal controls, estimate the extent of compliance with the grant provision and procurement regulations and determine the degree to which supporting documentation would be made available to the audit team. The fieldwork was performed in Lilongwe from May 14 to May, 17 1990. Report writing was performed in Nairobi from August 20 to 24 upon receipt of requested documents from Madison, Wisconsin. Upon submission of mission comments and additional testing performed in Madison on May 2 and 3 report finalization was performed in Nairobi by May 31 1991.

The terms of the individual grant agreements and the cost principles contained in the applicable US Government regulations were used as criteria in the determination of questioned or unsupported costs.

The scope of the audit consisted of the following:

- . selective examination and testing of supporting documentation of field and headquarters office expenditures
- . a review of CUNA's transactions for compliance with the grant agreements and applicable laws and regulations
- . a study and evaluation of the internal accounting controls and accounting practices of CUNA to the extent necessary to render an opinion on the Cost Accountability Statement
- . a review of the grant agreements, implementation letters, implementation reports, handbooks, relevant government regulations and other related documents.

D

LIMITATIONS

There were significant limitations that prevented us from performing all audit steps. The principal limitations experienced were:

- . US Dollar expenditures made directly from Madison were not auditable at this location. No record or copies of these expenditures are retained in Lilongwe.
- . Malawi Kwacha records from May 1985 to May 1987 are stored in Madison. No record or copies of these expenditures are retained in Lilongwe.

The audit performed covered the period from June 1987 to December 1989, for local currency Kwacha transactions funded by United States Agency for International Development.

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E RESULTS OF THE AUDIT

1 Costs reported by Rural Enterprises and Agribusiness Development Institutions Project/CUNA

We performed a financial and compliance audit for the Cost Accountability Statements relating to the Grant Agreement on the Rural Enterprises and Agribusiness Development Institutions Project/CUNA, for the period of June 1, 1987 to December 31, 1989. Subject to the scope limitations identified in Section I D, we identified certain transactions described in Note 2 to the Fund Accountability Statement (Section II) that, in our opinion, are questioned and/or unsupported. These costs amounted to \$130 under the line item "Travel and Relocation". Of these \$69 was due to the use of the wrong exchange rate while \$60.54 was unsupported. The \$24 under line item "Other Direct Costs" was questioned because it was charged twice.

The costs questioned above and the limitations mentioned in Section D affected our opinion on the Fund Accountability Statement examined by us. The full text of our opinion is presented in Section II.

Total expenditure on one line item had been exceeded, but was within the twenty percent excess allowed by USAID before prior approval is required. We would recommend that CUNA request a line item adjustment so that future expenditures do not exceed the line item limitation, and therefore result in questioned costs.

2 Internal Accounting Controls

We made a study and evaluation of the system of internal accounting controls to the extent we considered necessary and required by generally accepted government auditing standards.

Our study and evaluation was designed to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the Organization's Fund Accountability Statement. We do not however express an opinion on the system of internal accounting controls of the Credit Union National Association, or on any individual categories. The full text of our opinion is presented in Section III.

During the course of our audit, the following internal control weaknesses were noted.

- i) Accounting Records for the period from October 1988 to January 1989 inclusive were stolen from the CUNA offices along with other sundry documents from earlier months.

The necessary safeguards appear to have now been put into place.

- ii) Instances were noted where expenditure amounts were incorrectly recorded when converting between currencies. The instances related to the conversion of Zambian Kwacha expenditures into US Dollars at the Malawi Kwacha exchange rate, and Canadian Dollars similarly treated as US Dollars. In neither case was the amount significant.

CUNA should ensure that the correct exchange rate for the correct country is used when submitting reports to the Madison Headquarters.

- iii) Time sheets were found to have been completed incorrectly with hours not properly totalled. These instances result in the Accounts Specialist in Madison making changes to the time sheets by switching hours from one category to another and then retotalling each column.

CUNA should assure that staff in Malawi, fully complete their time sheets with hours and category totals being completed and cast correctly.

- iv) Staff are allowed to submit expense claims that are supported by photocopies. There is no system in place which safeguards against these receipts or photocopies from being resubmitted, on other expense reports.

