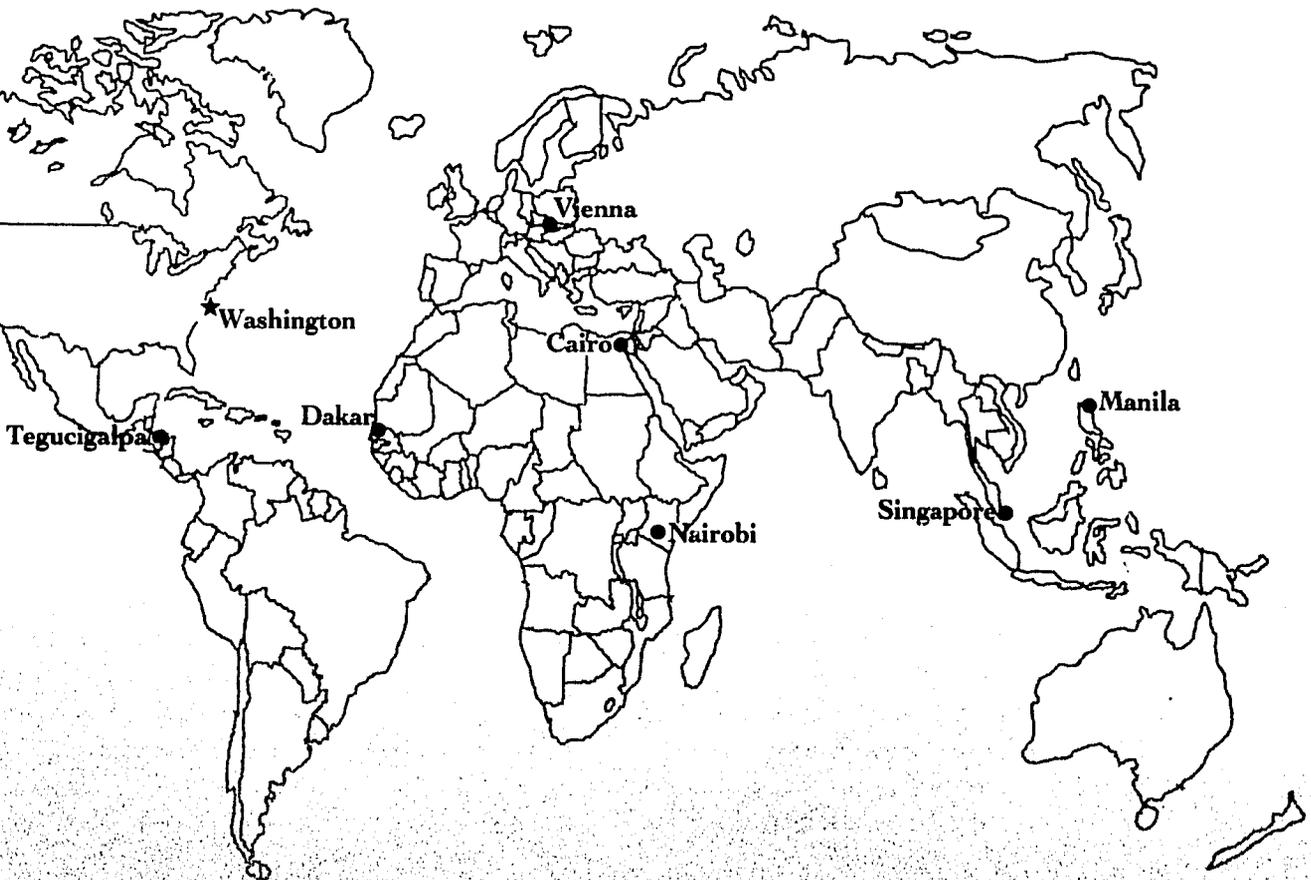


PD-ABD-784
11/11/11

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Haiti's Northwest Agroforestry
Extension and Community Water Systems
Development Projects, Managed by the
Cooperative for American Relief Everywhere,
July 1, 1988 to June 30, 1990**

**Audit Report No. 1-521-92-22-N
March 9, 1992**



Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered because any information is referred to the public.



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 9, 1992

MEMORANDUM

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



FROM: RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Haiti's Northwest Agroforestry Extension and Community Water Systems Development Projects, Managed by the Cooperative for American Relief Everywhere, July 1, 1988 to June 30, 1990

This report presents the results of a financial audit of two of USAID/Haiti's projects--the Northwest Agroforestry Extension and the Community Water Systems Development Projects (Project), managed by the Cooperative for American Relief Everywhere (CARE), for the period July 1, 1988 to June 30, 1990. The audit firm of Klynveld Peat Marwick Goerdeler (KPMG) prepared the report dated January 27, 1992.

