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Inspector General for Audit
Tegucigalpa, Honduras

Audit of Public Law 480 Commodity Assistance Processed by La Minoterie 'd Haiti for the Period October 1, 1989 to April 30, 1990 and Pre-Award Survey of Its Current Capabilities

Audit Report No. 1-521-92-13-N
December 19, 1991

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Inspector General for Audit
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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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December 19, 1991

MEMORANDUM

TO: Director USAID/Haiti, David A. Cohen

FROM: RIG/A/T Acting, Lou Mundy Lou Mundy

SUBJECT: Audit of Public Law 480 Commodity Assistance Processed by La Minoterie d' Haiti for the Period October 1, 1989 to April 30, 1990 and Pre-Award Survey of Its Current Capabilities

This report presents the results of a financial audit of the statement of operations and costs of production of La Minoterie d' Haiti (the Mill), in regard to commodity assistance provided the Government of Haiti (GOH) through the Public Law 480, Titles II and III, Programs (Programs) and processed by the Mill, for the period October 1, 1989 to April 30, 1990 and a pre-award survey of the Mill's current operational capabilities to manage Public Law 480 Program activities as required by USAID/Haiti. The accounting firm of Deloitte & Touche prepared the report which is dated December 3, 1991.

The U.S. Government, through its Public Law 480, Titles II and III, Programs and acting through USAID/Haiti, provides the GOH agricultural commodity assistance which the GOH sells to obtain local currency to finance agreed upon development projects in Haiti. During the period October 1, 1989 to April 30, 1990, the Programs funded approximately $7.6 million in agricultural commodities, principally wheat, which then was sold to the Mill for processing.

The Mill was created by decree of the GOH on March 20, 1969 as an autonomous state owned enterprise. Concurrently, the GOH entered into a lease agreement dated March 24, 1969 with the Mill for use of the state-owned plant and equipment located at Laffiteau, Haiti. A Memorandum of Understanding signed by USAID/Haiti, the GOH and the Mill on August 7, 1989, prescribes certain dates for the Mill to accomplish specific technical and operational improvements. Due to the Mill's lack of compliance with the terms of the Memorandum of Understanding, USAID/Haiti terminated its relationship with the Mill in April 1990.

The amount audited by Deloitte & Touche was $27,917,708, which represents the total sales of the Mill during the audit period as the Mill's records do not provide for a separation of the Programs' transactions from those of its regular operations.

The objectives of the audit were to determine whether: (1) the Mill's operations and costs of production statement for the seven months ended April 30, 1990, present fairly, in all material respects, the financial result of its operations, (2) the management and financial capabilities and installed facilities of the Mill are adequate to manage the Programs' activities as required by USAID/Haiti, (3) the Mill's internal control structure is adequate to manage operations of the proposed Programs, and (4) the Mill has complied with the terms of the Memorandum of Understanding, and the local laws and regulations which may affect the Programs' goals and costs. The scope of the audit included an examination of the Mill's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Deloitte & Touche did not observe the taking of the Mill's inventories of finished products or raw materials. Additionally, the auditors were informed that evidential matter supporting the Mill's sales could not be located and that the Mill's weight and measures devices were either not operating or were malfunctioning during the audit period. The evidential matter resulting from proper operation of such devices is an integral part of the evidential matter supporting the Mill's sales and costs of sales, which enter materially in the determination of the results of operations. Because of the above limitations to their work the auditors were unable to express an opinion on the Mills' statement of operations and costs of production for the period October 1, 1989 to April 30, 1990.

In regard to the Mill's management, financial, and operational capabilities, the auditors found that management had not yet completed: (1) a reorganization effort which was to include revised departmental charts with head count and labor distribution, (2) discussions with creditors to restructure the terms of existing loans, and (3) discussions with the GOH to clearly define lines of authority, ownership and conditions surrounding the Mill's tangible and intangible assets. In addition, the auditors reported that, from September 1988 to June 1991, the Mill was under the direction of six different general managers and minutes of the Board of Directors meetings were not available for their review. As a result of these limitations, Deloitte & Touche was unable to express an opinion on the Mill's capability to manage the Programs' activities as required by USAID/Haiti.

The auditors review of the Mill's internal control structure disclosed 17 areas of material weakness. In summary, these weaknesses were related to the Mill's: (1) lack of management direction and awareness of the need for proper controls, (2) unclear lines of authority and ownership of fixed assets, (3) unsound financial situation, (4) lack of functioning weight scales, (5) lack of supporting

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documentation, (6) inadequate accounting policies and procurement practices, (7) inadequate filing system, and (8) inadequate controls over salaries and pension plans.

With respect to the Mill's compliance with the Memorandum of Understanding with USAID/Haiti dated August 7, 1989, Deloitte & Touche found that the Mill did not comply, in all material respects, with the Memorandum of Understanding. Due to the political situation prevailing in Haiti during the completion of the audit, Deloitte & Touche were unable to obtain any representations from the Mill's senior management and counsel with respect to its compliance with local laws and regulations. Accordingly, the auditors were unable to express an opinion with regard to the Mill's compliance with local laws and regulations which could have a material effect on the Programs' goals and costs.

The audit report was not discussed with the management officials of the Mill due to the political situation in Haiti. As a result, the report was issued without the benefit of management comments from the Mill.

Although the previously mentioned political events prevailing in Haiti at this time may or may not affect the findings and observations of the Deloitte & Touche audit 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 not negotiate any new Public Law 480 Programs with the Government of Haiti which provide either direct or indirect commodity and/or funding assistance to La Minoterie d' Haiti, until all parties, USAID/Haiti, La Minoterie d' Haiti, and the Government of Haiti, have developed and implemented a plan which demonstrates that La Minoterie d' Haiti has: (1) completed its reorganization efforts to include revised departmental charts with head count and labor distribution, (2) completed its efforts to restructure the terms of its existing loans, (3) established clear lines of authority, ownership, and conditions over tangible and intangible assets, and (4) fully addressed the 17 areas of material weakness in its internal control structure as identified on pages 3-4 to 3-45 of the Deloitte & Touche audit report dated December 3, 1991.

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

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LA MINOTERIE D' HAITI

REPORT ON FINANCIAL AND COMPLIANCE AUDIT OF THE STATEMENT OF OPERATIONS AND COSTS OF PRODUCTION FOR THE PERIOD OF OCTOBER 1, 1989 THROUGH APRIL 30, 1990, AND A PRE-AWARD SURVEY

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Amounts are Haitian dollars unless otherwise specified.

Deloitte & Touche

2 Hopkins Plaza
Baltimore, Maryland 21201-2983
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ITT Telex: 4995614

December 3, 1991

Mr. Reginald Howard
Regional Inspector General for Audit
United States Agency for International Development
Tegucigalpa, Honduras

Subject: "La Minoterie d'Haiti" - Financial and Compliance Audit of the Statement of Operations and Costs of Production for the Period October 1, 1989 through April 30, 1990 , and Pre-Award Survey

Dear Mr. Howard:

1. INTRODUCTION

In accordance with instructions contained in your letter of June 21, 1991 as amended by contract modification No. 1 dated August 30, 1991, and the work order attached to it, we have completed our work on the Financial and Compliance audit of the Statement of Operations and Costs of Production for the period of October 1, 1989 through April 30, 1990. We also conducted a Pre-Award Survey of "La Minoterie d'Haiti" (the Mill), in connection with USAID/Haiti's assistance to the Government of Haiti (GOH) in the form of US agricultural commodities, principally wheat, sold to the Mill by the GOH to develop specific projects agreed upon between USAID/Haiti and the GOH.

2. BACKGROUND

The Government of the United States of America through its PL 480 Titles II and III programs and acting through the US Agency for International Development Mission to Haiti (USAID/Haiti) provides assistance to the Government of Haiti (GOH) consisting of US agricultural commodities which are then sold by the GOH to obtain local currency and finance agreed upon development projects in Haiti. During the period September 1, 1989 through April 30, 1990, the program provided funds for approximately US $7.6 million in agricultural commodities, principally wheat, which then was sold by the Ministry of Commerce and Industry of Haiti (Ministere du Commerce et d'Industrie - MCI) to the Mill to develop the specific projects agreed upon between USAID/Haiti and the GOH.

Specific implementing entities and their respective responsibilities are as follows:

The PL 480 Title III Commodity Importation and Sales Unit within the MCI is responsible for taking title to commodities at port in Haiti and selling these commodities to the Mill for processing. The GOH guarantees deposit of sales proceeds from commodities into the main emergency account at the Bank of the Republic of Haiti within two weeks of the receipt of commodities at port.

The PL 480 Title III Management Office, a separate unit within the Ministry of Planning, headed by an Executive Secretary for the program, is responsible for managing the local currency counterpart funds (generated from PL 480 Title II commodity sales) including the disbursement of funds for USAID/Haiti approved development activities. The Management Office is also responsible for monitoring implementation of these activities and for evaluation of the use of the funds.

The Mill is responsible for commodity processing. The Mill purchases the commodities from the GOH. In addition, all proceeds from the sale of flour and byproducts produced from wheat provided under this program which are in excess of purchase value (price) of the wheat product plus other reasonable and necessary costs (milling, packaging, administrative, selling, plant repair, maintenance and depreciation), as determined by the US Government, are transferred to a special account. The special account is managed by the PL 480 Title III Management Office within the Ministry of Planning of Haiti, for use in specified GOH agricultural, rural and health development activities.

A Memorandum of Understanding signed by USAID/Haiti, the GOH and the Mill on August 7, 1989, prescribed specific dates for the Mill to accomplish certain specific technical and operational improvements.

As communicated in the "Journal Officiel de la Republique d'Haiti, Le Moniteur" dated March 24, 1969, the Mill was created by decree of the GOH on March 20, 1969 as an autonomous state owned enterprise. Concurrently, the GOH entered into a lease agreement dated March 24, 1969 with the Mill for use of the state-owned plant and equipments located at Laffiteau, Haiti. The terms of the lease include:

- Annual rent of US $100,000.