Management should ensure that all expense reports are supported by original receipts and stamp all receipts when recorded for billings.

3

Compliance with Agreement Terms

CUNA complied with those provisions of the Agreement laws and regulations, noncompliance with which could have a material effect on the Fund Accountability Statements.

111



RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS
PROJECT

REPORT ON FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S OPINION

We have performed a financial audit of the Grant Agreement Fund Accountability Statement of the Rural Enterprises and Agribusiness Development Institutions Project: Grantee Credit Union National Association Inc for the local Kwacha costs for the period June 1987 to December 1989.

This financial statement is the responsibility of the auditee'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 standards contained in the Government Auditing Standards by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our auditing provides a reasonable basis for our opinions.

As described in Note 1 this financial statement was prepared in conformity with the accounting practices prescribed or permitted by the USAID Grant Agreement and Applicable Laws and Regulations, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We have identified certain expenses and transactions described in Note 2 that, in our opinion, are questioned and unsupported for reimbursement under the Agreement between Credit Union National Association Inc and the United States Agency for International Development. These costs have been identified on the Fund Accountability Statement.

In our opinion, except for the amounts described in Note 2, and the limitations described in Section D to the Executive Summary the Fund Accountability Statement examined by us presents fairly the local Kwacha expenditures claimed by the Credit Union National Association Inc in relation to the Grant Agreement and Applicable Laws and Regulations with the Agency for International Development for the period June 1987 to December 1989.

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

This report is intended solely for the use of the United States Agency for International Development and the management of Credit Union National Association Inc, and should not be used for any other purpose.

P. Waterhouse

3 May 1991

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS

GRANTEE: - CREDIT UNION NATIONAL ASSOCIATION, INC.

FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD JUNE 1, 1987 TO DECEMBER 31, 1989

Budgetary Categories	Cost Incurred US\$	Cost Accepted US\$	Questioned Costs US\$	Unsupported Costs US\$	Reference
Salaries					
Fringe Benefits					
Allowances	36,537	36,537			
Consultants	9,099	9,099			
Travel & Relocation	43,323	43,193		130	2.1
Other Direct Costs	45,814	45,790		24	2.2
Indirect Costs					
	134,773	134,619		154	

Under the Grant Agreement the amount of expenditures incurred for any particular budget item may not exceed by 20% the amount funded (provided that total expenditures do not exceed total funding), without the prior approval of USAID. The Other Direct Costs overrun is therefore not questioned.

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS
MALAWI

GRANTEE CREDIT UNION NATIONAL ASSOCIATION INC

NOTES TO FUND ACCOUNTABILITY STATEMENTS FOR THE PERIOD JUNE 1,
1987 TO DECEMBER 31, 1989

Note 1: Nature of Operation and Summary of Significant
Accounting Policies

The Rural Enterprise and Agribusiness Development Institutions (READI) project was designed to strengthen, diversify and expand the economic activities of small and medium scale Malawian entrepreneurs, especially entrepreneurs involved in the following types of private sector activities:

- . agricultural production, processing, marketing or the manufacture of agricultural related inputs
- . on or off farm rural employment generating activities and
- . import substitution or foreign exchange earning types of light industry and manufacturing activities which can be expected to benefit rural consumers.

The project goals were to contribute to the national, social and economic objectives of:

- . generating rural employment and income
- . diversifying agricultural production
- . improving Malawi's balance of payments position by reducing foreign exchange expenditures and increasing foreign exchange earnings.

Accounting Records

The overall responsibility for accounting and financial monitoring resides with WOCCU/Madison, Wisconsin.

Expenditure reports are prepared at the headquarters in Madison where the accounting ledgers for the headquarters and the field operations are maintained. The original supporting documentation for local transactions of the field offices are maintained at the WOCCU Headquarters. Copies of the supporting documentation for local Kwacha transactions are retained in Malawi. Expenditure reports include transactions recorded on a cash or accrual basis, in accordance with the applicable US Government regulations.

