

Regional Inspector General for Audit  
Dakar

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**AUDIT OF THE GOVERNMENT OF CHAD'S  
DISBURSEMENTS UNDER A.I.D.'S  
SUPPORT TO DEVELOPMENT MINISTRIES IV  
PROGRAM NO. 677-0061, SEPTEMBER 1989 TO AUGUST 1990**

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**Audit Report No. 7-677-92-04-N  
March 13, 1992**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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March 13, 1992

**MEMORANDUM**

**TO:** Bernard D. Wilder, Representative, OAR/Chad

**FROM:** Paul E. Armstrong, RIG/A/Dakar 

**SUBJECT:** *Audit of the Government of Chad's Disbursements Under A.I.D.'s Support to Development Ministries IV Program No. 677-0061, September 1989 to August 1990*

The attached report, prepared by the non-Federal audit firm KPMG Peat, Marwick, Mitchell & Co., presents the results of a financial audit of the Government of Chad's (GOC's) disbursements under A.I.D.'s Support to Development Ministries Program IV (SDM-IV).

In May 1989, A.I.D. approved the SDM-IV program in Chad, the fourth in a series of programs designed to help the GOC face budget deficits and maintain a minimum acceptable level of public services by paying salaries and other operating expenses of civilian administrative units and ministries. Under this program, the GOC disbursed funds equivalent to \$7,267,481 in payment of salaries, equipment, and consumable materials and supplies during the period September 1989 to August 1990.

KPMG performed a financial audit of two interim utilization reports summarizing the \$7,267,481 in disbursements made during the period September 1989 to August 1990. The audit was performed in accordance with U.S. Government Auditing Standards to determine whether the interim utilization reports were presented fairly and whether the GOC complied with laws and regulations for transactions that may have a material effect on the utilization reports. In carrying out this financial audit, the non-Federal auditors obtained an understanding of the GOC's internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed. In exercising due professional care, the non-Federal auditors also followed-up on findings and recommendations from two audits of previous SDM programs to determine whether prompt and appropriate corrective actions had been fully implemented.

KPMG found that the GOC's interim utilization reports present fairly the disbursements made with SDM-IV program funds for the period September 1989 to

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August 1990 except for questioned costs totaling \$357,008. These questioned costs consist of unsupported payments of \$149,008 for salaries, equipment, and supplies and an estimated \$208,000 for taxes charged on the purchase of vehicles. In obtaining an understanding of the internal control structure, KPMG noted certain reportable conditions, one of which was considered to be a material weakness. This material weakness is an inadequate system for recording disbursements made with SDM-IV grant funds causing a loss of audit trail. The three non-material reportable conditions include the need to improve inventory controls, increase OAR/Chad monitoring, and implement physical controls at the GOC data processing unit. KPMG also reported that the GOC complied in all material respects with applicable agreements, laws and regulations except for the noncompliance with certain terms of the program grant agreement resulting in payments of \$149,008 in unsupported costs and the estimated \$208,000 in unallowable taxes. Finally, in its review of the status of previous audit recommendations, KPMG noted that a utilization report for \$201,242 in disbursements with prior SDM program funds had not been submitted by the GOC.

USAID/Chad expressed general agreement with the content of the audit report and stated that actions would be taken to correct the problems noted. The following recommendations are included in the Office of the Inspector General's audit recommendation follow-up system.

**Recommendation No. 1:** We recommend that OAR/Chad resolve questioned costs totaling \$357,008 (\$149,008 unsupported) discussed in Sections 5.1.1 and 5.3 of the audit report.

Recommendation No. 1 is considered unresolved until we are advised of OAR/Chad's determination regarding the unallowable and unsupported questioned costs. This recommendation can be resolved when we receive OAR/Chad's determination of the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are reimbursed by the GOC.

**Recommendation No. 2:** We recommend that OAR/Chad require the GOC to revise its disbursement accounting system in order to ensure an adequate audit trail for any future similar programs.

Recommendation No. 2 will be resolved and closed when OAR/Chad agrees to ensure that any future similar programs include a disbursement system with adequate audit trails.

**Recommendation No. 3:** We recommend that OAR/Chad require the GOC to present a utilization report for the unreported disbursements of \$201,242.

**Recommendation No. 3 is considered resolved as OAR/Chad has stated that the GOC has prepared and submitted a final utilization report for the equivalent amount of \$201,242. We will close Recommendation No. 3 upon receipt of a copy of this utilization report.**

**Please advise RIG/A/Dakar within 30 days of receipt of this report of actions planned or taken by OAR/Chad to implement the above recommendations.**

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)  
SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV, CHAD

NON-FEDERAL AUDIT  
FOR THE PERIOD SEPTEMBER, 1989 TO AUGUST, 1990

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 **Peat, Marwick, Mitchell & Co.**

**Banjul, The Gambia**  
Chartered Accountants and Business Consultants

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

FINANCIAL AUDIT OF A.I.D.'S GRANT TO THE GOVERNMENT OF  
CHAD UNDER THE SUPPORT FOR DEVELOPMENT MINISTRIES  
PROGRAM IV - PROJECT NO. 677-0061

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## **ACRONYMS**

<b>US</b>	<b>United States of America</b>
<b>OAR/Chad</b>	<b>Office of the A.I.D. Representative, Chad</b>
<b>SDM</b>	<b>Support for Development Ministries in Chad</b>
<b>GOC</b>	<b>Government of Chad</b>
<b>BIAT</b>	<b>Banque International pour l'Afrique au Tchad</b>
<b>BEAC</b>	<b>Banque des États de l'Afrique Centrale</b>



**SECTION 1**  
**INTRODUCTION**

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV, CHAD  
NON-FEDERAL AUDIT FOR THE PERIOD SEPTEMBER, 1989 TO AUGUST, 1990

**1. INTRODUCTION**

**1.1 Background**

On July 8, 1989, the Office of the A.I.D. Representative, Chad (OAR/Chad) and the Government of Chad (GOC) signed a Grant Agreement to implement the Support for Development Ministries (SDM) Program IV (677-0061). This agreement is the fourth in a series of programs initiated in September 1986 to help the GOC face budget deficits and maintain a minimum acceptable level of public services by paying salaries and other operating expenses of civilian administrative units and ministries.

Under the Program, an \$8 million grant was released in two equal tranches of \$4 million each. Release of each tranche was dependent on the GOC submitting reports detailing the planned utilization and actual disbursement of the funds. (See Section 6.6). In September 1990, the Program was amended to increase funding by a third tranche of \$2,943,863. The Mission Controller's office together with the Program Officer were responsible for verifying that funds released under the Program were used as intended and in accordance with A.I.D. requirements.

The first and second tranches of \$4 million each were disbursed in September 1989 and October 1990, respectively, to cover expenditures incurred during the period from September 1989 to August 1990. The third tranche of \$2,943,863 was disbursed by the U.S. Government's Regional Accounting Management Centre (RAMC) in Paris on July 5, 1991 and credited to the Project Account on July 13, 1991.

**1.2. Summary of past findings and actions taken.**

Two prior audits of the SDM Program (Program Nos. 677-0052 and 677-0055, respectively) were undertaken by U.S. affiliated firms under the direction of the Regional Inspector-General for Audit/Dakar (RIG/A/Dakar) which disclosed internal control deficiencies that resulted in financial irregularities such as unauthorized diversion of A.I.D. funds, commingling of the project bank account with non-project funds and questionable payroll accounting practices.

These two audits (Audit Report Nos. 7-677-90-02-N and 7-677-90-03-N dated March 19, and March 25, 1990 respectively) inter-alia made the following recommendations:

OAR/Chad require GOC to establish an internal accounting control system that includes, preparing monthly bank reconciliation statements; maintaining and updating a register to account for employee payroll identification documents (census cards) ; and computing employee's earnings on the basis of attendance records.

2. OAR/Chad require GOC to reconstitute FCFA 746,746 (\$2,490) of missing A.I.D. funds to the Project bank account.
3. The OAR/Chad Controller investigate the circumstances of the diversion of FCFA 55,394,228 (\$184,648) and institute a set of procedures in collaboration with GOC that would prevent a recurrence; and
4. Suspend further project funding to GOC until the foregoing recommendations had been implemented.

We comment as follows:

1. Although the internal control system set up by GOC fulfils the audit recommendations, there is still a serious shortcoming in the system which we consider to be a material weakness. This is more fully explained in Section 5.2.1 of this report.