The purpose of the agroforestry Project (USAID/Haiti Project No. 521-0122) was to preserve the productive capacity of agricultural land while the water systems Project (USAID/Haiti Project No. 521-0155) was designed to improve Haiti's potable water systems. Approximately \$14.4 million of A.I.D. funding was budgeted for the life of the two Projects and the cooperative agreement for the water systems Project also required that the Government of Haiti provide approximately \$1.0 million of local currency financing generated through the PL-480 Titles I and III Programs. The audit coverage included USAID/Haiti funds of \$5.7 million provided to the Projects during the audit period.

The objectives of the audit were to determine whether: (1) CARE's fund accountability statements present fairly, in all material respects, the financial activities of the Projects for the period audited, (2) CARE's internal control structure was adequate to manage the Projects' operations, and (3) CARE had complied with the terms of the Project Agreements and applicable laws and regulations. The scope of the audit included an

examination of the Projects' activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

KPMG identified questionable costs of \$66,066 related to the purchase of equipment from non-U.S. sources without prior approval being obtained from A.I.D. The auditors also found that foreign exchange gains were not recorded in the fund accountability statements because the procedures used by CARE's home office in New York did not provide sufficient information to its field office in Haiti to record these gains. However, the unrecorded currency exchange gains could be quite substantial. The auditors noted that the gains could be estimated using the Central Bank of Haiti's average market exchange rate statistics and applying them to the local currency expenditures reported by CARE. Using this procedure to make a general estimate shows the unrecorded gains could be as high as \$1.3 million for the two years ended June 30, 1990. In KPMG's opinion, except for these questionable costs and unreported gains, the fund accountability statements present fairly, in all material respects, the Projects' financial activities for the period audited.

With respect to CARE's internal control structure for the Projects' activities, KPMG identified two material weaknesses. The auditors reported on the previously mentioned unrecorded exchange gains and also that CARE did not properly classify nor document procurement bid quotations.

In its review of CARE's compliance with Agreement terms and applicable laws and regulations, KPMG identified two instances of noncompliance. In addition to the purchases of equipment from non-U.S. sources mentioned previously KPMG found that certain accounting procedures were not in compliance with the Projects' Agreement requirements.

The report was discussed with the management of CARE who, except for KPMG's finding related to unrecorded gains, generally agreed with the report's contents. Where appropriate, changes were incorporated into the report. Management's comments are presented as an annex to the audit report.

Since both Projects have ended and, according to Mission officials, USAID/Haiti has no existing agreements with CARE, we are not including the auditors' recommendations related to needed improvements in procurement and accounting procedures in the Office of the Inspector General's recommendation follow-up system. However, in considering any future projects with CARE, we strongly recommend that USAID/Haiti management obtain assurance, as a part of the evaluation process, that these problems have been corrected prior to the release of A.I.D. funds to the organization.

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

Recommendation No. 1

We recommend that USAID/Haiti resolve the questionable costs of \$66,066 (questioned) identified in the Klynveld Peat Marwick Goerdeler audit report dated January 27, 1992, and recover from the Cooperative for American Relief Everywhere all amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Haiti, in conjunction with the Cooperative for American Relief Everywhere, determine the amount of foreign exchange gains earned as cited in the Klynveld Peat Marwick Goerdeler audit report dated January 27, 1992, and recover from the Cooperative for American Relief Everywhere all such amounts determined to be due.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

**NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)
Fund Accountability Statement
For the period July 1, 1988 to June 30, 1990
(With independent auditors' report thereon)**

NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

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January 27, 1992

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

Dear Mr. Howard:

This report presents the results of our financial audit of the Northwest Agroforestry Extension Project, USAID/Haiti Project no. 521-0122 and The Community Water Systems Development Project, USAID/Haiti Project no. 521-0155, managed by the Cooperative for American Relief Everywhere (CARE), for the period July 1, 1988 to June 30, 1990.

Background

A) Northwest Agroforestry Extension Project

On September 24, 1981, USAID/Haiti signed a grant agreement no. 521-0122 with Cooperative for American Relief Everywhere (CARE), for the creation of the Northwest Agroforestry Extension Project, USAID/Haiti Project no. 521-0122, to preserve the productive capacity of agriculture land of at least 3,500 farmers in Northwest Haiti by introducing planting as an appropriate land-use practice. The financing of this project was approved up to U.S. \$6,508,356, as amended on August 24, 1989, and the project assistance completion date was extended to June 30, 1990.

B) Community Water Systems Development Project

On June 24, 1984, USAID/Haiti signed a cooperative agreement with CARE, to help finance the Community Water Systems Development Project, USAID/Haiti no. 521-0155. The purpose of the project was to construct or rehabilitate rural potable water systems and to strengthen community institutions to enable them to operate and maintain these systems.