15

Note 2: Unsupported and Questioned Costs

A summary of costs which in our opinion are unsupported and questioned for reimbursement under the terms of the Grant Agreement, is presented below:

2.1 Travel and Relocations

The questioned and unsupported costs arise from two claims that do not have supporting documentation and two claims questioned under the grant agreement.

Date	Details	Value US\$
July 1987	Travel In Country	60.54 (i)
October 1987	Trip to Zambia	69.00 (ii)
		<hr/> 129.54
June/July 89	Travel on Ethiopian Airlines	2311.54 (iii)
	Per Diem claims	219.50
		<hr/> 2660.58

Reasons

- (I) No supporting documentation

Mission Response

Mission concurs there were no receipts available and that this amount was later disallowed by US WOCCU office and adjusted per document No. 0173K.

Auditors Response

In our opinion US \$ 60.54 was approved by WOCCU as per document No. 0173K. Consequently Price Waterhouse continues to recommend that this cost be classified as questioned cost.

- (II) Zambian Kwacha expenses converted to Dollars, at the Malawi Kwacha rate.

Mission Response

Mission concurs that this was an overpayment due to the use of incorrect rate of exchange. Mission agrees to issue a Bill of Collection and recover this amount from WOCCU.

Auditors Response

Agreed that this is the correct action to take.

- (III) Mr J Thomas when travelling to Boston on R + R flew Ethiopian

Airlines from	Lilongwe	-	Addis Ababa	-	Rome
	London	-	Addis Ababa	-	Lilongwe

The cost of flying on non-free world airlines is not permitted under the grant agreement. It was not possible to calculate what portion of the MK6,310.50/US \$2311.54 should be questioned. We have questioned the full cost. The Mission and CUNA should come to an agreement on what portion was Ethiopian Airlines travel.

Reimbursement on R + R is travel only. When travelling back to the United States on leave a day's rest to and from is allowable. The 50% per diem claimed for Rome, London and Addis Ababa is questioned.

US flag carriers should also be used between two foreign locations, if available, unless the use of a US flag air carrier would extend the time in travel status by at least six hours more than travel by a foreign-flag air carrier. Consideration should be given to flying via Nairobi in order to travel with an American carrier and thereby comply with the Fly American Act.

Mission Response

Travel by foreign-flag carrier is allowed between Malawi and Europe as no US carrier is operating between these two points of travel. Travel via Nairobi would have extended travel time by at least six hours due to limited flights available between Lilongwe and Nairobi.

Ethiopia is a selected Free World Code 941 country. Hence the cost of flying on Ethiopian Airlines to/from Lilongwe to Europe is permitted.

J. Thomas travel to US was not for R&R but a trip to attend the field staff meeting. This travel was authorized by the USAID Project Officer. Hence, the 50% per diem claimed for Rome, London and Addis Ababa is permitted.

Auditors Response

Agreed costs are now considered allowable.

2.2 Other Direct Costs

This amount relates to three claims that do not have supporting documentation and six claims questioned under the grant agreement provisions.

Date	Details	Value \$
Sept 87	Other Direct costs	24.21 (i)
Nov 87	Equipment purchased	93.65 (ii)
April 88	Project Director's Telephone	216.00 (iii)
		<u>333.86</u>
May 88	Purchases from Republic of South Africa	28.35 (iv)
August 89	Purchases from Republic of South Africa	623.12
December 89	Purchases from Republic of South Africa	2,766.78
Various	Communications with Republic of South Africa	81.88
		<u>3,833.99</u>

Reasons

- i) Double counting of purchase included in "Housing" and "Other Direct Costs."

Mission Response

Mission agrees that the amount represents the cost of adapters for appliances charged twice under "Housing" and "Other Direct Costs" and that no evidence of adjustment of this double charge has been provided by WOCCU.

18.

Auditors Response

Price Waterhouse continues to recommend that this is double counting by CUNA. Mission should ask for an adjustment.

- ii) Equipment purchased paid for by the project director and claimed against USAID

Mission Response

Equipment was actually a telephone table purchased for Chris Hansen's house as part of house furnishings which are authorized under the Grant.

Auditors Response

Agreed costs are now considered allowable.

- iii) Disputed Telephone Bill from former project director. Possible double payment to Malawi Posts and Telecommunications, and, therefore, possible double claim against USAID.