- Reimbursement of 10% of monies spent annually by the GOH on improvement of the facilities.

We were informed that until September 1982, the company was managed by Maple Leaf (believed to be the prior owner). In September 1982, the GOH's nominated management took full control over operations.

During fiscal year 1986/87, the accounting and administrative functions of the Mill were moved from rue Pavee, in central Port au Prince to the Mill site in Laffiteau. On November 2, 1987, a fire at the Mill offices on rue Pavee destroyed any equipment or records still held in that location.

From the available records, we noted that, Rocourt-Zephir-Guerard Delbor Valias (Rocourt), an accounting firm previously operating in Haiti, was engaged to audit the Mill's financial statements for the years ended September 30, 1987 and 1986. Rocourt issued a disclaimer of opinion for the above two years, with a management letter listing numerous substantive reasons for the disclaimer of opinion, including material weaknesses in internal controls.

The Haitian accounting firm of Gardere & Noailles was engaged to perform an audit of the financial statements of the Mill for the year ended September 30, 1988, but apparently has not yet finalized their report. Additionally, nothing was provided to us to indicate that the Mill's financial statements for the year ended September 30, 1989 were audited.

USAID retained Kansas State University who has issued a report dated February 1990 on a study of the production costs and milling operations. The report concluded in part that:

- The Mill's management has accomplished very little toward compliance with the terms and conditions of the Memorandum of Understanding (described on page 3) signed by USAID/Haiti, the GOH and the Mill on August 7, 1989.

- Management should concentrate its efforts on the development and implementation of a strategic plan to improve the Mill's efficiency and reduce its very high production costs.

In part, as a result of the findings of the above report, USAID/Haiti terminated its relationship with the Mill on or about April 30, 1990.

3. AUDITS OBJECTIVES AND SCOPE

The objectives and scope of services requested of Deloitte & Touche by the contract with the Regional Inspector General (RIG/A/T) are as follows:

A. Financial audit of the operations and costs of production statement of the Mill for the seven months ended April 30, 1990. The work is to be performed in accordance with Generally Accepted Auditing Standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Accordingly the financial audit shall include such tests of the accounting records and supporting documentation as considered necessary to determine whether the income and costs of production statement defined above present fairly, in all material respects and in accordance with generally accepted accounting principles, the result of operations of the Mill for the period indicated above. The financial audit will also test whether for the same period, costs of production reported are allowable, allocable, and reasonable in accordance with agreements between the Government of Haiti and USAID/Haiti for the PL 480 Program Titles II and III, as applicable.

B. A Pre-Award Survey of the Mill as of the date of completion of the audit field work to highlight the following:

- Whether the management and financial capabilities and installed facilities of the Mill are adequate to manage the PL 480 Program activities as required by USAID/Haiti, in its PL 480 Title II and III agreements with the GOH.
- Whether the internal control structure of the Mill is adequate to manage the proposed program operations;
- Whether the Mill complied with local laws and regulations which may affect the PL 480 program's goals and costs.

4. AUDIT PROCEDURES

Our procedures included but were not limited to:

A. Conducting a preliminary engagement survey. This survey included:

- An audit entrance conference

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- Observation and reading of program agreements and other documents, to further our understanding of the program, the entity's business and control structure

- Establishing a mutual understanding with RIG/A/T, USAID Haiti, the GOH and the Mill on the terms of the engagements.

B. Auditing the Statement of Operations and Costs of Production for the seven months from October 1, 1989 through April 30, 1990 and testing for the reasonableness, allowability, allocability, and propriety of Operations and Costs of Production amounts recorded in the period;

C. Determining whether the Mill complied with the applicable laws and regulations and specifically with the terms of a Memorandum of Understanding signed by USAID Haiti, the GOH and the Mill on August 7, 1989;

D. Determining whether the Mill complied with local laws and regulations which may affect the program's goals and costs;

E. Assessing management, financial and operational capabilities of the Mill.

5. RESULTS OF THE AUDITS

In accordance with SAS 60 of the American Institute of Certified Public Accountants, "Communication of Internal Control Related Matters Noted in an Audit," which outlines the aspects of the internal control structure as (a) the control environment, (b) the accounting system, and (c) control procedures, and considering that the requirement for the Pre-Award Survey constitutes an agreed upon arrangement consistent with the terms of SAS 60, we report the results of our audit as follows:

A. Statement of Operations and Costs of Production for the seven months October 1, 1989 through April 30, 1990 and Independent Auditors' Report.

B. Communication of Internal Control Structure Related Matters.

C. Report on Matters Related to the Management, Financial and Operational Capabilities of the Mill, (Pre-Award Survey).

D. Report on compliance with Agreement Terms (USAID/Haiti Memorandum of Understanding Dated August 7, 1989).

E. Report on compliance with applicable local laws and regulations and with agreement terms.

As part of obtaining reasonable assurance about whether the Statement of Operations and Costs of Production of the Mill is free of material misstatement, we performed tests of the Mill's compliance with certain provisions of local laws and regulations, (See section 6 of this report). We requested representations from the Mill's senior management and counsel as part of gathering evidence as to whether the Mill complied with said provisions of local laws and regulations that could have a material effect on program results.

Due to the political situation prevailing in Haiti during the completion of this report, we were unable to obtain any representations from the Mill. Therefore, we are unable to provide any assurance as to whether the Mill complied with the selected provisions of local laws and regulations, (see section 6 of this report). We encourage USAID/Haiti to obtain such representations in due course.

Furthermore, due to the political situation, beyond our control, prevailing in Haiti during the completion of this report, and as agreed with RIG/A/T, this report is issued without the benefit of the Mill's management comments and the usual exit conference debriefing. Therefore, this report does not include the usual comments section. However, we believe that our reports will be useful to USAID/Haiti.

We are pleased to assist you and USAID/Haiti with regard to your oversight responsibilities of the Mill. However, the uncertainty associated with the political events prevailing in Haiti to the date of this report may or may not affect our findings and observations included herein.

We would like to thank USAID/Haiti, GOH officials and the Management of the Mill for their continued assistance to our team.

Should you need further information, please contact Mr. William E. Kuntz, 202-955-4050.

Sincerely yours,

William E. Kuntz/dg

Deloitte & Touche

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REPORT ON STATEMENT OF OPERATIONS AND COSTS OF PRODUCTION FOR THE PERIOD OCTOBER 1, 1989 TO APRIL 30, 1990 PRESENTED AS SCHEDULE A

INDEPENDENT AUDITORS' REPORT

The Regional Inspector General for Audit
United States Agency for International Development
Tegucigalpa, Honduras

We were engaged to audit in accordance with Generally Accepted US Auditing Standards and US Government Auditing Standards, issued by the Comptroller General of the United States, (1988 revision), the accompanying statement of operations and costs of production of "La Minoterie d'Haiti" (the Mill), presented as schedule A, for the period October 1, 1989 to April 30, 1990, in connection with USAID/Haiti assistance to the GOH in the form of US agricultural commodities, principally wheat, sold to "La Minoterie d'Haiti" by the GOH. This financial statement is the responsibility of the Mill's management.

We were informed that the evidential matter supporting the Mill's sales could not be located. In addition, we did not observe, nor did any other independent auditor, the taking of the physical inventories of finished products and raw materials. Further, we were informed that the Mill's weight and measures devices were either not operating or were malfunctioning during the period of October 1, 1989 to April 30, 1990. The evidential matter resulting from proper operation of such devises is an integral part of the evidential matter supporting the Mill's sales and costs of sales, which enter materially in the determination of the result of operations. As a result, we were not able to satisfy ourselves concerning the amounts of sales and costs of sales and the result of operations for the period ended April 30, 1990.

Because of the limitations on the scope of our audit explained in the paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to above.

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The statements of operations and costs of production of the Mill for the years ended September 30, 1989, and 1988 were not audited by us, and accordingly, we do not express an opinion on them.

Deloitte & Touche

Deloitte & Touche
October 10, 1991

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FINANCIAL STATEMENT

LA MINOTERIE D'HAITI
STATEMENTS OF OPERATIONS AND COSTS OF PRODUCTION (Haitian $)
FOR THE PERIODS:

	Notes	SEVEN MONTHS ENDED APRIL 30, 1990	UNAUDITED YEAR ENDED SEPTEMBER 30, 1989	1988
Sales:				
Flour		$24,434,020	$44,133,470	$39,583,197
Shorts		3,483,688	3,538,840	4,308,031
Total Sales		27,917,708	47,672,310	43,891,228
Cost of Sales		22,872,845	44,154,619	40,396,782
Gross Profit		5,044,863	3,517,691	3,494,446
Selling and Administrative Expenses:				
Administrative Salaries		669,276	908,582	858,269
Other		372,640	684,719	695,963
Insurance - Life and Health		269,065	521,110	293,246
Carnival		261,257	178,556	16,102
Depreciation		218,879	360,167	294,782
Cafeteria		202,007	363,022	162,094
Security		177,272	325,293	161,609
Severance Pay		143,779	85,390	-
Transportation		104,236	192,854	177,312
Advertising		103,860	100,565	80,636
Professional Fees		70,239	164,590	246,640
Special Bonus		-	376,883	265,081
Vehicle Maintenance		85,596	144,020	85,879
Total Selling and Administrative Expenses		2,678,106	4,405,751	3,337,613
Operating Income		2,366,757	(888,060)	156,833
Interest Expense	3	439,818	521,831	195,465
Other (Revenue)	2	(185,119)	(161,704)	(435,758)
Net Income (Loss)		$ 2,112,058	$(1,248,187)	$ 397,126

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mill Business

"La Minoterie d'Haiti" (the Mill) produces and sells flour, flour by-products and other reject products. Flour is produced from wheat provided from several foreign countries and foreign assistance programs or purchased on the open market by the Mill's management, and sold to numerous local customers. During the audit period, all wheat was purchased from the United States Agency for International Development PL 480 Title III program, a similar program sponsored by Japan, and from an independent US supplier.