The cooperative agreement amounts to \$ 7,868,000, as amended on February 16, 1989. The project was also financed by the Government of Haiti (GOH) for approximately 5 million gourdes (US \$ 1 million), provided through the PL-480 program, Title I and Title III Programs.



Member Firm of
Klynveld Peat Marwick Goerdeler

Audit Objective and Scope

The objective of the mandate was to conduct a financial audit of CARE in regard to the funds supplied to by USAID under the Northwest Agroforestry Extension Project, USAID/Haiti Project no. 521-0122 and the Community Water Systems Development Project, USAID/Haiti Project no. 521-0155 for the period July 1, 1988 to June 30, 1990.

The audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances to determine whether:

- 1) The fund accountability statements of USAID/Haiti Projects no. 521-0122 and no. 521-0155 present fairly the projects' receipts and expenditures for the period July 1, 1988 to June 30, 1990, according to the terms of the agreements, identifying unsupported costs or those costs not considered allocable or allowable under the agreement.
- 2) CARE's internal control structure is sufficient to capture data under the agreement and is adequate for projects purposes.
- 3) CARE complied with the terms of the agreement and applicable laws and regulations.

The major audit procedures conducted during our work were as follows:

Receipts

Confirming directly with USAID/Haiti and CARE/New-York, the funding provided to CARE under Projects no. 521-0122 and no. 521-0155 for the period under audit.

Salaries

Analyzing the employees' salaries individually on a monthly basis to determine the fluctuations and comparing them to the appropriate supporting documents.

Examining employees' files on a selected basis to determine if they were complete in accordance with the project's requirements.

Reviewing controls applied for daily workers in the rural areas.

Determining that salary payments and deductions were in accordance with applicable laws and regulations.

Procurements

Examining procurement procedures and documentation for the acquisition of equipment, material and services to ascertain that the control procedures and A.I.D. standard provisions were properly applied.

Visits in Rural Areas

Visiting the rural centers of Gonaïves for the Northwest Agroforestry Extension Project, and Les Cayes for the Community Water Systems Development Project in order to review the supporting documents and controls for the administrative expenses of those centers.

Results of the Audit

Fund Accountability Statement

We were unable to obtain from CARE's management any information relative to gains resulting from foreign currency transactions not included in the projects' fund accountability statements. In addition, our audit revealed questionable costs amounting to \$66,066.

Except for the effects of the non recorded gains from currency transactions and for the effects of the questionable costs, the fund accountability statements present fairly, in all material respects, the projects' receipts and expenditures for the period July 1, 1988 to June 30, 1991, in accordance with the terms of the agreements between CARE and USAID/Haiti.

Internal Control Structure

We studied and evaluated CARE's internal control structure in regard to USAID/Haiti - Projects nos. 521-0122 and 521-0155 in order to assess the control risks and to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statements, and not to provide assurance on CARE's internal control structure taken as a whole.

We noted the following findings that we consider reportable conditions under generally accepted auditing standards and United States Comptroller General's "Government Auditing Standards".

- o Gains on foreign currency transactions were not reported nor documented

- o Bid quotations were not properly classified nor documented

- o Travel expenses were not sufficiently documented
- o Some fuel receipts were incomplete

Compliance with the Terms of the Agreement and Applicable Laws and Regulations

The results of our tests of compliance disclosed the following instances of non compliance:

- o Procurement of non-US goods was not in compliance with A.I.D. standard provisions.
- o Certain accounting procedures were not in compliance with the agreements
- o Social security contributions are not withheld from the local employees.

Except as described above, the results of our tests indicate that, with respect to items tested CARE complied, in all material respects, with the terms of the agreements and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that CARE had not complied, in all material respects, with those provisions.

Management Comments

The draft report was discussed with the representatives of RIG/A/T and CARE/Haiti. In their formal reply to our report, included in Annex 1, management took exception to the findings on foreign exchange and provided additional explanation on the comment on personnel records. Where appropriate, changes have been incorporated into this report. Management expressed their willingness to take the necessary measures to implement the other recommendations.

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables



Mérové-Pierre — Cabinet d'Experts-Comptables

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Page 5

NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

Fund Accountability Statements

Independent Auditors' Report

We have audited the accompanying fund accountability statements of Northwest Agroforestry Extension Project, USAID/Haiti Project no. 521-0122 and Community Water Systems Development Project, USAID/Haiti Project no. 521-0155 for the period July 1, 1988 to June 30, 1990, managed by Cooperative for American Relief Everywhere (CARE). These fund accountability statements are the responsibility of CARE's management. Our responsibility is to express an opinion on the fund accountability statements based on our audit.