Mission Response

Mission does not think there is evidence to suggest double payment to the Post Office and/or double claim against AID.

Auditors Response

Agreed with the Mission.

- iv) Purchase from Republic of South Africa a non 941 or 935 Free World Country.

Mission Response

Purchases were covered by a blanket source/origin waiver for procurement from code 935 countries or were DFA funded and included in the Project Paper Amendment's procurement plan.

Auditors Response

Agreed with the mission.

Price Waterhouse

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS

We have performed a financial audit of the Grant Agreement Fund Accountability Statements relating to the Rural Enterprises and Agribusiness Development Institutions, and, in particular, to Credit Union National Association Inc (CUNA) for the period June 1, 1987 to December 31, 1989, and have issued our report thereon dated May 3, 1991. As part of our examination we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial audits contained in Government Audit Standards issued by the Comptroller General of the United States (1988 Revision). Accordingly, we performed such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. For the purpose of this report we have identified the significant internal accounting controls in the following expense categories.

direct costs in local currency charged to the grant.

Our study included the expense category listed above. The purpose of our study and evaluation was to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the Organization's Fund Accountability Statement. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, or on any of the individual categories identified above.

The management of CUNA is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility estimates and judgment by management were required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls 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 statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph, and would not necessarily disclose all material weaknesses in the system. Accordingly, do not express an opinion on the system of internal accounting controls of Credit Union National Association, Inc taken as a whole or on any of the categories identified in the first paragraph.

Although our study and evaluation disclosed no conditions that we believe to be a material weaknesses we have noted some minor issues in the internal control systems which should be addressed by management. Our findings and recommendations are presented in the following pages.

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

This report is intended solely for the use of the United States Agency for International Development and the management of Credit Union National Association Inc, and should not be used for any other purpose.

Pricewaterhouse

3 May 1991

21'

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS
GRANTEE: CREDIT UNION NATIONAL ASSOCIATION INC (CUNA)

REPORT ON INTERNAL CONTROLS

1 Security

Findings

Copies of accounting records for the period of October 1988 to January 1989 were stolen along with sundry documents from earlier months. Potentially this is a serious internal control problem. However, with originals situated in Madison the impact of such a control problem is reduced.

We are satisfied that management have now taken the necessary steps to improve security, and that future thefts are unlikely to occur.

2 Exchange Rates

Findings

Instances were noted where expenditure amounts were incorrectly recorded when converting between currencies. The instances related to the conversion of Zambia Kwacha expenditures into US Dollars at the Malawi Kwacha exchange rate and Canadian Dollars similarly treated as US Dollars. In neither case was the amount significant.

Recommendations

Management should ensure that the correct exchange rate for the correct country is used when submitting reports to Headquarters in Madison.

3 Time Sheets

Findings

Some time sheets were found to have been completed incorrectly with hours not totalled. These instances result in the Accounts Specialist in Madison making changes to the time sheets by switching hours from one category to another and then retotalling each column.

Recommendation

Require that the staff in Malawi fully complete their time sheet with hours and category totals being completed and cast correctly.

4

Photocopies

Findings

Staff are allowed to submit expense claims that are supported by photocopies. There is no system in place which safeguards against these receipts or photocopies from being resubmitted, on other expense reports.

Recommendations

Management should ensure that all expense reports are supported by original receipts and stamp all receipts when recorded for billing.

27

Price Waterhouse

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS

INDEPENDENT AUDITOR'S REPORT AND COMPLIANCE
WITH GRANT AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

We have performed a financial audit of the Grant Agreement Fund Accountability Statement of the Rural Enterprises and Agribusiness Developments Institutions Project Grantee Credit Union National Association Inc for the period June 1, 1987 to December 31, 1989, and have issued our report thereon dated May 3, 1991. Our examination was made in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Audit Standards issued by the Controller General of the United States (1988 Revision), and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of Credit Union National Association (CUNA) is responsible for compliance with the terms of the Grant Agreements and applicable laws and regulations. In connection with our examination referred to above we selected and tested transactions and records to determine the organization's compliance with agreement terms and applicable laws and regulations.