The Mill was organized in 1969 by decree of the Government of Haiti (GOH) as an autonomous state owned enterprise. Agreements for the rental and improvement of the Mill plant were negotiated at the same time, whereby the Mill agreed to pay the GOH US $100,000 annual rental, and to reimburse the GOH for 10% of all monies spent annually on facility improvements. The GOH has funded operations of the Mill in prior years by lending funds to the Mill to meet operational commitments.

Basis of Accounting

The accompanying statements of operations and cost of production includes the result of operations for the Mill for the seven months ended April 30, 1990; the unaudited results of operations for the two years ended September 20, 1989 and 1990 were provided by management of the mill and are included for comparison purposes. The Mill records sales and expenses principally on the accrual basis of accounting.

Majority Owned Subsidiary

The Mill is the majority owner of Sonanu, an entity which produces animal feed primarily from wheat acquired from the Mill. The operations of Sonanu are not included in the Statement of Operations and Costs of Production. The intercompany transactions with Sonanu have not been identified as is required under generally accepted accounting principles.

Depreciation

Mill assets are stated primarily at cost. Depreciation is provided on the straight line method over the estimated useful lives of the assets, which are generally 4 to 20 years.

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Local Currency Conversion

The currency of the Republic of Haiti, the "Gourde" is officially in Haiti, pegged to the US dollar at a rate of 5 Gourdes to 1 US dollar as of April 30, 1990. This conversion is commonly referred to as the Haitian dollar (Haitian $). On the open market however, the US dollar is generally traded at a premium. For the seven month period ended April 30, 1990, cost of sales includes Haitian $1,495,179 representing the additional cost of converting gourdes into US dollars. The Mill includes this premium in an account titled "Difference de Change".

The Mill records all transactions in Haitian $. For transactions denominated in US dollars, the Mill records the excess over the above factor as local currency conversion expense. No such expenses were reported for the years ended September 30, 1989 and 1988.

2. INCOME TAXES

Management maintains that the Mill is not required to pay income taxes. Accordingly no such provision has been established.

3. INTEREST EXPENSE

The Mill pays interest on loans from various sources. These loans require periodic payment of interest at negotiated rates.

4. PENSION PLAN

The Mill sponsors and also administers a pension plan available to all full time employees. The Mill matches 100% of contributions made by employees. Employee contributions are fully vested at all times. Matching contributions made by the Mill vest ratably over 15 years.

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COMMUNICATION OF INTERNAL CONTROLS STRUCTURE RELATED MATTERS

1. REPORT ON REPORTABLE CONDITIONS

The Regional Inspector General for Audit
United States Agency for International Development
Tegucigalpa, Honduras

We were engaged to perform an audit in accordance with generally accepted US auditing standards and US Government Auditing Standards, issued by the Comptroller General of the United States (1988 revision), of the Statement of Operations and Costs of Production of "La Minoterie d'Haiti" (the Mill) for the period October 1, 1989 through April 30, (see section 2 of this report), in connection with USAID/Haiti, assistance to the GOH in the form of US agricultural commodities, principally wheat, sold to "La Minoterie d'Haiti" by the GOH. We have issued our report dated October 10, 1991, on such statement.

In planning and performing our examination, we considered "La Minoterie d'Haiti's" internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Operations and Cost of Production and not to provide assurance on the internal control structure. Further, we performed an assessment of the management, financial and operational capabilities of "La Minoterie d' Haiti", (Pre-Award Survey, see section 4 of this report), as agreed upon between us and USAID/Haiti, and specified by a RIG/A/T letter dated June 21, 1991, as amended by contract modification No. 1 dated August 30, 1991.

The management of "La Minoterie of Haiti" is responsible for establishing and maintaining an 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. 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

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properly to permit the preparation of reports in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, and in addition to our work on the assessment of the management, financial and operational capabilities of the company, we identified the following as the significant areas of the accounting system and control procedures:

a) Inventory control
b) Purchasing and receiving
c) Property and equipment
d) Payroll
e) Cash disbursements
f) Sales

For the internal control structure categories listed above, we obtained an understanding of the existence of conditions specified in the terms of the Pre-Award Survey and of the design of relevant accounting 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 entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Statement of Income and Costs of Production.

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The reportable conditions are described in the accompanying findings 1 to 18 presented on pages 3-4 to 3-46. In addition, we have included as Appendix 1, other matters that require the attention of the Management of the Mill. The uncertainty associated with the political events prevailing in Haiti during the completion of this report may or may not affect our findings and observations included herein.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the following reportable conditions described in the accompanying findings 1 to 17 on pages 3-4 to 3-45 are material weaknesses.

This report is intended for the information of the Regional Inspector General and USAID/Haiti in overseeing operations of "La Minoterie d'Haiti". This restriction is not intended to limit the distribution of this report, the contents of which are a matter of public record.

Deloitte & Touche

Deloitte & Touche
October 10, 1991

3. REPORTABLE CONDITIONS

3.1 Material Weaknesses

3.1.1 Control Environment

Finding 1. Lack of Direction

Condition:

We were informed that from September 1988 through June 1991, the Mill had six General Managers as follows:

Mr. Serge Francois	July 1991 to Present
Mr. Chamblin	March 1991 to June 1991
Mr. Frantz Allen	May 1990 to October 1990
Mr. Pierre Leger	March 1990 to May 1990
Mr. Alix Lilavois	December 1989 to March 1990
Mr. Yves Jose	September 1985 to December 1989

Further, we requested, but did not obtain minutes of the Board of Directors for the audit period as evidence of any discussions and/or resolutions that might have been passed to set plans for the Mill. To the end of our field work, management of the Mill had not been advised yet of the identity of the members of the Board of Directors. We requested but did not obtain any business plan in effect to the date of our audit, though current management was making its best efforts to develop a transition plan.

The composition of the Board of Directors of the Mill as set forth in article 4 of the decree of March 20, 1969 is as follows:

- Two representatives of "la Banque Nationale de la Republique d'Haiti"
- One representative of the Ministry of Finance
- One representative of the Ministry of Commerce
- One (unspecified) technician.

This Board of Directors is dominated by civil servants, not necessarily knowledgeable about private business practices. It must be noted that "La Minoterie d'Haiti" is to operate as a autonomous business entity.

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Criteria:

Reasonable continuity in senior management, knowledge of the business environment and proper goal setting and monitoring are key elements for the success of a business entity.

Cause:

The situation described above is unusual and we were not able to obtain a unique explanation to clarify its cause. In such a case, we choose not to speculate on the cause of the above condition.

Effect:

The lack of direction from top management as outlined above is duplicated at middle and junior levels in the Mill. Generally in this case, employees are not aware of how their job contributes to the achievement of the Mill's goals and objectives. We did not obtain any evidence that would lead us to believe that departmental heads did effectively perform the managerial functions of planning, organizing, and directing for results.

Recommendation:

We recommend the following:

a) The current management of "La Minoterie d'Haiti" should develop a 2 year transition plan to improve the Mill's efficiency and management capabilities. Such plan should include realistic goals regarding the following:

   .. Technical improvements in the Mill and supporting facilities;

   .. Effective management of production and administrative costs;

   .. Development, documentation and implementation of an adequate system of internal control;

   .. Computerization of the accounting system as further detailed below;

   .. Training of millers and Finance Department personnel.

b) In light of normal business practices, the GOH, sole shareholder of the Mill, should allow proper continuity in the employment of senior management of the Mill.

c) The GOH should consider revising Article 4 of the Mill's bylaws, setting forth the composition of the Board of Directors, to include two members of the private sector.

Finding 2. Absence of Sufficient Level of Control Consciousness

Condition:

In section 2.2, Other Reportable Conditions, we include examples of weaknesses identified during our detail testing of accounts. In general, however, during our detail testing of transactions, we noted the lack of evidence of appropriate reviews and approvals of transactions, accounting entries, account analyses and accounting outputs. For example, no evidence was provided to us to ascertain that journal entries were properly prepared and reviewed before posting. An amount of Haitian $1,495,179 related to the purchase of wheat was recorded as administrative expenses rather than cost of sales. We requested but did not obtain an accounting manual. We also did not obtain any evidence that the Mill has a proper cost accounting system. In fact, the Mill allocates cost of production between all flour products and millfeed based on the extraction rate of flour during the production process. This procedure is erroneous as the millfeed is simply a reject during the production process and any revenues should be credited to the cost of producing flour. No evidence was provided to us to indicate that a specific job costing process was used when the company performs specific job orders.

A number of the Mill's weight and measure devices are still not operating despite previous studies that have clearly identified this situation. It must be noted however, that the scale at the dockside and one scale for entry and exit of trucks are now operating. However, no evidence was provided to us to indicate that these scales have been tare tested.

We performed in June and August, two tours of the Mill and related facilities. We noted that safety and sanitary conditions identified in a previous Kansas State University study as being in non-compliance with industry standards, were still not addressed fully. The level of care, responsiveness, attentiveness and on site immediate problem solving ability of operating personnel were found wanting. The Mill is aging and requires an immediate and substantial amount of maintenance care and attention to provide a reasonable degree of operating efficiency. Current management estimates at US $2 to $3 millions, the cost of replacing and or repairing the aging mills, power plant, weight and measure devices.

Finally, we requested but did not obtain a manual of the Mill's policies on administration of personnel and care maintenance and accountability of the Mill's assets.

Criteria:

Management must instill a sense of responsibility and control consciousness at all levels if the Mill is to perform on a business like basis. This responsibility extends to nonfinancial operating matters such as safety, cost effectiveness, sanitary conditions, et al.

Cause:

Here also, we did not obtain a single explanation of the cause and we choose not to speculate.

Effect:

The combination of the above conditions could, over time, jeopardize the status of the Mill as a going concern.

Recommendation:

We recommend that technical assistance be considered to assist the Mill in performing two main tasks:

- Streamlining of the financial accounting system, policies, procedures and internal control and development and implementation of a cost accounting system, including immediate computerization of the main components (i.e., general ledger and payroll); the scope of this task should include a training component to support the development and implementation stage. An accounting manual for which an illustrative detailed outline was previously provided as an Annex to this report should be completed. This task should also include the development and implementation of an administrative manual.