The requirement for employees' earnings to be based on attendance record is not feasible because it is not GOC practise to calculate salaries based on the number of days worked. GOC employees are hired on an annual salary basis payable monthly with a considerable number of days allowed each year for vacations, medical treatment and hospitalization, maternity, deaths and cultural events. OAR/Chad and GOC have been unable to reach consensus as to the legal basis for requiring the Government to change the way payrolls are computed. GOC officials report that there is a system in place whereby each office chief maintains an informal attendance record which the division chief uses to approve monthly salary payments.

- 2.&3. This matter has been fully investigated and an amount of FCFA 54,647,482 (\$182,158) refunded to the project bank account. The Mission found no evidence of a deliberate attempt to reroute funds. However this audit discovered that GOC has not yet provided utilization reports for the disbursement of these funds. (See Section 5.1.2 of this report for details.)

### 1.3 Audit objectives and scope.

The objectives of the audit were to determine whether the A.I.D. Grant was disbursed:-

- a) according to the utilization plans,
- b) under adequate internal controls, and
- c) in compliance with agreement terms.

Our audit procedures included but were not restricted to:

- reviewing the regulations applicable under the various agreements and contracts with OAR/Chad and GOC regarding SDM including the Grant Agreement;
- detailed testing of internal controls established by GOC over disbursement of Program funds;
- comparing budgeted expenditures per the utilization plan with actual disbursements as disclosed by the interim utilization reports;
- detailed testing of the validity, reasonableness, allowability and completeness of recorded expenditures per the interim utilization reports;
- payroll related tests including, checking arithmetic accuracy of payrolls, verifying existence of employees, examining payroll source data, and attendance and observation of wages pay-out;
- evaluation and detailed testing of control, safekeeping, existence and proper use of SDM financed commodities and equipment, including physical inspections;
- tests of compliance with applicable U.S. and GOC laws, regulations and agreements, including the Grant Agreement; and
- preparation of a source and applications of funds under the SDM program.

Our audit covered the disbursement of the first and second tranches under the program summarized in Sections 6.1 and 6.2 respectively covering the period from September 1989 to August 1990.

Our work was carried out on site in Ndjamen, Chad. We visited the A.I.D. Mission, the GOC Treasury, the Ministries of Finance, Education, Plan and General Inspection. We also visited BIAT and BEAC, the banks where the Project bank accounts are held.

The audit was conducted in accordance with generally accepted auditing standards, U.S. Government auditing standards as set forth by the Comptroller General, and A.I.D. Inspector General Guidelines for Financial and Compliance Audits of A.I.D. financial agreements.

#### 1.4 Summary of results

We examined the two interim utilization reports summarizing expenditures of FCFA 1,323,267,524 (\$4,410,892) and FCFA 856,976,655 (\$2,856,589) disbursed under the first and second tranches, respectively, of the SDM Program IV (Project No. 677-0061) for the period September, 1989 to August, 1990, to achieve the audit objectives using the procedures set out in Section 1.3 of this report.

The principal audit findings were as follows:

##### 1.4.1 Review of reported expenditures

- adequate supporting documentation to justify expenditures of FCFA 44,702,430 (\$149,008) disbursed under SDM Program IV could not be produced for our inspection;
- GOC did not provide a final utilization report in respect of expenditures totalling FCFA 60,372,663 (\$201,242) disbursed under the prior Program (SDM III); and
- large unexplained differences between expenditures budgeted on the utilization plans and reported expenditures as per the interim utilization reports were noted.

##### 1.4.2 Accounting system and internal controls

- material weaknesses in internal controls were observed making it impossible to track individual payments from the bank statements to payment orders and creating a heightened risk of errors or irregularities in disbursements from the Special account escaping detection;
- complete lack of controls over physical inventories to ensure that fixed assets are adequately recorded, safeguarded and controlled;
- Lapses in Project monitoring by OAR/Chad; and
- Inadequate physical controls at the GOC data processing unit.

##### 1.4.3 Compliance with applicable laws and regulations

- Government duties in respect of motor vehicles purchased at a total cost of FCFA 185,798,270 (\$ 619,328) were not excluded from the total invoice cost.
- See first and second points in Section 1.4.1 above

**SECTION 2**

**INDEPENDENT AUDITORS' REPORT  
ON  
INTERIM UTILIZATION REPORTS**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV, CHAD  
NON-FEDERAL AUDIT FOR THE PERIOD SEPTEMBER, 1989 TO AUGUST, 1990

2. INDEPENDENT AUDITORS' REPORT ON INTERIM UTILIZATION REPORTS

We have audited the two interim utilization reports presented in Sections 6.1 and 6.2 summarizing expenditures of FCFA 1,323,267,524 (\$4,410,892) and FCFA 856,976,655 (\$2,856,589) disbursed under the first and second tranches, respectively, of the Support for Development Ministries Program IV in Chad (Project No. 677-0061) for the period September 1989 to August 1990. These reports are the responsibility of the GOC Treasury. Our responsibility is to express an opinion on these reports based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and U.S. Government auditing standards issued by the Comptroller General of the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim utilization reports are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the reports. This audit also included assessing whether the costs recorded were in accordance with the terms of the Grant Agreement, as well as evaluating the overall presentation of the reports. We believe that our audit provides a reasonable basis for our opinion.

Supporting documentation to justify expenditures of FCFA 44,702,430 (\$149,008) explained further in Section 5.1.1 (page 10) could not be provided for our inspection as required by Section 5.2 of the Grant Agreement.

We were unable to quantify with reasonable certainty the GOC taxes paid in respect of motor vehicles purchased at a total cost of FCFA 185,798,270 (\$619,328), as detailed in Section 5.3 of this report. The Project is not liable to pay these taxes under Section 5.4(A) of the Grant Agreement.

We draw attention to Section 5.1.2 (page 13) which describes the circumstances surrounding GOC's failure to provide utilization reports on the disbursement of FCFA 60,372,663 (\$201,242) under a prior Grant.

In our opinion, subject to the determination of GOC taxes paid referred to in the fourth paragraph above and except for unsupported expenditures amounting to FCFA 44,702,430 (\$149,008) referred to in the third paragraph of this report, the two interim utilization reports referred to above present fairly, in all material respects, and in conformity with generally accepted accounting principles, the expenditures incurred under the Grant Agreement for the period September 1989 to August 1990.

*Peat Marwick Mitchell & Co*  
.....  
Firm's signature

Banjul  
THE GAMBIA.

Date:- 19<sup>th</sup> February, 1992

**SECTION 3**

**INDEPENDENT AUDITORS' REPORT  
ON  
INTERNAL CONTROL STRUCTURE**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV, CHAD  
NON-FEDERAL AUDIT FOR THE PERIOD SEPTEMBER, 1989 TO AUGUST, 1990

3. INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the two interim utilization reports presented in Sections 6.1 and 6.2 summarizing expenditures of FCFA 1,323,267,524 (\$4,410,892) and FCFA 856,976,655 (\$2,856,589) disbursed under the first and second tranches, respectively, of the Support for Development Ministries , Program IV in Chad (Project No. 677-0061) for the period September 1989 to August 1990, and have issued our report thereon dated 19th February, 1992 .

We conducted our audit in accordance with generally accepted auditing standards and U.S. Government auditing standards issued by the Comptroller General of the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim utilization reports are free of material misstatement.

In planning and performing our audit of the interim utilization reports prepared by the GOC Treasury, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the reports and not to provide assurance on the internal control structure.

The Management of the GOC's Treasury 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 the 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 the utilization reports in accordance with generally accepted accounting principles. Because of the 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 and procedures into the following categories:

- cash receipts and payments
- payroll and personnel
- equipment

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the interim utilization reports.

The reportable conditions noted are described in Sections 5.2.1 to 5.2.4 on pages 19 to 25 of this report.

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 interim utilization reports 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 material weaknesses as defined above.

However, we believe our observation in Section 5.2.1 to be a material weakness.

This report is intended for the information of the Government of Chad and the U. S. Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*Peat Marwick Mitchell & Co*

.....  
Firm's Signature

Banjul  
THE GAMBIA

Date:- *19<sup>th</sup> February, 1992*

**SECTION 4**

**INDEPENDENT AUDITORS' REPORT  
ON  
COMPLIANCE WITH APPLICABLE LAWS  
AND REGULATIONS AND WITH AGREEMENT TERMS**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV, CHAD  
NON-FEDERAL AUDIT FOR THE PERIOD SEPTEMBER, 1989 TO AUGUST, 1990

**4. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS AND WITH AGREEMENT TERMS**

We have audited the two interim utilization reports presented in Sections 6.1 and 6.2 summarizing expenditures of FCFA 1,323,267,524 (\$4,410,892) and FCFA 856,976,655 (\$2,856,589) disbursed under the first and second tranches, respectively, of the Support for Development Ministries Program IV in Chad (Project No. 677-0061) for the period September 1989 to August 1990, and have issued our report thereon dated 19th February, 1992.