The results of our tests indicate that for the transactions and records tested Credit Union National Association complied with those provisions of the Grant Agreement and laws and regulations, noncompliance with which could have a material effect on the Fund Accountability Statement. Nothing came to our attention that caused us to believe that for the items not tested Credit Union National Association was not in compliance with laws or regulations or provisions of the Grant Agreement, noncompliance with which could have a material effect on the above Fund Accountability Statement of Credit Union National Association.

Information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of the United States Agency for International Development and the management of Credit Union National Association and should not be used for any other purpose.

Price Waterhouse

3 May 1991

24'

AUDIT OF
GRANT NO. 612-0214-G-00-5003
TO THE CREDIT UNION NATIONAL
ASSOCIATION, INC. IN MALAWI

APPENDICES

UNITED STATES GOVERNMENT

memorandum

DATE: March 12, 1991
TO: Carol A. Peasley, Director, USAID/Malawi

SUBJECT: Audit of CUNA Grant No. 612-0214-G-000-50003: Draft Audit Report

TO: Toby L. Jarman, RIG/A/Nairobi

Ref: Peasley/Jarman Memo of February 8, 1991

RECEIVED
25 MAR 1991
RIG/A/N

Further to the referenced memorandum, enclosed please find copies of the original as well as the revised Bill for Collection issued to CUNA/WOCCU for the disallowed costs. Also, enclosed is a copy of the official receipt for the payment received against this Bill.

RIG/A/N is requested to close Recommendation No. 2 based on the information provided in the referenced memorandum and the enclosed documents. Please confirm the closure of the recommendation.

Encl. As stated



26

UNITED STATES GOVERNMENT

memorandum

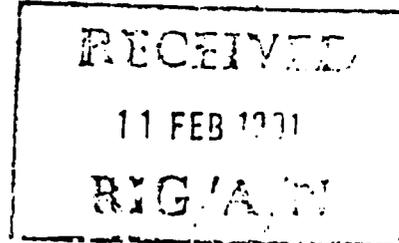
DATE: February 08, 1991

REPLY TO
ATTN OF: Carol A. Peasley, Director, USAID/Malawi

SUBJECT: Audit of CUNA Grant No. 612-0214-G-00-50003 : Draft Audit Report

TO: Toby L. Jarman, RIG/A/Nairobi

Ref: (A) Jarman/Peasley FAX transmittal of December 7, 1990
(B) Jarman/Amin memo of December 21, 1990
(C) Amin/Jarman telecon of January 25, 1991



As requested in ref (A) transmittal, Mission comments on subject audit report are as follows:

Before addressing the specific audit recommendations contained in the transmittal letter, however, the Mission would like to correct a few errors in the audit report which, in some cases, are repeated in the transmittal letter.

- 1) It is incorrectly stated in both documents that CUNA/WOCCU was contracted by REDSO/ESA to implement and manage the Rural Enterprises and Agribusiness Development Institutions (READI) Project and that the instrument for that relationship was a Cooperative Agreement.

There are three points to be clarified. First, the instrument for securing CUNA/WOCCU's services was and continues to be through an Operational Program Grant (OPG), as amended, and not a Cooperative Agreement - USAID's role under these two instruments is quite different. Second, the two parties to the OPG are CUNA/WOCCU and USAID/Malawi, not REDSO/ESA. Lastly, CUNA/WOCCU's direct assistance to the Malawi Union of Savings and Credit Cooperatives (MUSCCO) represents only 18% of total READI Project resources and, consequently, they are not implementing and managing the entire multifaceted READI Project.

- 2) With respect to purchases from the Republic of South Africa, it was stated in the report a number of times that the RSA is "a non 941 or 935 country". RSA is, in fact, a Special Free World Code 935 country. Similarly, Ethiopian Airlines is identified as "a non free world airline". Ethiopia is, in fact, a Selected Free World Code 941 country.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

- 2 -

- 3) With respect to the incorrect reference to R&R travel (see below), it was stated that "when travelling back to the United States on leave a day's rest to and from is allowable." This is incorrect as no per diem is allowed on R&R travel.