- Technical upgrading of the Mill and the related operational facilities to improve the Mill's operating efficiency. This will include determination of appropriate man-power level, identification, implementation and monitoring of technical upgrading in the plant facilities, sanitary and safety conditions, and succession training. Such assistance should satisfy or improve upon the requirements set forth in the August 7, 1989 Memorandum of Understanding between USAID/Haiti, the GOH and the Mill.

We believe that this technical assistance will be most efficiently provided by appropriately contracting with two organizations: an internationally reputable Public Accounting Firm for the first component and an internationally reputable organization capable of demonstrating the ability to identify and manage the technical

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upgrading of the Mill and its related facilities for the second component. We estimate the duration of the technical assistance at 12 man-months for the first component and 24 man-months for the second component.

This recommendation provides a key link amongst all other recommendations made in this report. Therefore, all other recommendations should be viewed as an integral part of the scope of work of this technical assistance.

Finding 3. Unclear Lines of Authority and Ownership

Condition:

Lines of authority and ownership between the GOH and the Mill are either not well defined and make questionable the Mill's recording and deprecation of fixed asset purchases which may be owned by the GOH. The Mill does not record the real property, mill or power plant in its records as they are considered to be rented from the GOH; however no current rental agreement was located by the Mill nor was any amendment or confirmation located of the GOH agreement with the Mill dated March 20, 1969.

Criteria:

In order to establish the Mill's organization structure and corporate purpose, management should establish the Mill's responsibilities to meet GOH objectives which may conflict with objectives of the PL 480 programs. Formal written documentation of these objectives, lines of authority, and ownership of assets should be established and maintained.

Cause:

Inattention by prior management and GOH officials and changes within the GOH.

Effect:

Without completely documenting the Mill's organization and association with the GOH, the decision to enter into future PL 480 programs will be difficult as the organization of the Mill may prove to be incompatible with the PL 480 program requirements.

Recommendation:

The Mill management and GOH representatives should formalize their association including ownership of properties, what the Mill's function will be on behalf of the GOH, and what assistance the GOH will commit to provide the Mill.

Finding 4. The financial situation of the Mill requires immediate attention.

Condition:

The Mill provided us with an unaudited balance sheet as of June 30, 1991 and a proforma cash flow statement from August 1991 to December 1991.

The balance sheet indicates that total current assets are approximately Haitian $7.9 million. Total current liabilities are approximately Haitian $25.8 million. Haitian $1.9 million of current assets represents receivables from various sources that appear doubtful given the lack of formal documentation. The balance sheet also indicates a medium term liability of Haitian $5.3 million.

The proforma cash flow statement indicates that if payment for the cost of wheat for August and September, 1991 and repayment of loans for wheat purchased on other AID programs are not deferred, the Mill will not be able to meet its monthly obligations. We were informed that current management has negotiated a repayment schedule with the Banque de la Republique d'Haiti, and the "Bureau de l'Aide Etrangere" to alleviate the pressure of monthly cash flow needs.

Overall, these two statements indicate that the Mill can barely meet its monthly obligations and does not possess the funds to maintain and or upgrade the aging facilities.

Criteria:

A sound financial footing is required to provide a stable and productive operating environment and to instill a sense of reliability on the part of the consumers.

Cause:

Here again, because we could not obtain a single satisfactory explanation, we choose not to speculate.

Effect:

The imbalanced financial situation outlined above combined with the need for immediate and costly investments for technical and managerial improvements could, over time, jeopardize the status of the Mill as a going concern.

Recommendation:

We recommend that the GOH consider a capital infusion, at least equal to the cost of the investments needed for technical and managerial improvements.

Finding 5. Affiliated Companies

Condition:

We understand that the Mill is the two-thirds owner of Sonanu, a company which produces animal feed. The Mill does not consolidate Sonanu's operations into the Mill's financial statements, nor separately record sales and other activity with this subsidiary for better identification for subsequent consolidation.

Criteria:

Consolidation of majority owned subsidiaries is required in order to conform with generally accepted accounting procedures (GAAP).

Cause:

Human error and lack of appropriate accounting policies.

Effect:

The financial statements cannot be properly presented. Transactions between the Mill and Sonanu which should be eliminated since they are not conducted at arms length, are not eliminated. Sales to Sonanu which are conducted at arms length should be separately stated on financial statements, however this information was not separately recorded.

Recommendation:

The Mill should establish accounts to identify transactions with Sonanu and when presenting financial statements, should consolidate activity with this subsidiary. Formal policies and procedures should be established to guide how these transactions are recorded.

3.1.2 Accounting System and Control Procedures

Finding 6. Lack of Weight Scales

Condition 1:

The Mill did not use weight scales to weigh departing trucks during the audit period. The weight scales were either not functioning or were operating improperly.

Criteria:

It is customary practice in this business to maintain proper weight scales. In addition, weight scales are an integral part of an internal control structure adequate to detect errors in the entity's sales operations and improve the effectiveness of the program, activity, or function.

Cause:

Prior management's inattention to establishing and maintaining effective internal controls.

Effect:

Lack of effective weight scale procedures limits our ability to determine the reasonableness of reported sales for the audit period since finished goods may have been shipped but not recorded as sales.

Recommendation:

Current management appears to have established weighing procedures using one of the three truck scales available to the Mill. Management also intends to repair the other scales not presently operational.

Currently a scale log is maintained indicating each trucks empty and full weight. This information should be recorded on the invoice copy of each sale which is returned to the Director General of the Mill. Instead of manually recording the weights, a machine, automatically stamping each vehicles empty and full weight on the invoice should be considered. Weight scales should be tested periodically for tare weigh.

Condition 2:

Weigh scales located at dock side wheat receiving locations were inoperative during the audit period. Also we were informed that no receiving reports for wheat and flour purchases were prepared throughout the audit period.

Criteria:

Sound operational procedures must be exercised over the receiving storage and processing of wheat if the Mill is to effectively manage PL 480 programs and or wheat purchases on its own account. Also the absence of functioning receiving scales represents a departure from industry practice and a material weakness in the Mill's internal control.

Cause:

Prior management's inattention to establishing effective internal controls.

Effect:

Inoperative scales prevent the Mill from accurately recording wheat purchases since actual quantity received is unknown. Lack of appropriate and completed receiving reports eliminate a critical means to document the quality inspection, weighing and approval of raw materials.

Recommendation:

Current Mill management appears to be addressing control issues with respect to the receiving function. We encourage the Mill management to continue its emphasis on establishing an accurate and efficient reporting system, and assigning responsibilities to department managers to insure that needed control reports are prepared, received and maintained with related documents/invoices as needed. Additionally, weigh scales should be maintained and periodically calibrated by service personnel external to the Mill. Coordination of these recommendations with other recommendations regarding operations and accounting procedures will improve the Mill's ability to manage and streamline its operations.

Finding 7. Inadequate Supporting Documentation

Condition 1:

The following cost of sales expense selections were not supported by appropriate documentation:

Date	Expense Account	Description	Amount
October 1989	9104	Maintenance - Mill	$ 2,737,230
November 1989	9104	Maintenance - Mill	2,767,650
January 1990	9104	Maintenance - Mill	2,043,908
March 1990	9104	Maintenance - Mill	1,100,881
November 1989	7322	Training Taxes	788,235
March 1990	7322	Training Taxes	783,910
November 1989	706	Maintenance Supplies	533,500
Various	9114	Indirect Labor	21,581,805
April 1990		Difference de Change	30,000,000
April 1990		Difference de Change	6,042,512
April 1990		Difference de Change	14,775,050
April 1990		Difference de Change	28,101,783
April 1990		Difference de Change	16,870,000
April 1990	708	Sales Commissions	29,700,000
January 1990	708	Sales Commissions	302,850
October 1989	708	Sales Commissions	3,019,472
November 1989	708-1	Warehouse Cost	22,500
March 1990	708	Sales Commissions	1,148,320

Lack of these documents indicates a weakness both in internal accounting control and policies to retain necessary business documents.

Criteria:

Support in the form of invoices properly approved with paid check copies, and payment requisitions should be filed by supplier. Accurate document retention policies are necessary to ensure important documents are available for transactions, and can be used for management purposes.

Cause:

Inattention to the need for accurate document storage and filing policies.

Effect:

Lack of expense support casts doubt on the propriety of these expenses as well as like items not tested. Also, support for expenses is an important business tool to compare competitive bids for supplies and to budget future operating results.

Recommendation:

The Mill must concentrate on developing a thorough and organized filing system to improve access to transaction support.

Condition 2:

Four chemical additive expense selections for purchases from Pennwalt Corporation were not supported by receiving reports.

Criteria:

Complete documentation should be maintained to support purchases in order for the Mill to operate as an efficient and effective business concern. Receiving reports comprise an important aspect of good internal control.

Cause:

Disregard for proper internal accounting policies and procedures.

Effect:

Without receiving reports goods may be paid for which were not requested or received or have not met quality standards requested by the Mill.

Recommendation:

The Mill should develop more strict requirements to complete and maintain receiving reports which will improve control over purchase transactions. Receiving inspection and approval procedures should be formalized in the accounting policies and procedures manual. A policy should be established to refrain from paying any invoice not adequately supported by approved receiving reports and purchase requisitions.

Condition 3:

A Director's Fee expense selection for $1,000 representing a check paid to Leonce Telusma in November 1989 (check number 7728) was unsupported since:

- No Board of Directors minutes were provided to us for the audit period indicating that the Telusma was duly elected to serve for that period.

- The current Finance Director, who acted as a consultant to the Mill during the audit period has indicated that to his knowledge, no Board of Directors meetings were held.

Considering the information above, we consider total Directors Fee expense for the audit period, $31,000, to be questionable.

Criteria:

Sound operational procedures require some documentation for payment of expenses sufficient to prove validity, and purpose of expense. These procedures are needed for the Mill to effectively manage.