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

We were unable to obtain from CARE's management any information relative to gains resulting from foreign currency exchange not included in the accompanying fund accountability statements. The projects' records do not permit the application of other audit procedures to determine the amount of the gains from foreign currency exchange.

As described in note 1(b), the fund accountability statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in note 3, the accompanying fund accountability statements include expenditures of \$66,066 considered as questionable costs. These amounts are discussed in the "findings and recommendations" section of this report. USAID/Haiti will make a final determination as to whether these amounts are allowable under the terms of the agreements.



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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the gains from foreign currency exchange and except for the effects of certain questionable costs, as discussed in the preceding paragraph, the fund accountability statements referred to in the first paragraph present fairly, in all material respects, the projects' revenues collected and expenses paid for the period July 1, 1988 to June 30, 1990, in accordance with the basis of accounting described in note 1(b).

This report is intended solely for the use of the Cooperative for American Relief Everywhere (CARE) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables

September 13, 1991

NORTHWEST AGROFORESTRY EXTENSION PROJECT
 (USAID/Haiti Project no. 521-0122)
 Managed by
 Cooperative for American Relief Everywhere
 (CARE)

Fund Accountability Statement

For the period July 1, 1988 to June 30, 1990

(Expressed in US dollars)

Funding provided by USAID/Haiti	\$ <u>2,320,166</u>
Funds disbursed:	
Material and equipment	538,512
Personnel and operation	1,501,989
Training	55,768
Contingency	23,404
Indirect costs (note 2)	<u>190,186</u>
Total funds disbursed	<u>2,309,859</u>
Excess of funding provided over funds disbursed	\$ <u>10,307</u>

See accompanying notes to the fund accountability statements.

- 1) Total questionable costs amount to \$ 42,566. See note 3 to the fund accountability statements for specific questionable costs.

COMMUNITY WATER SYSTEM DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

Fund Accountability Statement

For the period July 1, 1988 to June 30, 1990

(Expressed in US dollars)

Funding provided by USAID/Haiti	\$ <u>3,373,792</u>
Funds disbursed:	
Equipement materials and construction	854,303
National personnel	1,208,982
International personnel	306,427
Vehicle operation and maintenance	438,493
Travel and per diem	62,432
Technical assistance	22,220
Other costs	204,405
Indirect costs (note 2)	<u>276,139</u>
Total funds disbursed	<u>3,373,401</u>
Excess of funding provided over funds disbursed	\$ <u> 391</u>

See accompanying notes to the fund accountability statements.

1) Total questionable costs amount to \$ 23,500. See note 3 to the fund accountability statements for specific questionable costs.

NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

Notes to the Fund Accountability Statements

(1) Nature of Operations and Summary of Significant Accounting Policies

- a) On September 24, 1981, USAID/Haiti signed a cooperative agreement with Cooperative for American Relief Everywhere (CARE), for the development of Northwest Agroforestry Extension Project, to preserve the productive capacity of agriculture land of at least 3,500 farmers in Northwest Haiti by introducing the planting as an appropriate land-use practice. The funding for this project was approved up to \$6,508,356, as amended on August 24, 1989 and the project assistance completion date was extended to June 30, 1990.

On June 24, 1984, USAID/Haiti signed a cooperative agreement with CARE, to help finance the Community Water Systems Development project. The purpose of the project was to construct or rehabilitate rural potable water systems and to strengthen community institutions to enable them to operate and maintain these systems. The cooperative agreement amounts to \$7,868,000, as amended on February 16, 1989. The project was also funded by the Government of Haiti (GOH) for approximately 5 million gourdes (US \$ 1 million), provided through the PL-480 program, Title I and Title III programs.

- b) The fund accountability statements have been prepared on the cash basis of accounting. Consequently, income is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred.
- c) The fund accountability statements are prepared in US dollars. The transactions in haitian gourdes were recorded at the fixed exchange rate of 5 haitian gourdes to one US dollar, as used by the grantee and recorded by USAID/Haiti. However, following a decree by the Central Bank in January 1990, US dollars are currently exchanged at the prevailing market rate. The average market rate at June 30, 1990 was 7.50 haitian gourdes to one US dollar.

NORTHWEST AGROFORESTRY EXTENSION PROJECT
 (USAID/Haiti Project no. 521-0122)
 COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
 (USAID/Haiti Project no. 521-0155)
 Managed by
 Cooperative for American Relief Everywhere
 (CARE)

Notes to the Fund Accountability Statements

(2) Indirect costs

The indirect costs have been calculated based on the worldwide negotiated overhead rates between CARE and A.I.D. The negotiated rates for both projects for the years ended June 30, 1989 and 1990 is 8.5% and 9.19% respectively.