We conducted our audit in accordance with generally accepted auditing standards and U.S. Government auditing standards issued by the Comptroller General of the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim utilization reports are free of material misstatement.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to GOC is the responsibility of the management of the GOC's Treasury. As part of our audit, we performed tests of the GOC Treasury's compliance with Grant Agreement No. 677-0061 dated July 8, 1989 and its subsequent amendment dated September 21, 1990. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the utilization reports are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance are violations of laws, regulations, contracts, grants, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those misstatements are material to the interim utilization reports. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have not been corrected in GOC's interim utilization reports:

1. Our testing of transactions and records disclosed noncompliance with Section 5.2 of the Grant Agreement which requires all expenditures to be justified with adequate supporting documentation. Supporting documentation to justify expenditures of FCFA 44,702,430 (\$149,008) (explained further in Section 5.1.1) could not be provided for our inspection.
2. For motor vehicles purchased at a total cost of FCFA 185,798,270 (\$619,328) Government taxes had not been excluded from the total invoice price paid as required by Section 5.4(A) of the Government Agreement. We have been unable to establish with reasonable certainty the amount of taxes paid. (See Section 5.3 of this report).

We considered the matters referred to in paragraphs 1. and 2. above to be material instances of noncompliance in forming our opinion on whether GOC's interim utilization reports are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated 19th February, 1992 on those interim utilization reports.

Except as described above, the results of our tests of compliance indicate that with respect to items tested, GOC complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that GOC had not complied in all material respects with those provisions.

This report is intended for the information of the Government of Chad and the U. S. Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*Foat Marwick Mitchell QCo*

.....  
Firm's signature

Banjul,  
THE GAMBIA

Date:- *19<sup>th</sup> February, 1992*

**SECTION 5**  
**FINDINGS AND RECOMMENDATIONS**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV, CHAD  
NON-FEDERAL AUDIT FOR THE PERIOD SEPTEMBER, 1989 TO AUGUST, 1990

5.1 REVIEW OF EXPENDITURES

5.1.1 Unsupported expenditures

Observation

Adequate supporting documentation to justify expenditures of FCFA 44,702,430 (\$149,008) could not be provided for our inspection. Included in this amount is FCFA 31,349,294 (\$104,499) disbursed on salaries in respect of which the relevant documentation such as payrolls, service contracts or certificates of work done were not attached to the payment order and could not be provided as of July 19, 1991 when the audit team left Ndjamena.

Discussion

Salary payments under the Grant are supported by one of the following documents:-

- a) a payroll prepared by the GOC data processing unit,
- b) a decree (arrêté) proclaiming the named persons to be employees of the GOC (new employees), or
- c) a certificate of service signed by the Head of the relevant department (in respect of persons who worked for only a few days during the month).

We assessed that any of these three documents were satisfactory audit evidence to support a salary disbursement under the Grant. For purchases of equipment or consumable office supplies, a supplier's invoice was accepted as adequate support. In the case of payments made to relevant authorities in respect of deductions from salaries such as pension contributions, taxes etc., the bordereaux (a document transmittal folder showing control totals of the enclosed payment orders) and payment orders were accepted as supporting documentation since GOC departments do not normally issue receipts to each other.

For disbursements amounting to FCFA 44,702,430 (\$149,008) summarized in Section 6.5 (full details in Section 6.9) none of the required supporting documentation could be produced.

From discussions held with GOC officials, the supporting documentation may have been lost en-route to the Treasury or misplaced by Treasury officials. This explanation would appear reasonable having regard to the period which has elapsed since the transaction occurred.

However, GOC is required by Section 5.2 of the Grant Agreement to maintain proper books and records and to retain them for at least three years after the last disbursement under the Grant.

Although, we found no evidence to indicate the possibility of irregularity or fraud, the total absence of supporting documentation to justify these expenditures raises concerns as to the propriety of the transactions.

Consequently, OAR/Chad does not have the assurance that these expenditures are reasonable and allowable under the Grant.

#### Recommendation

We recommend that OAR/Chad require the GOC to provide the documentation supporting expenditure of FCFA 44,702,430 (\$149,008), failing which the Special Account should be reimbursed for that amount in accordance with Section 5.3 of the Grant Agreement. This section states that "in the case of any release of funds under the Disbursement account or the Special account which is not supported by valid documentation OAR/Chad may require the Grantee to refund the amount of such funds to the Disbursement account or the Special account within 90 days after receipt of the request therefore".

#### Project Management comments

OAR/Chad accepts the recommendation "to require the GOC to provide the documentation supporting expenditure of FCFA 44,702,430 (\$149,008), failing which the Special Account should be reimbursed". This sum represents 1.9 percent of the total amount expended through the two tranches.

In numerous meetings with Ministry of Finance and Treasury officials, OAR/Chad has received the total cooperation of those involved in reviewing the project-related files. Supporting documentation has been identified. In this regard, it is helpful to remember two aspects about the general conditions within which this cash transfer program operates:

First, the total wage bill for GOC civilian employees approximates FCFA 3 billion per month. By extrapolation, 40-50 percent of that total is generated by salaries for the eligible development-oriented ministries and their employees working in the capital city. The USAID cash transfer program, therefore, provides an amount sufficient for the payment of only 2-3 months of salary per year for those employees eligible to be paid with program resources. Salaries for the remainder of the year for these civil servants, and for others not in the program, are paid with funds made available to the GOC from other donors/sources.

Secondly, the basic employment documents of the GOC, such as the published version of the decree (arrete) formalizing the employment, promotion and/or transfer of an individual, are attached to the Ministry of Finance Budget Office's Ordre de Payement (Payment Order) for the first month in which the individual commences his/her

service with the GOC, and/or that particular personal salary change becomes effective. An effort to reproduce this supporting documentation for attachment to each and every monthly Ordre de Payement for each employee would physically and financially swamp the GOC salary system. Therefore, the Ordre de Payement (Payment Order) includes a preprinted block (front of page, left column, fourth row) labelled "Pieces justificatives de la depense" (supporting documents for this expenditure).

In company with Treasury officials we surveyed several of the groups of documents listed in Annex 6.5 of the draft audit report, and in each case the "Pieces justificatives" block was complete, indicating the type and location of the supporting documentation. Therefore, we elected to randomly test the availability of the cited supporting documentation. From the list of unsupported expenditures in Annex 6.5 we tested the documentation for three ministries (Finance and Data Processing, Education and Public Health), plus for the Income Tax, Pensions, etc. line item. The expenditures listed in Annex 6.5 for these four categories total FCFA 21 million, or 46.9 percent of the reportedly unsupported total. Within these four categories we examined the documentation for five items totalling FCFA 3.4 million, the equivalent of 16.2 percent of the four-categories total, or 7.6 percent of the reportedly unsupported total.

In each and every test the payment order (Ordre de Payement) led to the Mandat de Payement, the cash voucher (Bon de Caisse) with the employee's personal identification card number and signature showing actual receipt of the salary (or direct transfer of funds to a numbered bank account), a certificate of service (Certificate de Prise de Service) from the specific office where he/she works, and/or a copy of the decree verifying the employment and position of the individual(s) concerned.

The situation with the Pensions, Income Tax category was slightly different. As with all payments made with these AID resources, those for Pensions, Income Tax, etc. are grouped by office under a Mandat de Payement, and several of the latter documents are grouped together under a Bordereau. Among the Pension, Income tax documents at the Treasury there is no single Bordereau or Mandat de Payment which corresponds with the Annex 6.5 total of FCFA 13,137,886. We assume that the audit team added several individual Ordre de Payements together, but we are unable to identify which. Therefore, in view of the need to provide a timely response to the auditors we elected to test the Pensions, Income tax documentation for the same five items tested above for the three ministries. In each case we found that the Mandat de Payement shows transfer of the pension and tax funds to the Treasury, along with information in the "Pieces justificatives" block which references the number of the relevant cash voucher (Bon de Caisse).

Photocopies of all documents related to the above tested materials are available in OAR/Chad files.

Furthermore, the ready availability and recovery of supporting documentation is being improved, and the issue is gradually being removed as a possible problem. The GOC continues to expand computerization of civil servant salaries. As of December 1991, the MEF Computer Center is processing the monthly salaries for approximately 20,000 persons, or about 80 percent of the public work force. The computerized system provides for multiple copies of the monthly statement of earnings for each employee, and will fulfil the auditors criteria for supporting documentation as listed in section 5.1.1. of the draft audit report.