Cause:

Inattention to proper expense documentation procedures.

Effect:

Lack of proper documentation may cause the Mill to pay invalid expenses.

Recommendation:

Establish written formal procedures to maintain invoice (voucher) packages with sufficient documentation to support payment of the expenses and to establish an accurate audit trail for the transaction. While we did examine Board of Directors minutes before and after the audit period, none were available for the audit period. All such minutes (if meetings were held) should be retained. The Mill management should also determine what actions must only be taken by the Board and what actions may be taken by management.

Condition 4:

Support for the following expense selections could not be located by Mill staff:

Date	Account	Description	Payee	Amount	Check Number
10/89	7325	Transportation	J.D. Aime	$ 4,000.00	7457
12/89	7318	Life Insurance	J.L. Francois	12,617.00	8068
12/89	7205	Other Selling Costs - Millfeed	M.J. D'Maurice	8,622.15	8196
12/89	7201	Publicity	Arca Advert.	11,195.50	8061
12/89	7325	Transportation	M. Antoine	5,000.00	8224
01/90	7305	Auto Repairs	M.J. D'Maurice	1,352.80	8313
01/90	7318	Life Insurance	V.V. Lemoil	41,988.19	8299
01/90	7201	Publicity	Area Advert.	10,000.00	Prepaid
02/90	7321	Other Expense	Indicators	1,332.00	8575
03/90	7318	Life Insurance	D.E.M. Pierre	28,899.59	8824
03/90	7392	Royalties	A. D'Mega	700.00	9298
03/90	7201	Publicity	Area Advert.	11,900.00	Prepaid
04/90	7204	Other Selling Costs - Flour	M.J. D'Maurice	3,428.10	8900
04/90	7201	Publicity	Area Advert.	9,000.00	Prepaid

Criteria:

Documentation on expenses should be properly approved, logically filed and stored, and sufficient to justify the expense paid. Such documentation shall include purchase order copy, competitive bids when solicited, invoice approved by the requesting department manager and accounting manager, and check copy.

Cause:

Inattention to adequate internal control and documentation procedures.

Effect:

Without documentation, the above items are considered questionable expenses. No evidence exists to establish the validity, competitiveness, or business purpose of the expense.

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Recommendation:

The Mill management should establish a filing system which allows for retention of invoice packages in a logical manner and retrieval of the packages when needed. Correspondence files should be developed in conjunction with this process as should adequate document storage procedures (see finding 21). Attention to these areas will develop an improved audit trail for transactions and allow these historical documents to be used as management tools.

Condition 5:

Incomplete documentation is available to support the following flour or wheat purchase transactions:

- Sogebank payment (check #7485) for $252,089.31.
- Sogebank wire payment amounting to $245,591.50.
- Bank d'Haiti debit memo amounting to $490,875.
- October 1989 journal entry for purchase of wheat from Pan American Grain (contract 5159) amounting to $54,368.55.

Criteria:

Documentation should have been retained to support these expenditures, and to support the Mill's internal control plan.

Cause:

The condition occurred due to poor documentation policies, and lack of awareness of the importance of proper documentation. The condition is another indication of weak internal accounting control policies and procedures.

Effect:

Without adequate documentation to verify that the above transactions were properly authorized, and that the goods were received in proper condition and quantity; each transaction is considered questionable.

Recommendation:

Proper documentation should be retained for all transactions to ensure that they are properly recorded in the accounting records; accurate documentation should be available to determine that the transactions were approved, receipts of materials were inspected, and that proper controls were used to evaluate the transaction.

Condition 6:

"La Minoterie d'Haiti" paid $261,257.30 during the seven month period ended April 30, 1990 toward the Haitian Annual Carnival and various other festivities.

Criteria:

The business purpose of these costs was not properly documented and they are therefore not considered reasonable for purposes of administering the PL 480 wheat program.

Cause:

Inattention to proper documentation and consideration for business purpose of expenses.

Effect:

The entire $261,257.30 is considered questionable as to reasonableness for purposes of administering the PL 480 wheat program.

Recommendation

Costs not considered reasonable for administering the PL 480 program should not be included as expenses. Management should critically examine expenses for business purpose.

Finding 8. Inadequate Fuel Controls

Condition 1:

No device was available during the seven months ended April 30, 1990 to measure the amount of fuel received. A working fuel meter is now in place.

Criteria:

A measurement device in proper working order should have been installed and properly operated to effectively manage purchases and receipts of fuel.

Cause:

The condition occurred because of poor procurement procedures and in general, prior management's inattention to establishing effective internal controls.

Effect:

"La Minoterie d'Haiti" cannot ascertain that the amount of fuel received during the seven month period equalled the amount paid for. Fuel expense is considered questionable.

Recommendation:

Keep the fuel measurement device in good working condition and maintain an accurate and efficient reporting system with clear responsibilities and reporting requirements. This recommendation should be coordinated with other recommendations regarding operations and accounting procedures.

Condition 2:

Fuel purchase orders filled during the seven months ended April 30, 1990 were rarely updated to reflect receipts of fuel. Documentation for all fuel purchases during the audit period was missing various items needed to support the quantity of fuel purchased and received.

Criteria:

Fuel purchase orders should be updated to reflect receipts of fuel in order to maintain adequate control over quantities purchased and received.

Cause:

The condition occurred because purchase orders are not used as a control device.

Effect:

Without thorough documentation supporting each fuel purchase, "La Minoterie d'Haiti" cannot ascertain that it received the quantity of fuel requested and/or payments made were for fuel it received.

Recommendation:

Fuel purchase orders should be updated upon receipt of fuel to ensure that the quantity of fuel received equals the quantity ordered or to detect discrepancies for follow up. Documentation supporting all purchases should be checked to see that it includes all items required for accurate proof of the transaction (purchase order, invoice, check copy, requisition for check, receiving reports, fuel measurements, etc.). All supporting documents should be agreed to invoice quantities and price.

Condition 3:

The Mill purchases gasoline coupons for the purchase of gasoline for Mill vehicles. Employees sign a receipt when receiving a coupon but little control is placed on issuance of the coupons. Use of the coupons is subject to defalcation.

Criteria:

Proper internal control procedures would suggest more supervision and control over distribution of these coupons or some other means of providing gasoline which better controls this expense.

Cause:

Inattention to controlling and maintaining these costs.

Effect:

Lack of adequate control over gasoline coupons could lead to abuse of these coupons and unneeded expense.

Recommendation:

The Mill currently requires more employees to submit reimbursement requests for gasoline expenditures; this has reduced the use of coupons. The Mill should eliminate gasoline coupon purchases and require all employees on Mill business in Mill vehicles to submit reimbursements for gasoline expenditures. The Mill should have one motor pool supervisor responsible for logging use of Mill vehicles so that gas reimbursement requests could be verified against the vehicle usage log.

Finding 9. Excessive Expenses for Security

Condition:

Current and former military personnel provide security services to the Mill; payments to these personnel are recorded as security expense. We noted also that the overall number of security guards either employed by the Mill or obtained from outside agencies appears excessive. In testing security expense, we noted that these guards are not required to complete and have approved, individual time cards. (Guards employed directly by the Mill must complete time cards.) Also, no evidence existed for the following selections, that the security personnel received their pay (cash issued to the purchasing manager to disburse):

Date	Check No.	Payee	Amount
12/27/89	8190	Diendonne' Reveil	$2,500.00
01/29/90	8472	Diendonne' Reveil	$2,500.00
04/26/90	9121	Diendonne' Reveil	$9,400.00

Total payment for security services during the audit period amounted to Haitian $177,272.

Criteria:

Standard internal accounting control procedures require that evidence of performance of services, i.e., security services should be reviewed and approved prior to payment. All security personnel receiving payment should be required to sign a receipt to provide evidence of actually receiving it. The ability of the purchasing manager to solely control hiring of outside security staff and distribution of cash funds to this security staff represents a material weakness in internal accounting control.

Cause:

Improper internal accounting procedures with respect to cash disbursements.

Effect:

The Mill cannot ascertain whether it received all of the security services for which it paid or if the security personnel it intended to pay actually received the payments.

Recommendation:

The Mill should evaluate the benefits it receives from its security force, both hired and those obtained from external sources, and attempt to reduce unneeded members of this force. In a for-profit business environment, the Mill cannot support excessive expenses in any area of its operations, especially given the Mill's operating cost structure.

Remaining security force staff obtained from external sources should complete time cards to support hours worked; all such time cards should be received, approved and initialled by appropriate supervisors prior to paying these persons. Payments made in cash to these security personnel should be supported by receipts signed by the receiving person. Alternatively, if outside security staff is retained, the Mill should arrange to make payment for all outside security staff, to the firm employing this staff who would then be responsible for paying the staff directly. This procedure would eliminate some administrative functions performed by the Mill. (We were informed that present administrators of the Mill are evaluating all expenses in an attempt to reduce unneeded costs.)

The Mill should separate the acquisition of the security services by the purchasing manager and his payment for the related services which is considered a critical combination of administrative functions inappropriate for effective internal accounting control. Also adequate support for transactions with outside security services should be maintained in the form of a signed contract for the services, invoice packages showing invoices duly approved, approved time cards, and check copies.

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Finding 10. Lack of Accounting Policies

Condition:

The Mill has not established formal written accounting policies with respect to the purchase, depreciation, retirement and identification of fixed property assets. For the audit period, the Mill recorded approximately $274,000 in depreciation expense, the entire amount of which is deemed questionable due to the lack of controls described above. The Mill conducted a fixed property inventory dated September 30, 1990, subsequent to the audit period, but has not reconciled this inventory to its manual property records. Related to the above, a vehicle repair expense selection for $9,985 (check 8942 paid to Hinoto SA) appeared more appropriately recorded as a capitalized improvement, making repair expense questionable. A power plant maintenance expense selection for $86,697 (payment to Haitian Tractor and Equipment Company) for the purchase of repair parts inventory appears more appropriately charged to inventory making this expense questionable.