(3) Questionable Costs

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

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

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

The following costs incurred by CARE are considered questionable because they did not conform with one or more of the above mentioned criteria:

<u>Project no. 521-0122</u>	<u>Questioned</u>
Non-US equipment (See finding 1, page 20)	\$ 42,566
<u>Project no. 521-0155</u>	
Non-US equipment (See finding 1, page 20)	<u>23,500</u> \$ <u>66,066</u>



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NORTHWEST AGROFORESTRY EXTENSION PROJECT
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COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

Internal Control Structure

Independent Auditor's Report

We have audited the fund accountability statements of USAID/Haiti Projects nos. 521-0122 and 521-0155, managed by Cooperative for American Relief Everywhere (CARE), for the period June 1, 1988 to June 30, 1990 and have issued our report thereon dated September 13, 1991, in which we qualified our opinion.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of materials misstatement.

We were unable to obtain from CARE's management any information relative to gains resulting from foreign currency exchange not included in the fund accountability statements. The projects' records do not permit the application of other audit procedures to determine the amount of the gains from foreign currency exchange.

In planning and performing our audit of the fund accountability statements of USAID/Haiti Projects nos. 521-0122 and 521-0155, managed by CARE for the period July 1, 1988 to June 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on CARE's internal control structure taken as whole.

The management of CARE is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements 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, we have classified the significant internal control structure policies in the following categories:

- o Accounting process
- o Procurement system
- o Payroll procedures
- o Receipts and disbursements
- o Travel and transport procedures
- o Budgetary process

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted the matters described in findings 1 to 4 in the following pages 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 fund accountability statement.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the reportable conditions included in findings 1 and 2 in the following pages are material weaknesses.

This report is intended solely for the use of The Cooperative for American Relief Everywhere (CARE) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables
September 13, 1991

NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

Internal Control Structure

Findings

1. Gains on foreign currency transactions were not reported nor documented

Condition:

USAID/Haiti reimbursed all project expenditures in US dollars to CARE/New-York at the official rate of exchange of 5 Haitian gourdes to 1 US dollar. As part of its normal procedures CARE/New-York converted the US dollars through the Haitian banking system or through other parties at higher than the Haitian official exchange rates, and provided the funding in local currency to CARE/Haiti. The transactions resulted in considerable foreign exchange gains not recorded by CARE/Haiti in the projects' fund accountability statements.

Criteria:

A.I.D. standard provisions (Appendix 4C - Section 25), require that the grantee consult with the Mission Director and obtain in writing the procedure to follow in the conversion of United States dollars to local currency. In general, USAID/Haiti requires that the documents stipulate, at a minimum, the rate of exchange, the bank or other party where the exchange took place. The income earned on funds provided by A.I.D. must be reported and remitted to A.I.D.

Cause:

The procedure used by CARE/New-York to fund its representatives worldwide does not provide sufficient information to the local representative to record the foreign exchange gains.

Effect:

Since there was no appropriate documentation nor information to reasonably estimate the unrecorded gains, and since the period covered by our audit did not coincide with the period of the life of the project, we could not determine the accumulated monetary effect in the projects' fund accountability statements. Notwithstanding, the importance of the effect of the unrecorded gains during the period audited could be estimated in general terms using the statistics of the Central Bank of Haiti which reflect that the average market exchange rates during the years ended June 30, 1989 and 1990 were higher than the official exchange rate in 22% and 43% respectively, and that the local currency expenditures reported by CARE/Haiti for those years were as follows:

	Year ended <u>6/30/89</u>	Year ended <u>6/30/90</u>
Project no. 521-0122	\$ 1,251,303	531,986
Project no. 521-0155	\$ 1,519,403	1,124,757

Recommendation:

We recommend that CARE/New-York determine the total amount of the foreign exchange gains during the period of implementation of these and other possible USAID/Haiti projects managed by CARE/Haiti, and based on that determination negotiate a settlement with USAID/Haiti. In future projects, CARE/New-York should clearly inform its representatives about the foreign exchange rates used in each transaction in order for them to report the expenditures in local currency at the prevailing exchange rates.

2. Bid quotations were not properly classified nor documented

Condition:

We could not obtain sufficient evidence that CARE-Haiti obtained bid quotations for purchases in excess of \$ 500, as required by CARE policies and by the standard provisions included as part of the agreement signed with USAID/Haiti. Due to the difficulties in locating the documentation, CARE/Haiti submitted to us the information on quotations for 10 selected transactions out of 106 requested items.

Criteria:

According to A.I.D. requirements (Handbook 13, appendix 4C, section 6(a) (3) (vii)) and to CARE policies, bid quotations must be obtained for all procurements of goods in excess of \$ 500.

Cause:

We were informed that CARE-Haiti usually obtains bid quotations for purchases in excess of \$500 but that the relative documentation was misfiled and could not be located.