In view of the consistent availability of the supporting documentation for all of the items tested it is requested that Recommendation 5.1.1. be closed.

#### Auditor's comment

At no time during our audit were we referred to the preprinted block labelled "Pieces justificatives de la depense." As noted in our findings GOC officials explained that these items were either lost or misplaced. We are pleased to note that some of the supporting documentation has been located, however it is our view that OAR/Chad should request GOC to produce the supporting documentation for all the Payment Orders listed in the Appendix as we do not consider the proportion tested sufficiently significant to be conclusive.

### **5.1.2 Failure to account for final disbursements of prior grant**

#### Observation

Disbursements totalling FCFA 60,372,637(\$201,242) have been made from the BEAC and BIAT accounts for which the GOC has not yet presented a Utilization report. This amount relates to disbursements made between February 1989 and August 1990 out of funds provided by OAR/Chad under a prior grant (SDM III).

#### Discussion

In our review of the status of actions taken to implement audit recommendations pertaining to SDM III (see Audit Report No. 7-677-90-03-N), we found that, although GOC refunded the sum of FCFA 54,647,482 (\$182,158) on September 9, 1989, GOC did not furnish a final utilization report specifically for SDM III funds as required by the Grant Agreement.

To determine the total amount of unreported uses of funds, we compared total disbursements as reported in SDM IV utilization reports submitted during the period September 1989 to December 1990 to total disbursements reported in the bank statement during the same period. Since GOC used

the same bank accounts to receive both SDM III and SDM IV grants, our analysis involved a review of the bank account balance as of September 30, 1989, just prior to receiving the first tranche of SDM IV funds. The make up of the BEAC account balance is illustrated below:

	<u>FCFA</u>	<u>\$</u>
9/1/89 Balance from SDM III on BEAC a/c	25,252	84
9/9/89 Reimbursement of A.I.D. funds	54,647,482	182,158
9/15/89 Balance from SDM III on BIAT a/c transferred to BEAC a/c	5,700,000	19,000
	<hr/>	<hr/>
	60,372,734	201,242
Less:		
9/9/89 Check No.901 - Reimbursement of expenditures made between Feb- ruary and August 1989	(8,831,250)	29,437
	<hr/>	<hr/>
Balance as of September 30, 1989	51,541,484	171,805
	<hr/> <hr/>	<hr/> <hr/>

Our analysis showed that disbursements made from the BEAC account during the period September 1989 to December 1990 totalled FCFA 2,231,785,592 (\$7,439,285) whereas total expenditures under SDM IV as reported on the utilization reports amounted to FCFA 2,180,244,179 (\$7,267,480), a difference of FCFA 51,541,413 (\$171,805).

GOC has therefore not presented utilization reports to cover disbursements totalling FCFA 60,372,663 (\$201,242) from the BEAC account, (i.e. FCFA 51,541,413 (\$171,805) plus FCFA 8,831,250 (\$29,437)). This is contrary to Section 5.4(C) of the Grant Agreement which states that "..... not less than three months following the final disbursement under the Grant, the Grantee will furnish to A.I.D.,..... a final utilization report..... setting forth the actual use of funds released from the Special account".

The internal control weaknesses which resulted in failure to report on these disbursements are dealt with in Section 5.2.1 (page 19)

Recommendation

We recommend that OAR/Chad require the GOC to present utilization reports for the disbursement of FCFA 60,372,663 (\$201,242), failing which the Special Account should be reimbursed. In the future, OAR/Chad should ensure that all funds disbursed under a grant have been fully reported by GOC in accordance with Section 5.4(c) of the Grant Agreement before another Grant is authorized.

Project Management comments

OAR/Chad accepts the recommendation. GOC Treasury officials have prepared a final utilization report for the FCFA 60,372,637 not yet reported on for the Support to Development Ministries III (677-0055) grant. This report has been received by OAR/Chad, it has been reviewed by the project officer and it appears consistent with other similar reports submitted in the past.

It is requested that Recommendation 5.1.2 be closed

**5.1.3 Variations between actual and budgeted expenditures.**

Observation

Significant variations were observed between actual expenditures as per the utilization reports and budgeted expenditures as per the utilization plans in respect of several line items. Section 6.4 presents a chart showing the comparison between planned and actual expenditures, but a summary is shown below:

	<u>Actual amount received</u>	<u>Planned expenditure</u>	<u>Actual expenditure</u>	<u>Variance</u>
	FCFA millions	FCFA millions	FCFA millions	FCFA millions
1st tranche	1,336	1,296	1,323	(27)
2nd tranche	1,024	1,392	857	535

	<u>Actual amount received</u>	<u>Planned expenditure</u>	<u>Actual expenditure</u>	<u>Variance</u>
	\$000	\$000	\$000	\$000
1st tranche	4,453	4,320	4,411	(91)
2nd tranche	3,413	4,639	2,857	1,783

### Discussion

Section 3.1(G) of the Grant Agreement states that, as a condition precedent to the Grant, the GOC will provide a utilization plan specifying the purpose, estimated amount, and timing of the proposed release of funds under each tranche. However, there is no provision in the Grant Agreement that would require GOC to adhere to this utilization plan.

The utilization plan is reviewed by OAR/Chad before a request for the disbursement the Grant is made. The expectation is that actual disbursements would reasonably correspond with the planned expenditures which are specifically identified in the utilization plans.

We found that for the first tranche, actual expenditures were greater than budgeted but generally in conformity with the plan, whereas the second tranche appears to have been disbursed with little or no regard to the plan.

Officials at the GOC Budget Office explained that this was due to the fact that Grant funds were received late and that salary payments were financed from other GOC sources and later reimbursed when the Grant was received.

However, we believe that since the salaries which are to be paid from U.S. Government funds are specifically identified at the time the utilization plans are prepared, the date of receipt of the funds is irrelevant to the comparison between budget and actual expenditures.

### Recommendation

We recommend that OAR/Chad require GOC to provide a written explanation of the more significant variations noted between planned and actual expenditures under the second tranche. The Mission Controller should review the explanation for reasonableness. In the future, the Project Officer should impress upon the relevant GOC officials the need for utilization reports of actual expenditures to reasonably correspond with the utilization plan which forms the basis for the disbursement of the Grant.

### Project Management comments

OAR/Chad accepts the recommendation that the GOC "provide a written explanation of the more significant variations noted between the planned and actual expenditures under the second tranche. The Mission Controller should review the explanation for reasonableness. In the future, the Project Officer should impress upon the relevant GOC officials the need for utilization reports of actual expenditures to reasonably correspond with the utilization plan".

This recommendation was passed to the GOC, along with all others, on December 11, 1991. In addition, OAR/Chad personnel have discussed this topic with GOC officials in the MEF Budget Office and have received information that a written explanation of the significant variations will contain some or all of the following points:

- GOC good intentions to comply with the approved plan figures are evident from the close correspondence between planned and actual expenditure performance reported for the first tranche. The differences noted for the second tranche represent a unique set of circumstances.
- Most of the claimed variance at the root of this recommendation can be found in a more thorough analysis of the data in the draft audit report itself. For example: it is valid to compare actual versus planned expenditures when the two exercises occur only 2-3 months apart, and the actual amount of FCFA received is greater than the planned for amount, due to movement of the exchange rate. This occurred in the first tranche situation. However, when the exchange rate movement is downward, and the actual amount received is 17 percent less than that planned for, then accommodating cuts and changes have to be made. This was necessitated in the second tranche, where the planning took place in November 1989 at the exchange rate of FCFA 310/\$1, but the actual funds were received in October 1990 at the exchange rate of FCFA 256/\$1. It was not a question of whether, or not changes were appropriate, but only a question of where they were to be made. That was a judgment called by the GOC, i.e., to impose the reduction in available funds entirely on a few ministries, or to spread the reduction amongst all of the ministries, cutting each one where feasible. The GOC opted for the latter approach.
- Details for the second tranche in Annex 6.4 show the addition of a new line item for Income Tax, Pensions etc. While this addition does not influence the difference between the total amounts planned for and actually expended, it does account for a share of the differences between the planned and actual amounts for each individual ministry. The utilization plan for the second tranche listed gross salary payments by ministry. The report of actual utilization lists the net salary payments, pensions and taxes separately.
- Information available in section 5.1.3 and Annex 6.1 of the draft audit report, plus the actual exchange rate, and the GOC utilization plan submitted in November 1989 for the second tranche, combine to explain 69 percent of the "Variance" column total of FCFA 535 million. The difference of FCFA 167 million as follows: (1) minus FCFA 216 million due to the lower exchange rate actually received; (2) minus FCFA 16 million for interest planned to have been earned if the second tranche had been delivered when first requested by the GOC; and (3) minus FCFA 136 million originally thought by the MEF Budget Office to be the residual from the first tranche. This figure was taken from an early erroneous draft copy of the utilization report for the first tranche prepared by the Treasury officials. That utilization report was later corrected prior to submission to OAR/Chad, and appears as Annex 6.1. The same error, however, was carried over into the second tranche planning by the Budget Office and was not noticed or corrected at that time.