Criteria:

Fundamental business operational policies, which are required in order to administer PL 480 type programs, specify that the Mill have internal control and accounting procedures in place to properly record, process and reconcile accounts and to detect errors in accounts on a timely basis.

Cause:

Lack of management effort in establishing required procedures.

Effect:

Without formal written policies for processing major levels of transactions such as property transactions, depreciation expense for the audit period is questionable due to lack of creditable data on property additions, retirements, and beginning balances. Lack of fundamental controls and accurate records impacts directly on the Mill's ability to conduct Title 480 programs in the future.

Recommendation:

Current management of the Mill has conducted the property inventory as noted above. Management should use this inventory as a base for its property records and reconcile and adjust recorded property and depreciation balances as needed. The assets listed should be tagged with a permanent label or marking, which assigns a distinct numeric or alphanumeric identification. Any assets recorded not appearing on the inventory should be investigated and written off. The Mill currently records property in 14 separate accounts. Management should consider reducing the number of property accounts to be at most 5, so that property accounts can be efficiently reconciled on a monthly basis. Depreciation rates for the remaining 5 accounts should be established and not changed unless a valid reason for the change occurs (e.g. a change in the estimated useful life of the asset occurs).

A detail property listing showing each property item comprising each specific property account and also listing property tag number, description, date acquired, cost basis, annual depreciation expense, and accumulated depreciation should be established on the LOTUS spreadsheet package on the accounting department personal computer. Since this computer was recently purchased, training assistance may be needed to instruct management and accounting staff on proper use of this spreadsheet package. Management should maintain documents supporting the cost basis of all property assets in separate files by description and tag number.

In conjunction with establishing a formal operations and accounting polices and procedures manual, a section should be included describing purchase, retirement/disposal, and monthly reconciliation policies for property accounts. Current management has indicated that at least two quotes are obtained before an asset is purchased and the lower quote is normally taken. Current management appears to have established purchase requisition policies for property purchases (as well as other purchases) which should be incorporated into the formal written policies.

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3.2 Other Reportable Conditions

Finding 11. Inadequate Procurement Practices

Condition 1:

Based on documentation provided to us, Mr. Alix Lilavois then Director General of the Mill entered into an agreement on or about March 1, 1990 with Continental Grain Company for the purchase of 15,000 MT of wheat. The documentation also indicates that the Mill made a security deposit of US $500,000 on March 23, 1990. Delivery of the commodity was subsequently cancelled by Mr. Pierre Leger, who succeeded Mr. Alix Lilavois, for lack of competitive bidding and unfavorable transaction terms.

In April 1990, Continental Grain Company advised the Mill that it was withholding US $345,478 for various vessel cancellation charges. Documentation provided to us indicates that the remaining balance was applied to subsequent transactions. The Mill incurred a loss of US $345,478.

Criteria:

Fundamental business practices dictate that production planning and competitive bidding procedures be used to achieve the lowest possible cost for the needed grade of wheat.

Cause:

Responsibility for obtaining competitive bids and approving the selection among these bids was not assigned to a knowledgeable Mill manager.

Effect:

The Mill incurred the above charge, a substantial monetary penalty, due to the improper bidding and contracting situation.

Recommendation:

The Mill should establish procedures for competitive bidding for their wheat purchases and assign a responsible manager the task of assuring purchases are coordinated with the Mill's production needs. Mill management should review and approve all such purchases and make certain that all terms and penalties included in the purchase contract are interpreted and fully comprehended.

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Condition 2:

The Mill purchased 15,000 MT of wheat from Continental Grain Company in February 1990 at US $219.10 per metric ton. Based on information received from other sources on competitive wheat prices during the same period, for the same type and grade of wheat purchased, the Mill may have paid above market price.

Criteria:

Information obtained from other wheat dealers and sources for shipping costs indicates that similar types of wheat was available (when the Continental Grain transaction occurred) for US $195 per metric ton including shipping cost from a Gulf of Mexico Port. The purchase described above at the indicated price may have lead to an additional cost to the Mill of US $361,500.

Cause:

Apparent lack of emphasis by Mill management on seeking competitive bids.

Effect:

Higher cost wheat was purchased lowering the Mill's profit. That profit would have been available for other purposes.

Recommendation:

Mill management should seek competitive bids for all purchases whenever possible, but always for large purchases such as wheat. Increased attention to competitive bidding may reduce the cost of purchases resulting in increased net income available for other purposes.

Condition 3:

No documentation exists as to the selection criteria used to select fuel suppliers. No attempt was made to obtain volume discounts or favorable credit terms.

Criteria:

Sound business practices suggest that the Mill should have attempted to obtain volume discounts or favorable credit terms using its position as a big fuel purchaser.

Cause:

The condition occurred because of poor procurement procedures.

Effect:

Fuel may have been procured at favorable conditions using favorable credit terms or volume discounts.

Recommendation:

Considering the large amount of fuel it purchases, "La Minoterie d'Haiti" should explore the possibility of lowering costs through the acquisition of volume discounts or favorable credit terms.

Condition 4:

National Bag and Trading Company was used as the exclusive supplier of flour and mill feed bags for the seven month period ending April 30, 1990. No consideration appeared to be given to alternative suppliers.

Subsequent to the period end a quote of $0.162 less per bag was received for mill feed bags from another local supplier.

Criteria:

Alternative bag suppliers should have been considered to ensure that bags were being procured at the lowest possible price.

Cause:

The condition occurred because of poor procurement procedures.

Effect:

"La Minoterie d'Haiti" may have been able to procure flour and mill feed bags at a lower cost and thereby may have been able to lower cost of sales.

Recommendation:

Multiple suppliers should always be considered to ensure that goods are being procured at the lowest possible cost.

Finding 12. Lack of Reconciliation of Bank Charges

Condition:

Payments on overseas purchases are made by debit to the Mill's account at the Banque de la Republique d'Haiti (BRH). In examining the payments related to the purchase of wheat during the seven month period under audit, we noted that an excess payment of $56,142 was incorrectly debited to the Mill's account by the BRH and recorded as cost of wheat by the Mill; the BRH has agreed to credit the Mill's account for this amount. This error was discovered as a result of our audit procedures.

Criteria:

The Mill should reconcile all debits posted to its account by the BRH to supporting documentation (e.g. purchase invoice) to avoid overpayments on purchases of wheat and other materials.

Cause:

Apparent lack of internal control over payments made by debit memos and improper or no reconciliation of debit memos from BRH to supporting documentation.

Effect:

As a result of not reconciling debit memos from BRH to supporting documentation, the Mill paid $56,142 in excess of the stated purchase price for a certain wheat acquisition.

Recommendation:

The Mill should reconcile al debit memos from BRH to supporting documentation to avoid overpayments and/or erroneous charges on purchases of wheat and other materials.

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Finding 13. Inadequate Filing System

Condition:

The Mill does not have an established document retention policy. Dormant storage of warehouse invoice copies (i.e. shipping documents) was incomplete, in that shipping documents were located for 42 of the 151 shipping days during the audit period. The general storage area for records contained documents not placed in any apparent order or grouping, making it difficult and in cases, impossible to locate many accounting records needed to test accounts for the audit period. Management of the Mill could not locate ten sales invoices selected from available shipping documents.

Criteria:

In conjunction with supporting an effective internal control system, record retention policies must be appropriate to permit future testing of transactions and provide historical data useful in budget, costing, and management decisions.

Cause:

Inattention by management to the usefulness of historical records as a business guide and as a component of effective internal control.

Effect:

The inability to locate records for the audit period limited the degree of testing that could be effectively performed. The ability to use historical sales records as a management tool is lacking.

Recommendation:

As current management restructures operations, they should evaluate the practicality of maintaining the historical records now available (since the lack of order of many of these records makes them useless for current operations or research). Management should safeguard records in logical time period groupings and in appropriately identified containers, marked for time period and date.

In connection with improving document retention, management should evaluate the entire recording system including forms used, to eliminate unneeded duplicate forms or combine information from two or more forms into one (e.g. the invoice prepared in 4 parts and the loading sheets used by warehouse staff contain practically the same information). This project may streamline operations through elimination of duplicate paperwork. Establishment of accurate document retention records will allow management to use historical records to improve ongoing operations. This recommendation should be coordinated with other recommendations regarding operations and accounting procedures.

Finding 14. Inadequate Controls over Pension Plans

Condition 1:

The Mill administers its own pension plan through a pension staff of four. This staff is required to maintain records on approximately 800 employees and allocate income on pension investments. Balances of loans to employees on the pension plan financial statements are not reconciled to individual employee pension records.

Criteria:

Sound business practice requires the Mill to consider alternatives in administering the pension plan which may be both cost effective and efficient.

Cause:

We did not obtain a single explanation of the cause of this condition.

Effect:

Not considering options for administration of the pension plan may eliminate opportunities to streamline the Mill's operations and reduce expenses.

Recommendation:

The Mill management should investigate external pension administrators and compare costs with current costs of the pension department. Management should also consider the potential for improved independent recordkeeping, and additional expertise available from a pension specialist. Such comparison will at least provide a method to evaluate the Mill's current procedures.

Pension plan administration should prepare accurate monthly financial statements showing activity in pension plan assets during the month and ending investment balances. As part of this process, the balance indicated for employee loans should be reconciled to individual employee pension records. Emphasis should be placed on developing computer programs to maintain pension data if an external administrator is not selected. Current pension plan administrators have begun to focus on these items.

Condition 2:

Employees are permitted to obtain loans from payments made on their behalf to OMA (Government sponsored retirement insurance) and payroll amounts contributed to the Mill's pension plan. The law requires that OMA loans be recovered by subsequent payroll deductions; the Mill also recovers pension plan loans in this manner.

Criteria:

The administrative burden of administering these loans is extremely time consuming considering the Mill's current ability to automate this process.

Cause:

Lack of consideration for the costs associated with this process.

Effect:

This loan process further complicates the administrative functions of the Mill and increases the administrative costs associated with operating the Mill.