Effect:

There was no evidence that CARE-Haiti obtained the best terms and conditions available to the project for all the selected purchases. The documentation examined for the 10 transactions submitted by CARE was found acceptable. In addition, the prices paid were found in general to be reasonable based upon current market conditions.

Recommendation:

CARE/Haiti should properly file the documentation supporting the procurement procedures and controls required by the agreements to give evidence that all purchases are procured at the most advantageous terms and conditions available. Any exception to these procedures should be properly documented by management.

3. Travel expenses were not sufficiently documented

Condition:

In relation to the home leave expenses of some foreign employees, the copies of plane tickets were not available. The travel agency bills did not always state the airline used or the travel itinerary.

Criteria:

Travel expenses must be supported by adequate documentation as required by A.I.D. regulations (Handbook 13, appendix 4C, sections 4(a) and (c)). In the case of plane tickets, copies of tickets should be available, in order to determine that A.I.D travel restrictions have been respected.

Cause:

Documentation of amount paid to the travel agency was considered to be sufficient by CARE/Haiti.

Effect:

There was no evidence that only US airlines were used and that the itinerary was in relation to the employee home leave. However, management supplied us with other evidence that only US airlines are used by CARE personnel and we also examined the home leave employee request. Consequently, these costs were not questioned.

Recommendation:

Management should insist that employees return a copy of their airline tickets for complete documentation of travel expenses.

4. Some fuel receipts were incomplete

Condition:

Fuel receipts, although available, are often missing some pertinent information such as the driver's name or the vehicle immatriculation, documenting the allocation to the projects.

Criteria:

As required by A.I.D. standard provisions (Appendix 4C, section "Accounting, Audit and Records"), the grantee's financial management system should provide for procedures for determining the reasonableness, allowability, and allocability of costs in accordance with the terms of the grant.

Cause:

The responsible personnel neglected to properly complete the fuel receipts.

Effect:

Although the fuel slips were approved by the proper individuals, control over the use of the fuel is weakened due to the fact that the information relative to the driver or the car used is sometimes not mentioned.

Recommendation:

Management should insist that all controls are respected to assure a proper allocation of costs to the projects.



Mérové-Pierre — Cabinet d'Experts-Comptables

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NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative For American Relief Everywhere
(CARE)

Compliance with Agreements Terms and Applicable Laws and Regulations

Independent Auditor's Report

We have audited the fund accountability statements of USAID/Haiti Projects nos. 521-0122 and 521-0155, component managed by Cooperative for American Relief Everywhere (CARE) for the period July 1, 1988 to June 30, 1990 and have issued our report thereon dated September 13, 1991.

Excepted as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We were unable to obtain from CARE's management any information relative to gains resulting from foreign currency exchange not included in the fund accountability statements. The projects' records do not permit the application of other audit procedures to determine the amount of the gains from foreign currency exchange.

Compliance with laws, regulations, contracts and grants applicable to CARE is the responsibility of CARE's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of CARE's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material weaknesses of non-compliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the instances of non compliance described in findings 1 and 2 in the following pages. We believe that the situation described in finding 1 is a material instance



We considered these instances of non compliance in forming our opinion on whether the above fund accountability statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles and this report does not affect our report dated September 13, 1991 on those fund accountability statements.

Except as described above, the results of our tests indicate that, with respect to the items tested, CARE complied, in all material respects, with the terms of the agreements and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that CARE had not complied, in all material respects, with those provisions.

This report is intended solely for the use of The Cooperative for American Relief Everywhere (CARE) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

KPMG - Mérové-Pierre - Cabinet d'Experts-Comptables

September 13, 1991

NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

Compliance with Agreements Terms and Applicable
Laws and Regulations

Findings

1. Procurement of non-US goods was not in compliance with A.I.D. stan-
dard provisions

Condition:

CARE purchased some motorcycles and other equipment not manufactured in the United States, without the prior written authorization of the grant officer, and the files did not document the justification of such purchases.

Criteria:

Procurement of goods and services from other than U.S. sources, requires prior written approval of A.I.D. and proper documentation to justify the purchase.

Cause:

CARE/Haiti did not obtain a written authorization from USAID/Haiti because these goods were not available from U.S. sources, and because the institution supposedly has a general waiver relative to non-US motorcycles.

Effect:

The files did not document the reasons for the procurements from non-US sources. Unless CARE /Haiti can produce a waiver approved by USAID/Haiti, A.I.D. may request a refund from CARE for the amount reimbursed for these purchases. The purchases have been reported as questionable costs for an amount of \$66,066.

Recommendation:

CARE's management should carefully document any A.I.D. regulations and procurement restrictions, and ensure that purchase files always justify procurements from non-US sources.