- Officials at the GOC MEF Budget Office maintain that a combination of two factors account for the remaining FCFA 167 million difference. First, there is a lack of precise data for estimating the amount needed for salaries for a particular ministry for any specific month. At best, most data is already several months old and somewhat out of date by the time it is available to the Budget Office for planning purposes. Secondly, before the out-of-date planning figures can be put into effect there always are other changes taking place. The transitoriness

of bureaucrats, particularly among the highly skilled and better paid group at the upper levels, results in frequent movement among ministries.

These factors notwithstanding, the GOC MEF officials have reaffirmed their intention and desire to maintain actual expenditures in line with their planning documents to the greatest extent possible. The OAR/Chad Acting Controller has reviewed this information from the GOC and believes that it is consistent with the intent and purpose of the recommendation.

It is requested that Recommendation 5.1.3 be closed.

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5.2 REVIEW AND EVALUATION OF INTERNAL CONTROLS

5.2.1 Loss of audit trail

Observation

The GOC has adopted a system of recording disbursements under the Grant that does not ensure an adequate audit trail.

Discussion

An inherent problem with the system of accounting and internal control set up by the GOC is that disbursements under the Grant in most cases are made before U.S. Government funds are received. The Mission has obtained a legal opinion from counsel (Reftel Abidjan 024216/01) regarding the allowability of this reimbursement procedure and we are satisfied that the procedure adopted by GOC does not constitute after the fact attribution of costs. (i.e. salaries to be paid are not identified after the release of dollars.)

Payment orders in respect of expenditures to be reimbursed from the Grant are clearly marked as such by the Ministry of Finance Budget Office, enclosed in a bordereau (document transmittal folder) and sent to the GOC Treasury for payment. Payments are made from other GOC accounts pending the receipt of funds from A.I.D.

At the GOC Treasury, the Chef de Service de la Comptabilité (Head of Accounts at the Treasury) records all bordereaux relating to payments to be financed from U.S. Government funds in a ledger (Compte 903). This ledger is divided into columns to record the following modes of payment:

- a) bank transfer
- b) post office account transfer (CCP)
- c) cash payment, and
- d) others (usually deductions in respect of salary advances taken in cash during the month)

The payment orders are then sorted and summarized according to Ministry for reporting in the utilization report.

Reimbursements from the Special account are made in a haphazard manner, making it virtually impossible to perform a one-to-one check of individual entries in the bank statement against either the ledger or the utilization report.

As of August 31, 1990 disbursements recorded in the ledger exceeded disbursements on the utilization reports by FCFA 18,351,568, (\$61,172) thus raising concerns about the accuracy and reliability of ledger entries. Similarly, as of August 31, 1990, the combined balances of the BEAC and BIAT accounts totalled FCFA 19,031,450 (\$63,438) whereas the unutilized balance on the utilization report on the same date was FCFA 189,438,424 (\$631,461).

We subsequently reconciled the unutilized balance on the utilization reports with the bank statements as of December 31, 1990.

We concluded that:

- while justifications were available to support the reported expenditure in the utilization reports, it was not possible to track individual payments from the bank statement to the payment orders and associated supporting documentation;
- bank reconciliation statements were not fulfilling any control function because the bank balance does not bear a relationship to the utilization report as of any given date; and
- although the utilization reports were generally adequately supported by relevant documentation, thus providing assurance on the use of U.S. Government funds, the risk of errors or irregularities in disbursements from the Special account escaping detection has not been reduced to an acceptably low level.

#### Recommendation

We recommend that the accounting system at the GOC treasury be revised to ensure an adequate audit trail. A cash book, written up in strict chronological sequence, with a referencing system to facilitate reconciliation with the A.I.D. ledger, should be established for each bank account.

Similarly, reference numbers should be entered on the A.I.D. ledger to track individual entries to the associated payment orders. In the absence of a computer database, this system should be set up manually.

We further recommend that utilization reports be prepared monthly and agreed or reconciled to the cash books. A bank reconciliation statement should then be prepared for both accounts to ensure the completeness of the accounting records.

#### Project Management comments

OAR/Chad accepts the recommendation. This acceptance is based on the OAR/Chad Controller's Office review and understanding of the limited comments and explanation contained in the draft audit report.

The recommendation and explanation therewith were translated into French and passed to the GOC Minister of Economy and Finance, with

copies made available to Budget Office and Treasury officials for discussion purposes. Budget Office officials defer to the Treasury for decisions in this area since the majority of implementation responsibility, and therefore any increase in workload, will fall on Treasury personnel. It is OAR/Chad opinion that installation and the eventual smooth functioning of the details involved in this recommendation will also require the input of substantial time by AID mission personnel.

The implementation of this recommendation is beyond the immediate control of OAR/Chad, and has become a moot point for the GOC for the foreseeable future. This is because OAR/Chad and the GOC have been informed that a shortage of resources has force discontinuance of the ESF cash transfer program with the completion of the third tranche of this particular phase (677-0061). This effectively removes the considerable leverage we would need to effect such a significant change in the GOC accounting system.

It is requested that Recommendation 5.2.1 be closed.

#### 5.2.2 Lack of inventory controls

##### Observation

The GOC Budget Office has not established a physical inventory control system for commodities purchased with U.S. Government funds. A register of fixed assets has not been set up, neither have the items purchased been individually marked or labelled for control and verification purposes.

##### Discussion

Equipment with a total value of FCFA 254,289,963 (\$847,633) representing approximately 12% of total expenditures under the Grant (See Section 6.8) has been purchased by GOC. These include motor vehicles, air-conditioners, typewriters, calculating machines etc. which were ordered through the Budget Office and distributed to various Ministries.

During the coup d'Etat (change of Government) in December 1990, a large proportion of these assets, especially motor vehicles were lost, destroyed or stolen. The Budget Office has prepared a list of the remaining assets which has been submitted to OAR/Chad. We attempted to physically verify a sample of the equipment reported on this list with little success. Only vague descriptions were included on the list and this was compounded by the fact that the equipment had not been identified or labelled in any way that corresponded with the description on the list.

We were unable to quantify the value of the missing assets because of the absence of a fixed assets register and non-identification of equipment purchased with A.I.D. funds.

### Recommendation

We recommend that the Mission requires GOC to create an equipment register based on paid suppliers invoices in order to establish the quantity and value of the missing equipment. In the future, an equipment register should be created for all equipment purchased with U.S. Government funds. This register should include:

- description of assets
- serial/model/identification number
- date of purchase
- location
- estimated useful life

Each item of equipment should be labelled or given distinguishing marks and cross-referenced to the equipment register. Periodically, the Controller's office should carry out spot-checks on the existence of items recorded in the register.

### Project Management comments

OAR/Chad accepts the recommendation. It should be noted, however, that according to the Special Investigator from RIG/Dakar for IG/I Case No. D910041 (Mr. Thomas X. D'Amico), the draft audit "observation: comments at the foundation of this recommendation are not accurate. An MEF physical inventory system does exist and it obviates the need for the accompanying recommendation for all but a small portion of the materials purchased with these ESF resources, that is expenditures of ESF Program funds for materials, totalled FCFA 254,289,963 (about \$847,633), of which 90 percent of FCFA 228,422,820 was spent for vehicles, which are already adequately inventoried by the GOC, in accordance with the guidelines in the subject recommendation.

OAR/Chad and MEF Budget Office personnel visited the office of Materials in the Administration and Materials Section of the MEF and inspected the inventory system for transportation equipment. This same system provided the basic information used by the GOC to originally report the stolen equipment to OAR/Chad (see GOC MEF letter No. DB/MEF/DG/SE/91 of May 16, 1991), which in turn was used to alert RIG/Dakar to the situation (see 91 Ndjamen 02611 and 91 Abidjan 010778). During RIG/I D'Amico's investigation in Ndjamen he verified that the recommended inventory does exist. The only item recommended in the audit that is not recorded in the MEF inventory system is an estimate of useful life.