Recommendation:

Establish a standard written procedure for loans. Only permit loans to be made from OMA balances. Current pension staff appear to monitor loans effectively and limit amounts available for borrowing sufficiently to insure recovery. Elimination of other loans will substantially reduce administrative burden and cost.

Alternatively, the Mill should streamline the loan reporting process now performed manually with payroll accounting, also performed manually. Current management of the Mill is considering implementation of a computerized payroll system; we encourage such implementation, if properly planned and executed. The appropriate payroll software will also eliminate some unneeded employee census records currently maintained by the personnel department by including the needed information in its database. A well devised password control will prevent payroll and personnel department staff from accessing controlled data.

Condition 3:

In discussing the pension plan with the administrator, we noted bonds totalling $227,600 receivable from a Haitian bank and insurance company, which do not pay interest nor have any apparent market resale value since no liquid market for the bonds exist. We also noted a receivable from the Mill for $288,000 at June 30, 1990 representing the remaining amount owed to the pension plan as determined when the plan was established. The Mill records indicate a liability to the pension plan of $212,637.30 (June 30 data used since this represented the date closest to the end of our audit period, at which we had adequate records from the Mill and the pension plan staff to compare the receivable in the pension plan's records to the liability in the Mill's records). While the pension administrator maintains adequate individual pension records she does not prepare any financial statements on the plan nor attempt to reconcile the historical financial statements provided by previous Finance Directors, to individual pension records.

Criteria:

Since the Mill currently administers the pension plan, sound Mill internal control and administration requires that the Mill be thoroughly knowledgeable in plan assets, liabilities, and plan equity.

Cause:

Inattention towards the plan by previous management.

Effect:

The Mill could be liable should the plan not be able to pay its liabilities with available assets.

Recommendation:

Management should determine the value of the bonds mentioned above and determine which of the amounts indicated above are owed to the pension plan. Financial statements for the plan should be created with the accounts well established and sources and uses of funds determined, Mill management will be able to better evaluate alternatives for the plan.

Condition 4:

Pension plan management have not had actuarial projections performed on plan demographic information and investment balances.

Criteria:

Pension plan management must consider whether, given the nature of significant assets, the plan will be able to make pension payments when needed.

Cause:

Inattention to the importance of actuarial calculations.

Effect:

Financial statements provided by the pension plan administrator indicate that the plan has excess assets to meet future requirements, but the validity of those assets is questionable when considering findings 23 and 25. Actuarial calculations could highlight additional pension plan required obligations which may become liabilities to the Mill.

Recommendation:

In connection with investigating outside pension consultants or administrators, the Mill should consider whether actuarial calculations are required to determine additional liabilities to the pension plan; the Mill would possibly pay for any additional liabilities. Knowledge of these liabilities will help the Mill determine unrecorded liabilities and plan for future cash requirements in conjunction with its budgeting process.

Finding 15. Inadequate Controls Over Salaries

Condition 1:

"La Minoterie d' Haiti" records payroll expense when paid yet cash payroll to permanent employees is paid to the employees two weeks after it is earned. Vacation pay is also charged to expense when paid.

Criteria:

Generally accepted accounting principles require the matching of expense items to the time period when incurred and the accrual of all material liabilities in order not to mislead users of the financial statements as to the financial condition of the Mill.

Cause:

The Mill's existing policy of expensing the amounts when paid.

Effect:

Due to this policy, an unrecorded liability of approximately $114,105 existed at April 30, 1990. This liability represents permanent employee cash payroll for the last two weeks of April, paid in May. An additional liability exists for earned vacations not accrued on the balance sheet.

Recommendation:

The Mill should record a liability for all known obligations. We noted that the Mill does accrue bonus on a monthly basis. In conjunction with creating an accounting policies and procedures manual, the Mill should formalize month and year-end closing steps to insure that all material liabilities are recorded. The Mill will gain added monitoring and budgeting knowledge with all liabilities properly recorded and will better conform accounting records to generally accepted accounting principles.

Condition 2:

In testing payroll expense, the personnel file for a former finance director, Yves Jose, contained no documentation on approved pay rates. Approval of payrates per senior management is the responsibility of the Board of Directors and should be maintained in the personnel file. Of 129 payroll expense selections made, noted the following:

- For 13 selections a personnel file was provided but no time card was provided
- For 8 administrative selections, the payroll rate used could not be agreed to documents in the personnel file.
- For 45 selections the time card for the selected payroll period was provided, but the personnel file was not provided (which causes the payrate and existence of the employee to be questionable).
- For 20 selections, no time card nor personnel file was provided, causing the existence of the employee to be questionable.

Criteria:

Recordkeeping policies should be adequate to ensure retention of sufficient payroll data.

Cause:

Inattention to proper record keeping policies by former administrators.

Effect:

Failure to provide adequate support for the validity of selected employees calls into question the employee's service with the Mill, and further indicates weak internal accounting controls.

Recommendation:

The Mill should establish procedures to consistently maintain employee records to verify employment and to document each employee's employment record, pay changes, vacation, and disciplinary actions. This information should be maintained in a readily accessible form.

Finding 16. Improper Cutoff Procedures

Condition:

A purchase of wheat during the audit period was recorded based on an estimate; the estimated cost was $121,365 higher than the actual cost. This difference was adjusted for in May 1990 when the actual cost became known. The adjustment was not reflected in the financial statement for the period ended April 30, 1990.

Criteria:

The difference should have been reported in the financial statement for the period ended April 30, 1990 as the purchase of wheat occurred prior to that date.

Cause:

The condition occurred because of improper cutoff procedures and account analyses, both implying weaknesses in internal accounting control policies and procedures.

Effect:

Cost of sales and ending inventory are misstated by $121,365 in the aggregate; the amount by which each component (i.e. raw materials and finished goods) is individually misstated is unknown as the ending inventory amount is unaudited.

Recommendation:

Subsequent adjustments to accounting estimates should be examined to ensure that they are recorded in the proper period. Closing procedures should include proper analyses of accounts. Procedures should be developed, in conjunction with formalizing an accounting procedures manual, to require accounting persons with sufficient expertise to review certain types of transactions.

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Finding 17. Problems on Importations

Condition:

Companies importing goods into Haiti are required to submit an import form to the Haitian Ministry of Commerce. If this is not done on a timely basis, a penalty is added to the normal customs fees. Other penalties may also be added to the normal customs fees.

In testing cost of sales, examined two customs invoices containing penalties for failure to submit import forms on a timely basis; total penalties were $9,859.72. Also, examined three customs invoices containing a total of $13,734.35 in penalties; no reasons for the penalties were set forth on the invoices. The purchasing department could not explain the reasons for the repeated late declarations.

Criteria:

All required import forms should have been submitted to the Ministry of Commerce on a timely basis.

Cause:

The condition occurred because of poor procurement procedures and follow-up, an indication of weak internal accounting control policies and procedures.

Effect:

Unnecessary penalties were incurred for failure to submit timely import forms and other penalties incurred for no apparent reason were paid without question.

Recommendation:

Submit all import forms on a timely basis to avoid penalties and develop an appropriate understanding of all penalties incurred before paying them.

Finding 18. Inadequate Use of Accounts

Condition:

The Mill purchased US $558,900 for the subsequent purchase of wheat from Continental Grain. The difference between the standard exchange rate between Haitian gourdes and US dollars and the actual exchange rate at which the US dollars were purchased was recorded as an administrative expense, "difference de change", and not as a purchase cost which would impact on cost of sales. Also for this transaction, no purchase order or other supporting documentation was provided indicating possible improper purchase procedures. Further, a $127,500 portion of this expense was charged to the bank charge account, 7412, and not to the "difference de change" account 7411. A separate purchase of US dollars to pay for purchases of additives from Agriehen was not supported with appropriate documentation.

Criteria:

Expenses should be properly classified and recorded consistently and within a chart of accounts which accumulates accounting information useful for management decisions. The "difference de change" expense recorded is essentially a cost of sale expense.

Cause:

Improper analyses of accounts and transactions, indicating weak internal accounting control policies and procedures.

Effect:

Inconsistent and improper expense recording reduces the usefulness of the financial statements as a management tool and for comparative purposes.

Recommendation:

The Mill's management should formalize review and approval policies for recording accounting transactions so that entries are recorded consistently between periods and in the correct accounting category. Closing procedures should include proper analyses of accounts. Appropriate supporting documentation should be retained for management to review transactions for errors. Increased attention focused on proper review and approval of transactions will help Mill management evaluate the validity of transactions which may also allow them to detect and correct errors faster. Increased attention may also cause Mill management to identify potential cost savings.

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REPORT ON MATTERS RELATED TO THE MANAGEMENT FINANCIAL AND OPERATIONAL CAPABILITIES OF THE MILL (PRE-AWARD SURVEY)

INDEPENDENT AUDITORS' REPORT

The Regional Inspector General for Audit
United States Agency for International Development
Tegucigalpa, Honduras

We were engaged to perform to the date of completion of our fieldwork, in connection with an examination of the Statement of Operations and Costs of Production of "La Minoterie d'Haiti" (the Mill) for which we have issued our report dated October 10, 1991 (See section 2 of this report), the procedures requested by you, as described below and more fully detailed in your letter of June 21, 1991, as amended by contract modification No. 1 dated August 30, 1991 and the work order attached to it. It is understood that this report is intended solely for the information of the Regional Inspector General and USAID/Haiti in determining whether the Mill has the management, financial and operational capability to effectively carry out a program similar to the PL 480 Titles II and III program. This restriction is not intended to limit the distribution of this report, the contents of which are a matter of public record.

The procedures that we were engaged to perform are summarized below and more fully described in the contract referred to above:

- Assess the management capability of the Mill.
- Assess the financial capability of the Mill.
- Assess the operational capability of the Mill.

Because of the limitations on the scope of our work explained below, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the ability of the Mill to effectively carry out a program similar to the PL 480 Titles II and III program. However, for your information, we have included as findings 1 to 6 in section 3 of this report, certain matters that require attention, with the understanding that the uncertainty associated with the political events prevailing in Haiti during the completion of this report may or may not affect such information.