2. Certain accounting procedures were not in compliance with the agreements

Condition:

- a) Separate bank accounts were not maintained for the projects
- b) Cumulative expenditures were not maintained from the inception to the end of the projects.

Criteria:

A.I.D. standard provisions (Handbook 13, appendix 4C, section "Accounting, Audit, and Records") require that:

- o) The grantee maintains accounting records that at a minimum identify, segregate, accumulate and record all costs incurred under a grant and which fully disclose (i) the amount and disposition by the grantee of the proceeds of such assistance, (ii) the total cost of the project or undertaking in connection with which such assistance is given or used, (iii) the amount of that portion of the cost of the project or undertaking supplied by other sources, and (iv) such other records as will facilitate an effective audit.
- o) The accounting system provide for a comparison of actual outlays with budget amounts for each grant. Budget line items cannot be exceeded by more than 15%.

Cause:

- a) Care/New York transferred funds to Care/Haiti on a global basis and did not maintain separate bank accounts for the projects since the accounting is maintained by fund accounts.
- b) Care/New York maintains records by line item only for annual expenditures (EAR-4). They do not have any reports which accumulate expenditure totals by line item for a particular grant over several fiscal years. Based on CARE's management, A.I.D. standard financial reporting requirements do not require individual line item reporting. The information for years prior to 1986 were not available and the cumulative expenditures as of June 30, 1990 could not be compiled by budget line item, and compared to budgeted amounts.

Effect:

- a) The cumulative ending fund balance and cash balance of the projects could not be determined as of June 30, 1990. We were only able to determine the fund balance for the period July 1, 1988 to June 30, 1990.

- b) We were unable to determine whether or not actual expenditures did not exceed the budget line items, as stipulated in the agreements.

Based on final CARE reports SF-269, net cumulative outlays for both projects amounted to exactly the total budget amounts approved, as stipulated in the amended grant agreements.

Recommendation:

- o CARE's management should respect A.I.D. regulations with regard to segregation of funds.
- o CARE's management should maintain sufficient documentation on cumulative expenditures by line item up to the end of the grants in order to allow an adequate control over the detailed budget as stipulated in the grant agreement.

3. Social security contributions are not withheld for the local employees

Condition:

CARE does not make withholdings for social security withholdings for the local employees.

Criteria:

CARE/Haiti should comply with Haitian laws, which include payroll social security withholdings.

Cause:

Previous laws were not explicit on the tax obligations of nonprofit organizations and their employees.

Effect:

CARE/Haiti is not in compliance with the Haitian regulations relative to social security withholdings.

Recommendation:

We recommend that CARE/Haiti obtain a statement from the tax authorities or discuss with them the tax status of its employees. In the meantime, we suggest that USAID/Haiti obtain a letter from CARE/Haiti relieving USAID/Haiti of any future liability with regards to social security contributions for the local employees.

NORTHWEST AGROFORESTRY EXTENSION PROJECT
(USAID/Haiti Project no. 521-0122)
COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT
(USAID/Haiti Project no. 521-0155)
Managed by
Cooperative for American Relief Everywhere
(CARE)

List of Report Recommendations

I. Internal Control Structure

1. Gains on foreign currency transactions should be determined for each grant and settled with USAID/Haiti.
2. Bid quotations should be properly documented and filed.
3. Travel expenses should be sufficiently documented.
4. Fuel receipts should be adequately filled out for proper allocations of expenses.
5. All personnel files should contain pertinent documentation.

II. Compliance with the Terms of the Agreements and Applicable Laws and Regulations

1. CARE should obtain prior written authorization of A.I.D. for the procurement of non-US goods.
2. CARE should comply with the accounting procedures prescribed in A.I.D. standard provisions.



INTERNATIONAL

HAITI

January 16, 1992

Ms. Mireille Merove-Pierre
Managing Partner
Merove-Pierre - Cabinet d'Experts-Comptables
Port-au-Prince, Haiti

We have reviewed the draft copy of the audit report on the Northwest Agroforestry Extension and Community Water Systems Development projects nos. 521-0122 and 521-0155, respectively, and provide our comments in the pages that follow.

We feel that in some of the comments it is unclear as to the magnitude of the findings, as dollar impact has not been determined.

Please note that we take exception to the finding on the recording of foreign exchange (I.1). Also, we would like to have the comment concerning personnel records (I.5) removed from the report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Virginia H. Ubik".

Virginia H. Ubik
Country Director

A small, handwritten mark or signature in the bottom right corner of the page.