Recommendation No. 1

Mission has determined to accept both the questioned and unsupported costs in total amount of \$6,401.36 out of the total of \$6,494.57 based on our review of documents and/or explanations provided by the WOCCU/Malawi as follows:

2.1 Travel and Relocations

Travel In-Country - July 1987 \$60.54

- No receipts are available. This amount represents the per diem claimed for a trip to Blantyre by Chris Hansen. As he was on temporary lodging allowance at that time, this amount was later disallowed by the U.S. WOCCU office, and was adjusted per document No. 0173K (copy attached). Copy of this document was provided to the auditor.

Travel on Ethiopian Airlines - June/July 1989 2,311.54

- Travel by foreign-flag carrier is allowed between Malawi and Europe as no U.S. carrier is operating between these two points of travel. Travel via Nairobi would have extended the travel time by at least six hours due to limited flights available between Lilongwe and Nairobi.

Per Diem Claims 219.50

- Joe Thomas' travel to U.S. was not for R&R as stated in the audit report. This per diem was claimed by Joe Thomas for his trip to attend the field staff meeting in U.S. This travel was authorized by the USAID Project Officer.

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- 3 -

2.2 Other Direct Costs

Equipment Purchased - Nov. 87 93.65

- This amount represents the cost of telephone table purchased for Chris Hansen's house as part of house furnishings authorized under the Grant.

Project Director's Telephone Charges - Apr. 88 216.00

- In absence of any evidence of double payment to the Post Office and/or double claim against AID and in view of the time spent by WOCCU to resolve this matter compared to the amount involved, it is reasonable to allow this cost.

Purchases from and communication charges with Republic of South Africa 3,500.13

- These purchases were covered by a blanket source/origin waiver for procurement from Code 935 countries or were DFA funded and included in the Project Paper Amendment's procurement plan.

Total Costs Accepted \$ 6,401.36

The following costs in the total amount of \$93.21 are disallowed for the reasons stated. Mission will issue a Bill for Collection and recover this amount from WOCCU.

2.1 Travel and Relocations

Trip to Zambia - OCT. 1987 \$69.00

- This represents the amount of per diem overpaid to Chris Hansen due to use of incorrect rate of exchange in converting Zambia Kwacha to dollars. This overpayment is accepted by WOCCU/Malawi.

29

- 4 -

2.2 Other Direct Costs

Other Costs - Sept. 87 24.21

- This amount represents the cost of adapters for appliances charged twice under "Housing" and "Other Direct Costs" budget line items. No evidence of adjustment of this double charge provided by WOCCU.

Total Costs Disallowed \$93.21

RIG/A/N is requested to close this recommendation.

Recommendation No. 2

- 2.1 A source/origin waiver for authorizing procurement from Code 935 countries was approved by AID/W on November 5, 1984 (copy attached). In addition, since January 11, 1989, the Project and, consequently, Amendments No. 2, 3 and 4 to the OPG (total amount of amendments is \$1,118,580) have been DFA funded. Procurements by WOCCU were included in the Project's procurement plan.
- 2.2 Per diem to Joe Thomas was authorized and paid in accordance with USAID regulations. Please note that the travel by Joe Thomas was not for R&R as stated in the audit report, but it was for the attendance to the meeting of field staff. This travel was authorized by the USAID Project Officer.
- 2.3 The terms of use of free world air carrier was also complied by the grantee. Travel from Malawi to U.S. via Europe has been established as a most direct route, and as there is no U.S. carrier operating between Malawi and Europe, use of foreign-flag carrier is allowed between these two points of travel. Travel via Nairobi would extend the travel time in most cases by at least six hours due to limited flight schedules between Lilongwe.

Based on the above comments, RIG/A/N is requested to either drop this recommendation from the audit report or close the recommendation.

Please confirm the closure of both recommendations.

We have also attached a copy of the audit report indicating suggested corrections not addressed above in the text of the report.

- Attachments:
- (1) Copy of Source/Origin Waiver
 - (2) Copy of WOCCU Document 0173K
 - (3) Copy of WOCCU Document 9/87 TA
 - (4) Edited copy of audit report

30

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