On the other hand, an inventory for office equipment does not exist as recommended. During discussions with the MEF Materials personnel OAR/Chad was informed that the MEF is now in the process of attempting to extend the MEF transportation equipment inventory system to the

entire government and for all government purchases. Discussions within the GOC to obtain approval for this policy are currently at the interministerial level. MEF Materials officials indicated that after the policy issue is decided that they would then approach OAR/Chad for technical assistance to examine the entire question. The MEF was given unofficial assurance that OAR/Chad would be willing to discuss the possibilities of providing such assistance after the GOC has decided on the policy aspects.

When the policy guidelines for such a government wide inventory system are established, and OAR/Chad has received an official request to discuss the provision of technical assistance, we will communicate our opinions to RIG/Dakar.

### 5.2.3 OAR/Chad Monitoring

#### Observation

Apart from obtaining and checking bank reconciliation statements prepared by GOC's treasury, OAR/Chad does not appear to have adequately monitored the Project. The Project Officer at the Exit meeting explained that he did carry out regular reviews but that these were not documented.

#### Discussion

In Section IV D (2) on page 28 of the Program Assistance Approval Document (PAAD), OAR/Chad is required to "physically verify salary payments to a sample of a few employees each month and confirm for each tranche, through inspection of receipts, payroll journals and other records that payments claimed by GOC have actually been effected and received by the employees"

We were unable to find any documented evidence that these checks had been carried out by Mission staff. However, from a sample of 30 employees selected from the December 1989 payrolls for three Ministries, we were able to trace 11 of them in person. Reasonable explanations and alternative evidence was produced in respect of the remaining 19 employees. We also attended a wages pay-out at the Treasury and were satisfied with the payment procedures adopted.

#### Recommendation

We recommend that in future, OAR/Chad fully comply with the monitoring requirements of the PAAD. This would ensure a third level of control over the disbursement of the Grant after the GOC Budget Office and the Ministry of General Inspection and State Control.

#### Project Management's comments

OAR/Chad accepts the recommendation. As indicated in the PAAD, the monitoring will be conducted by the Project Officer and by the Controller's Office.

It is requested that Recommendation 5.2.3 be closed.

#### 5.2.4 Inadequate physical controls at GOC Data Processing Unit.

##### Observation

While the Data Processing Unit has established an adequate level of logical access controls, the following weaknesses were observed in controls established over the physical equipment itself.

- No disaster-recovery plan
- No off-site storage of program or data disks
- No smoke-detectors or fire extinguishers
- Inadequate restriction on physical access
- No arrangement for back-up processing facilities.

##### Discussion

The Data Processing Unit of the Ministry of Finance is now responsible for processing the payrolls of 10 out of the 16 GOC Ministries. This accounts for some 10,000 civil servants. Logical controls such as hidden password protection, restricting access to appropriate levels, one-to-one checking of input against output and a register of users have been established.

GOC has however not established adequate physical control over the equipment itself which could hamper data recovery in the event of a mishap. The Director of the Data Processing Unit is aware of these shortcomings, but explained that the major difficulty restricting implementation was the lack of finance.

##### Recommendation

We recommend that OAR/Chad consider financing the purchase of the required equipment and take steps to ensure that the remaining physical controls are put in place at the Data Processing Unit.

##### Project Management comments

OAR/Chad accepts the recommendation. In keeping with a previously-recognized need in this area, and in response to a request from the GOC Minister of Economy and Finance, OAR/Chad financed two person-months of technical assistance to the Data Processing Center during November and December 1991. The local branch of the firm SOMINFOR, a French-based firm well-experienced in IBM equipment and systems, provided the technical assistance. Along with aspects included in the original terms of reference, the final report from this technical assistance discussed some of the specific items in this recommendation e.g., a disaster recovery program and the need for backup facilities.

OAR/Chad recognizes the importance of the physical controls specified in the recommendation, but is somewhat hampered in responding with an immediate solution which requires the purchase of materials. We are able to use OVB PD&S project funds to obtain technical assistance, but cannot use these funds for the purchase of materials. Unfortunately, we have no other project currently underway through which the recommended materials could be made available.

There are, however, two other donor interventions through which it may be possible to eventually correct the noted weaknesses. The French Cooperation Fund (FAC) began providing longterm technical assistance to the Data Processing Center during the last week of January 1992. We have not yet been able to obtain a copy of the terms of reference for this technical assistance, but will do so and determine the possibility of having the French provide the recommended necessary materials through the new FAC effort.

On a longer term basis, the World Bank has just completed the term of reference for large study of the entire civil service, to include the data processing needs of the GOC, beginning with the existing Data Processing Center. This \$300,000 study will be financed through the World Bank's Technical Assistance Project, and will begin in March 1992. We have mentioned the draft audit findings in this recommendation to local officials in the World Bank Resident Representative's office, and they have indicate some interest. We intend to continue to follow these FAC and World Bank possibilities for satisfying the recommendation.

It is requested that Recommendation 5.2.4 be closed.

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5.3 COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

Observation

For motor vehicles purchased at a total cost of FCFA 185,798,270 (\$619,328) we observed that Government taxes had not been excluded from the total invoice price paid. We have been unable to quantify with reasonable certainty the value of the total taxes paid.

Discussion

Section 5.4(A) of the Grant Agreement requires that "the special account will be free from any taxation, duties or fees imposed under the laws in effect in Chad".

Neither GOC's Budget Office nor OAR/Chad took steps to ensure that government taxes were excluded from the invoice price of motor-vehicles purchased under the Grant.

Recommendation

We recommend that OAR/Chad establish the total amount of taxes paid and require GOC to reimburse the Special Account with the amount so established in accordance with Section 5.3 of the Grant Agreement.

Project Management comments

OAR/Chad accepts this recommendation. Officials in the MEF Budget Office have reaffirmed to OAR/Chad, as they did to Investigator D'Amico, that standard GOC purchasing practices were followed when the subject transportation equipment was purchased and the necessary taxes were paid. In subsequent discussions with vehicle vendor representatives they have verified to OAR/Chad that the payment of taxes by every ministry in the GOC is normal procedure when equipment is purchased with GOC resources. However, these vendors also explained that if it had been indicated to them at the time of purchase that USAID ESF resources were being used, it would have been possible to avoid payment of the taxes.

As indicated in the documentation for investigation IG/I Case No. D910041 of October 4, 1991, the exact amount of tax paid on the purchase of the vehicles is not known. The tax amounts are not indicated on the relevant bills of sale, which merely show the total price paid for vehicle and a comment that the price includes the payment of all applicable taxes. The vehicle vendors have indicated their willingness to be of assistance in determining the exact amount of tax paid. Official letters requesting this assistance have been prepared for the vendors and are being translated for immediate forwarding to the vendors.

In the meantime, OAR/Chad discussions with officials at the MEF and the Treasury have gone forward using the investigator's report estimate of approximately FCFA 62,350,000 (\$208,000). Officials at the MEF Budget Office have indicated their willingness to comply with the recommendation to reimburse the special account, but have (1) agreed that there is a need to determine the tax amount more precisely than the current estimate, and (2) have indicated that the final approval to reimburse will have to be made by the Minister of Economy and Finance. Due to the constrained financial status of the GOC this will not be an easy action. OAR/Chad has prepared a letter to the Minister requesting an opportunity to discuss the need to comply with this recommendation. We have every confidence that the GOC will meet their obligations in this matter, and we will inform RIG/Dakar when the recommendation has been complied with.