COMMENTS ON MERGVE-PIERRE DRAFT AUDIT REPORT ON THE NORTHWEST AGRO-FORESTRY EXTENSION PROJECT NO. 521-0122 AND THE COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT NO. 521-0155

I. Internal Control Structure Findings:

1. Gains on foreign currency transactions were not reported nor documented.

To this finding we take exception as follows:

- A) It is CARE's policy that no contract donor be charged for any foreign exchange gain or loss. All local currency expense transactions are to be recorded as dollars at the end of the period using the bank's buying rate for dollars. During the period April to July, 1990 the rate used was in error and needs to be corrected.
- B) It is also CARE's policy not to draw down on Federal Letter of Credit funds in advance, but rather in conjunction with actual expenses. Therefore, CARE uses its own funds for advances and in general is in a receivable condition with the Federal Letter of Credit.
- C) Therefore, CARE does not use Federal Letter of Credit funds to purchase foreign currency, but rather its own funds. With its own funds CARE may from time to time purchase foreign currency as a hedge and possible investment. We do not use US Government funds for any of these activities.

2. Bid quotations were not properly classified nor documented.

A xerox copy listing requests for supporting documentation was given to the Finance Section and passed on to the Procurement Section. It was incomplete in terms of source documentation and was returned to the auditors by the Finance Section for more information.

The auditors then sent a listing, which was not the original listing, directly to the Procurement Section. Procurement supplied the requested information based on the revised listing.

Finance was not aware that the second request had been reduced from 106 to 10 items. Had the 106 items remained on the list, and the needed documentation been added by the auditors, we would have attempted to provide the information for all 106 items.

It should be noted that the original 106 item listing contained a substantial number of items not requiring bid quotations such as fuel bills, travel expenses, etc.

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COMMENTS ON MEROVE-PIERRE DRAFT AUDIT REPORT ON THE NORTHWEST AGRO-FORESTRY EXTENSION PROJECT NO. 521-0122 AND THE COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT NO. 521-0155

3. Travel expenses were not sufficiently documented.

CARE-Haiti has begun to attach a copy of the ticket to the payment voucher. However, it should be noted that during this audit period, Pan Am and American Airlines were the principle airlines serving Port-au-Prince and, thus, used by CARE.

4. Some fuel receipts were incomplete.

We believe that current controls are respected to assure a proper allocation of costs to projects. Our controls over fuel slips are:

- a fuel authorization slip is issued by the Workshop showing the driver's name, the Fund Code, car registration, and approval.
- copies of the slips are returned with the monthly statement from the service station.
- a further check is performed by the Finance Section when paying the statement and applying for tax refund.

5. Lack of adequate documentation was found in three selected personnel files.

We take exception to this finding and feel it should be removed from the audit report.

- a) It is CARE-Haiti's practice to document employee transfers from one project to another. In one case, this documentation was not found in the employee's file. We do not feel this is reason for the audit report to state: "Letters documenting transfers of employees from one project to another are not done systematically."
- b) The temporary employment contract cited is for a consultant for the period July to December, 1988. The consultant became a regular employee in December, 1988. Although all documentation surrounding this employee is in order, the document for this specific time frame cannot be located. The document exists and is referred to in the records of the first payment to the consultant at the increased rate. This is a case of misfiling.
- c) A letter advising the employee of an increase was inadvertently not signed. This is not a reflection of CARE-Haiti's internal controls. The letter to an employee is only for informational and congratulatory purposes. The internal control for the authorization for salary increases is the confidential page of each evaluation form, which in the cited case was properly signed indicating approval of the increase.

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COMMENTS ON MEROVE-PIERRE DRAFT AUDIT REPORT ON THE NORTHWEST AGRO-FORESTRY EXTENSION PROJECT NO. 521-0122 AND THE COMMUNITY WATER SYSTEMS DEVELOPMENT PROJECT NO. 521-0155

II. Compliance with Agreements Terms:

1. Procurement of non-US goods was not in compliance with AID standard provisions.

By the isolated rural nature of CARE projects, implementing them means traveling over extremely rough terrain. Motorcycle requirements are that they be dirt bikes, small, and with low cc output. This type of machine is not available under US manufacture. Consequently, CARE and other FVO's purchase foreign made machines.

It is not possible to buy US if the US does not produce the item.

2. Certain accounting procedures were not in compliance with the agreements.

CARE-International worldwide does not maintain separate bank accounts for projects. This is because CARE operates a fund-accounting system which specifically shows the flow of expenses through particular donors' accounts separately.

CARE's worldwide policy is not to maintain cumulative expenditures from inception to the end of projects. However, CARE-Haiti has begun doing so since July, 1991 for its own informational purposes.

3. Social Security contributions are not withheld for the local employees.

CARE-Haiti will follow up on the recommendation to discuss with Haitian tax authorities the status of its employees with respect to DNA, and, if necessary, seek an exemption.

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APPENDIX

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