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We were informed that from September 1988 through June 1991, the Mill has been directed by six General Managers as described on page 3-4 of this report; further we requested but did not obtain minutes of the Board of Directors as evidence of any discussions and/resolutions that might have been passed to set plans for the Mill. In addition, through the end of our work, the management of the Mill had not yet completed a reorganization effort that was to include revised departmental organization charts with head count and labor distribution and a transition plan.

We were also informed that management of the Mill had initiated but not yet completed discussions with creditors to restructure the terms of existing loans and obtain new financial arrangements. Further, we were informed that the management of the Mill was engaged in discussions with the GOH, sole shareholder of the Mill to clarify lines of authority, ownership and conditions surrounding tangible and intangible assets.

We were also informed that management had initiated but not yet completed discussions with suppliers and contractors to address matters related to a number of the Mill's weight and measures devices still not operating, and sanitary and safety conditions identified in a previous Kansas State University study.

Deloitte & Touche

Deloitte & Touche
October 10, 1991

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS (USAID/HAITI MEMORANDUM OF UNDERSTANDING DATED AUGUST 7, 1989)

INDEPENDENT AUDITORS' REPORT

The Regional Inspector General for Audit
United States Agency for International Development
Tegucigalpa, Honduras

We were engaged to perform an examination of the statement of Operations and Costs of Production of "La Minoterie d'Haiti" (the Mill) for the period October 1, 1989 through September 30, 1990, presented as Schedule A of this report, in accordance with generally accepted US auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, in connection with USAID/Haiti assistance to the GOH in the form of US agricultural commodities, principally wheat, sold to the Mill by the GOH, and have issued our report dated October 10, 1991, on such statement.

The terms of a Memorandum of Understanding dated August 7, 1989 and signed between USAID/Haiti, the GOH and the Mill include the following:

SUMMARY OF TECHNICAL
AND ADMINISTRATIVE REFORMS ($/bag of flour)

Action	To be Achieved by:	Estimated Amount:
Power factor correction to 0.9	March 31, 1990	$ 0.15
Temporary labor reduction		
from 390 to 300	September 30, 1989	0.12
from 300 to 275	October 31, 1989	
Increase in flour extraction rate (from 75.02% to 75.52%)	January 31, 1990	0.10
Improvements in pneumatic system (5% mill load increase)	January 31, 1990	0.27

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Action	To be Achieved by:	Estimated Amount:
Estimated reduction in bag costs (competitive pricing)	September 30, 1989 (or later if required by existing contract)	0.15
Reduction in administrative costs (24% general average)	September 30, 1989	0.28

Compliance with agreement terms is the responsibility of the management of the Mill. As part of obtaining reasonable assurance about whether the Statement of Operations and Costs of Production is free of material misstatement, we performed tests of the Mill's compliance with the above provisions of the Memorandum of Understanding signed by USAID/Haiti, the GOH and the Mill on August 7, 1989. However, our objective was not to provide an opinion on overall compliance with such provisions. The uncertainty associated with the political events prevailing in Haiti to the date of this report may or may not affect our conclusion.

The results of our tests indicate that, with respect to the items tested, the Mill did not comply, in all material respects, with the provisions of the Memorandum of Understanding referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Mill had complied, in all material respects, with those provisions.

Deloitte & Touche

Deloitte & Touche
October 10, 1991

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REPORT ON COMPLIANCE WITH APPLICABLE LOCAL LAWS AND REGULATIONS AND WITH AGREEMENT TERMS

INDEPENDENT AUDITORS' REPORT

The Regional Inspector General for Audit
United States Agency for International Development
Tegucigalpa, Honduras

We were engaged to perform an examination of the statement of Operations and Costs of Production of the Mill for the period October 1, 1989 through April 30, 1990, presented in section 2 of this report, in accordance with generally accepted US auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, in connection with USAID/Haiti, US $7,000,000 PL 480 Program, and have issued our report thereon dated October 10, 1991.

As part of obtaining reasonable assurance about whether the statement referred to above is free of material misstatement, we selected the following provisions of local laws and regulations for testing:

- Taxes sur Actions
- Impots sur le Revenu Professional Base Forfaitaire
- Patente
- Droits de Fonctionnement
- Taxes sur le Chiffre d'Affaire (TCA)
- Base Impot/Revenu sur Salaires
- Taxes sur Masse Salariale (T.M.S.)
- Impot sur le Revenu...Boni
- Impots sur le Revenu...Dividends
- Impot sur le Revenue Commercial-Base Forfaitaire
- Taxes/Communications ou Taxes/Appel
- Reglementation du Travail
- Reglementation sur l'environnement

Compliance with local laws and regulations is the responsibility of the management of the Mill. As part of obtaining reasonable assurance about whether the Statement of Operations and Costs of Production is free of material misstatement, we requested representations from the Mill's senior management and counsel as part of gathering evidence as to whether the Mill complied with said provisions of

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local laws and regulations that could have a material effect on program results. However, our objective was not to provide an opinion on overall compliance with such provisions.

Because of the limitation on the scope of our tests explained in the paragraph below, the scope of our work was not sufficient to enable us to provide, and we do not provide, any assurance as to whether the Mill complied with the provisions of local laws and regulations referred to above.

Due to the political situation prevailing in Haiti through the date of this report, we were unable to obtain any representations from the Mill.

Deloitte + Touche

Deloitte & Touche
October 10, 1991

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Appendix 1 - Other Matters

This section includes other matters for the attention of the Management of the Mill.

Finding A1.

Condition:

The Mill purchased $194,670 of raw materials on behalf of its bag supplier, National Bag and Trading Company (NABATCO). These raw materials were used by NABATCO to make flour and mill feed bags, which were sold to the Mill. The invoice amount for these bags was reduced by the cost of the raw materials.

Criteria:

Cash outlays for bags should occur only after receipt of the goods.

Cause:

The condition occurred because it was an accepted business practice of the management of the Mill.

Effect:

A substantial cash outlay for flour and mill bags was made prior to receipt of the goods.

Recommendation:

In order to keep cash available for operating and investment purposes, the Mill should not purchase raw materials on behalf of its suppliers or if management must finance its supplier, proper compensation should be obtained.

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Finding A2.

Condition:

In testing cost of sales, a $300 payment was selected for which there was no support or documentation. The payment was recorded as warehouse expense.

Criteria:

The payment should not have been made without adequate supporting documentation.

Cause:

Inadequate attention to control procedures.

Effect:

It is impossible to determine if the $300 payment is properly recorded in the accounting records.

Recommendation:

All payments should be supported by adequate documentation, which should be retained to ensure that all transactions are properly recorded in the accounting records.

Finding A3.

Condition:

One cost of sales invoice selected for testing was classified as fumigation supplies expense but should have been classified as chemical additives expense. The invoice amount was $5,826.43.

Criteria:

The expense should have been classified as chemical additives expense rather than fumigation supplies expense.

Cause:

Human error. The wrong account number was written in the general journal. This indicates that Mill accounting staff may not be adequately supervised and suggests a weak internal accounting control system.

Effect:

$5,826.43 in expenses was improperly classified.

Recommendation:

Verify both account numbers and descriptions before recording entries in the general journal.

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Finding A4.

Condition:

An expense selection, for payment made to Socefin S.A., was recorded as other expense (account 7321) in the amount of $10,000 and professional fees (account 7331) in the amount of $6,617.00. The expense was incurred in the performance of one consulting project.

Criteria:

Standard policies and procedures for recording various transactions are a prerequisite to an effective internal control structure. These procedures should be formalized in a written accounting procedures instruction manual to standardize accounting functions. Prior to recording accounting entries, the entries should be reviewed to ensure that they are recorded properly.

Cause:

Human error and lack of reference guide.

Effect:

While the account misclassification in itself does not have a financial statement effect, lack of sound transaction review policies indicates a weakness in internal controls which are needed to effectively manage a PL 480 program.

Recommendation:

In conjunction with creating a formal accounting procedure instruction manual, policies to review and approve accounting entries should be developed. This procedure will increase internal control over accounting entries through additional scrutiny over transactions.

Finding A5.

Condition:

The Mill subsidizes a facility cafeteria which provides lunch to employees. Employees reimburse the Mill approximately 40¢ for each meal. Each meal costs approximately $2.50. The Mill spent $202,007.50 for these meals during the audit period.

Criteria:

Given the Mill's operations and objectives and the competitive wage and benefit packages available to employees, costs of subsidizing the cafeteria may be excessive.

Cause:

Inattention by management in place during the audit period, in evaluating discretionary expenditures.

Effect:

By failing to evaluate discretionary expenses such as the cafeteria expense, management may be overlooking areas of substantial cost reduction.

Recommendation:

Employees at the Mill should be required to reimburse a larger part of this expense. Management of the Mill should also evaluate other discretionary expenses to determine what cost savings potential exists. Additional effort spent in this process should lead to increased profitability and improved operations.

Finding A6.

Condition:

In testing sales accounts, we identified several internal control and operational issues with respect to the Mill's sales and shipping procedures. As an operations issue, we noted that the Mill currently does not allow back order shipments to occur. If a customer arrives and can not pickup an entire order, the customer must return when a full order is available.

Criteria:

Standard business practice suggests that either an order pick up schedule or back order policy should be in place to avoid delays and inefficiencies associated with the above policy.

Cause:

Lack of proper procedures, suggesting weak internal accounting control policies and procedures.

Effect:

While the Mill appears to be able to sell all of its production, making customers return to fill entire shipments is inefficient for the customer and for the shipping warehouse since filling other pending orders is impeded.

Recommendation:

The Mill should establish a back order policy and/or coordinate with the sales office in Port Au Prince to schedule dates for customers to receive shipments based on the production plan and quantity of orders previously scheduled for pickup. Developing such a policy will streamline the warehouse operation and improve customer relationships. We noted that during the audit period, back orders were processed; customers retained their sales receipt and the warehouse person filling the partial shipment would indicate the quantity remaining to be filled.

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APPENDIX

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