**SECTION 6**

**ANNEXES**

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- 6.8 Pie diagram illustrating disbursement of the Grant
- 6.9 Details of unsupported expenditure
- 6.10 Full text of OAR/Chad comments

**SITUATION DES PAIEMENTS EFFECTUES EN FICRS DE LA SUBVENTION U. S. A. I. D. POUR L'ANNEE 1989 - 1ère TRANCHE**

DEPARTEMENTS MINISTERIELS	SECTION	SAL. SEPTEMBRE	SAL. OCTOBRE	SAL. NOVEMBRE	TOTAL	ENCAISSEMENT
S. G. G.	2	10.705.043	10.756.518	16.717.411	38.179.972	1.336.000.000
C. N. C.	3	8.980.767	8.980.767	8.771.333	26.732.867	
PLAN & COOPERATION	4	13.186.017	13.820.316	19.053.726	45.060.059	
INFORMATION	5	20.511.382	22.697.636	39.461.508	82.670.526	
I. G. C. E.	6	17.323.690	17.310.452	34.146.474	68.780.616	
FINANCES & INFORMATIQUE	9	53.252.661	54.590.419	18.102.878	125.945.958	
FONCTION PUBLIQUE	10	6.928.426	6.888.003	5.762.546	19.578.975	
JUSTICE	11	17.683.774	17.852.443	21.492.826	57.029.043	
EDUCATION NATIONALE	14	71.985.181	75.887.271	27.644.310	175.516.762	
SANTE PUBLIQUE	15	41.934.615	48.216.359	64.759.689	154.910.663	
AFFAIRES SOCIALES	16	12.558.646	13.183.682	29.788.064	55.530.392	
TRAVAIL & MAIN D'OEUVRE	17	5.340.952	5.288.777	5.161.691	15.791.420	
SECURITE ALIMENTAIRE	18	2.771.668	2.772.135	4.021.873	9.565.676	
AGRICULTURE	19	36.078.380	42.644.817	46.222.444	124.945.641	
ELEVAGE	20	22.646.247	22.655.625	27.891.041	73.192.913	
TOURISME & ENVIRONNEMENT	21	12.070.408	14.699.432	18.291.151	45.060.991	
CULTURE JEUNESSE & SPORTS	22	11.820.526	11.987.840	11.919.994	35.728.360	
COMMERCE & INDUSTRIE	23	11.583.523	11.642.957	16.341.545	39.568.025	
MINES & ENERGIE	24	6.794.719	6.881.927	9.344.021	23.020.667	
TRAVAUX PUBLICS	25	15.081.267	14.959.778	15.443.128	45.484.173	
POSTES & TELECOMMUNICATIONS	26	1.746.173	1.746.173	3.052.163	6.544.509	
TRANSPORT & AVIATION CIVIL	27	4.753.370	5.372.509	7.464.645	17.590.524	
ENSEIGNEMENT SUPERIEUR	28	646.101	9.605.207	2.150.099	12.401.407	
AMENAGEMENT & HABITAT	29	977.457	967.155	707.573	2.652.185	
MATERIELS / FONCTIONNEMENT	-	19.140.200	2.645.000	-	21.785.200	1.336.000.000
<b>TOTAL DEPENSES</b>	<b>-</b>	<b>426.502.193</b>	<b>443.053.198</b>	<b>453.712.133</b>	<b>1.323.267.524</b>	<b>1.323.267.524</b>
<b>DISPONIBLES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12.732.476</b>



CERTIFIE EXACTE LA PRESENTE SITUATION (// LE DIRECTEUR DU BUDGET) (// LE DIRECTEUR CONTROLE FINANCIER) (// LE MINISTRE DE L'I.G.C.E.) (// LE MINISTRE DES FINANCES & INFORMATIQUE)

Le Trésorier Général  
  
**CHEIK ROGRIM**

**FELICIE NANGAR**

**CHEIKMA MASSA**  
 Direction du Contrôle  
 Budget et Finances

**ARMED**  
 LE MINISTRE  
 de l'Institut National  
 de la Statistique et du Comptable

**GARAFAL MBALLENDANA**  
 LE MINISTRE  
 DES FINANCES & INFORMATIQUE

1/3

REPUBLIQUE DU TOGO  
MINISTRE DE L'ECONOMIE ET DES FINANCES  
DIRECTION DU TRÉSOR, DE LA COMPTABILITÉ  
ET DES FINANCES EXTÉRIEURES  
TRESORERIE GÉNÉRALE

/// SITUATION D'EXECUTION DE LA 2<sup>e</sup> TRANCHE DE LA SUBVENTION USAID 1989 AU 31.8.90

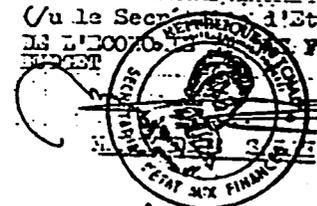
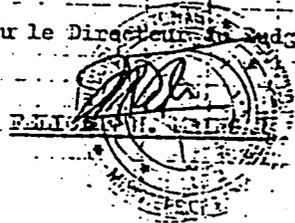
DEPARTEMENTS	SEPTEMBRE 89	JANVIER 90	FEBVRIER 90	MARS 90	MAI 90	AOÛT 90	TOTAL	ENCAISSEMENTS	INTERETS	TOTAL DISPONIBLES	
S.G.C.	2	-	313.545	-	-	-	313.545	1.024.000.000	9.652.737		
C.H.C.	3	6.574.054	256.464	-	-	-	6.830.518	12.752.292			
PLAN & COOPERATION	4	-	7.405.858	98.678	17.160	-	7.521.696	1 <sup>o</sup> tranche			
INFORMATION	5	-	3.377.414	-	-	-	3.377.414				
I.G.C.E	6	-	-	-	-	-	-				
FINANCES & IMP.	9	108.385.627	1.691.457	215.146	-	-	110.292.230				
FONCTION PUBLIQUE	10	-	1.775.762	202.338	-	-	1.978.100				
JUSTICE	11	-	5.757.641	32.255	-	-	5.819.907				
EDUCATION NATIONALE	14	110.994.712	135.100.502	7.039.510	194.408	-	253.329.222				
SANTE PUBLIQUE	15	12.769.025	33.335.125	973.594	796.159	-	47.874.903				
AFFAIRES SOCIALES	16	-	1.365.068	22.198	-	-	1.387.266				
TRAVAIL ET H.O	17	-	2.329.051	12.912	-	-	2.341.963				
SECURITE ALIMENT.	18	-	490.593	-	-	-	490.593				
AGRICULTEURS	19	21.727.554	12.014.094	-	-	-	33.741.648				
ELEVAGE	20	-	3.451.770	31.303	-	-	3.483.073				
TOURISME	21	-	19.075.751	-	-	-	19.075.751				
CULTURE JEUNESSE	22	-	12.027.551	-	-	-	12.027.551				
COMMERCE	23	-	6.917.369	56.655	-	-	6.974.024				
MINES ET ENERGIE	24	-	5.059.988	14.421	15.405	-	5.090.814				
TRAVAUX PUBLICS	25	-	-	-	-	-	-				
POSTES ET TELECOM.	26	-	525.973	-	-	-	525.973				
TRANSPORT	27	-	-	-	-	-	-				
ENSEIGNEMENT SUP.	28	-	-	-	-	-	-				
AMENAGEMENT	29	-	-	-	-	-	-				
MATERIEL		26.365.270	101.715.145	102.154.300	29.510.500	-	1250.526.215				
OP D'ORDRE LPP+Ret.Lpp3t		22.711.051	-	-	35.682.494	19.057.075	84.430.520				
		1.492.070	-	-	-	-	1.492.070				
		300.021.924	359.740.318	110.063.104	30.531.710	36.682.494	19.057.075	356.276.555	1.056.752.292	9.552.787	169.450.424

CERTAINES RÈGLES DE SITUATION :

(Vu le Ver...  
 la...)

(Vu le Directeur du Budget

(Vu le Secrétaire d'Etat au Ministère  
 DE L'ECONOMIE, DES FINANCES, CHARGE DE  
 LE BUDGET



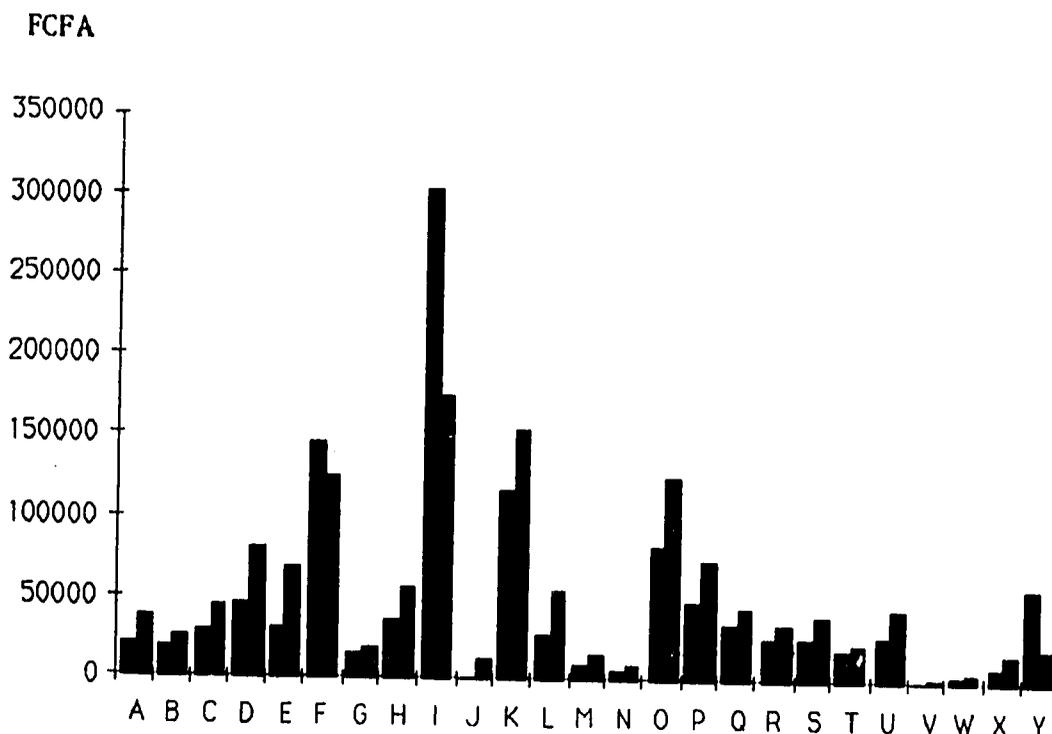
35

6.3 STATEMENT OF SOURCE AND APPLICATION OF FUNDS UNDER THE  
SUPPORT FOR DEVELOPMENT MINISTRIES PROGRAM IV  
(PROJECT NO.677-0061).

	\$	<u>FCFA</u>
<b>FUNDS RECEIVED</b>		
1st tranche	4,000,000	1,336,000,000
2nd tranche	4,000,000	1,024,000,000
Interest		9,652,787
		<u>2,369,652,787</u>
<b>APPLICATION OF FUNDS</b>		
Salaries		1,896,640,696
Equipment		254,289,963
Consumable materials & supplies		29,313,520
		<u>(2,180,244,179)</u>
		189,408,608
Add balances brought forward from SDM III on BEAC & BIAT a/cs		51,571,229
		<u>240,979,837</u>
<b>UNUTILIZED BALANCE as of December 31st, 1990</b>		<u><u>240,979,837</u></u>
Unutilized balance as above		240,979,837
Unutilized balance per utilization report (2nd tranche)		189,438,424
Difference to be accounted for (Section 5.1.2)		<u><u>51,541,413</u></u>

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**6.4 COMPARISON BETWEEN UTILIZATION PLANS AND UTILIZATION REPORTS**  
**1ST TRANCHE**

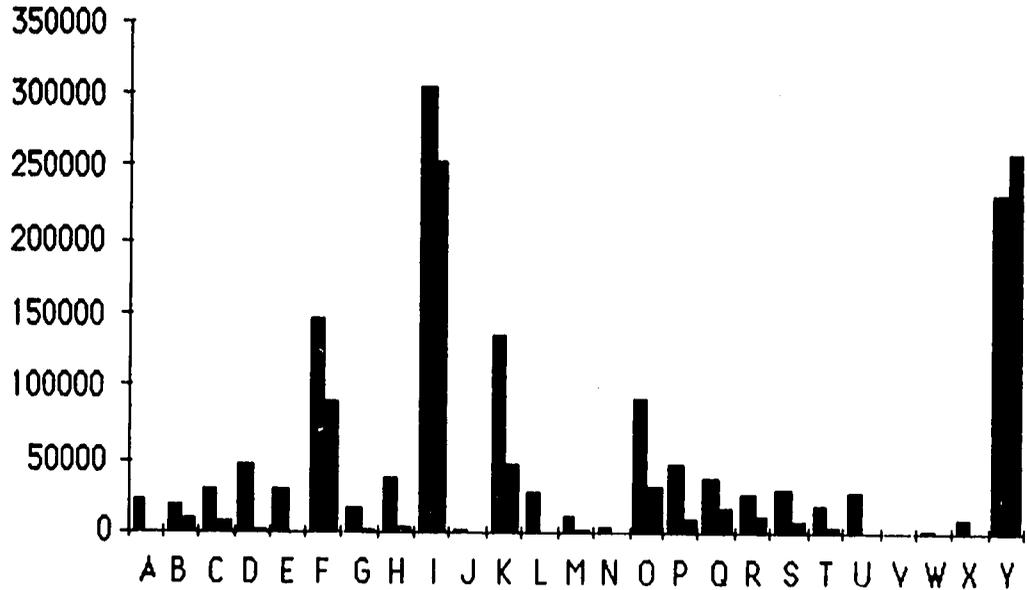


	Utilization Plan FCFA 000	\$000	Utilization Report FCFA 000	\$000
A. General Secretariat of Govt.	22,322	74	38,180	127
B. National Consultative Council	19,450	65	26,732	89
C. Plan and Co-operation	30,147	100	45,060	150
D. Information and Orientation	47,277	158	82,670	276
E. General Inspection	32,436	108	68,781	229
F. Finance & Data Processing	145,177	484	125,946	420
G. Civil Service	17,172	57	19,579	65
H. Justice	36,892	123	57,029	190
I. Education	304,725	1,016	175,517	585
J. Advanced Teaching & Research	905	3	12,401	41
K. Public Health	116,771	389	154,911	516
L. Social Affairs	28,421	95	55,530	185
M. Labor	10,194	34	15,791	53
N. Food Security	5,837	19	9,566	32
O. Agriculture	84,201	281	124,946	416
P. Livestock	48,399	161	73,192	244
Q. Tourism	34,701	116	45,061	150
R. Culture, Youth & Sports	26,821	89	35,728	119
S. Commerce & Industry	26,765	89	39,568	132
T. Mines & Energy	20,306	68	23,021	77
U. Public Works	28,225	94	45,484	152
V. Urban & Housing Development	905	3	2,652	9
W. Posts & Telecommunications	4,012	13	6,545	22
X. Transport & Civil Aviation	9,432	31	17,592	59
Y. Equipment & Supplies	58,000	195	21,785	73
Contingencies	136,507	455	-	-
<b>Total</b>	<b>1,296,000</b>	<b>4,320</b>	<b>1,323,267</b>	<b>4,411</b>

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6.4 COMPARISON BETWEEN UTILIZATION PLANS AND UTILIZATION REPORTS  
2ND TRANCHE

FCFA



	Utilization Plan FCFA 000	\$000	Utilization Report FCFA 000	\$000
A. General Secretariat of Govt.	22,322	74	817	3
B. National Consultative Council	19,450	65	8,811	29
C. Plan and Co-operation	30,147	100	7,521	25
D. Information and Orientation	47,277	158	3,377	11
E. General Inspection	30,000	100	-	-
F. Finance & Data Processing	146,329	488	90,792	303
G. Civil Service	17,173	57	1,976	7
H. Justice	38,011	127	5,820	19
I. Education	304,725	1,016	253,329	844
J. Advanced Teaching & Research	3,929	13	-	-
K. Public Health	136,532	455	47,872	160
L. Social Affairs	29,636	99	1,386	5
M. Labor	10,639	35	2,642	9
N. Food Security	5,837	19	490	2
O. Agriculture	93,966	313	33,741	112
P. Livestock	48,399	161	8,483	28
Q. Tourism	37,805	126	19,073	64
R. Culture, Youth & Sports	26,821	89	12,027	40
S. Commerce & Industry	30,190	101	6,954	23
T. Mines & Energy	20,306	68	5,097	17
U. Public Works	28,225	94	-	-
V. Urban & Housing Development	1,100	4	-	-
W. Posts & Telecommunications	4,012	13	524	2
X. Transport & Civil Aviation	9,432	31	-	-
Y. Equipment & Supplies	231,577	772	260,326	868
Contingencies	18,159	61	-	-
Income taxes, pensions etc.	-	-	85,922	286
	<u>1,391,999</u>	<u>4,639</u>	<u>856,980</u>	<u>2,857</u>

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## 6.5 SUMMARY OF UNSUPPORTED EXPENDITURE

	<u>1st tranche</u>		<u>2nd tranche</u>	
	<u>FCFA</u>	<u>\$</u>	<u>FCFA</u>	<u>\$</u>
2. General Secretariat of Govt.	-	-	-	-
3. National Consultative Council	279,372	931	72,344	241
4. Plan and Co-operation	79,307	264	-	-
5. Information and Orientation	-	-	-	-
6. General Inspection	-	-	-	-
9. Finance & Data Processing	1,001,812	3,339	160,991	537
10. Civil Service	-	-	301,202	1,004
11. Justice	17,936,642	59,789	-	-
14. Education	510,175	1,701	5,142,220	17,141
15. Public Health	1,018,987	3,397	73,131	244
16. Social Affairs	343,325	1,144	101,482	338
17. Labor	-	-	-	-
18. Food Security	899,881	3,000	-	-
19. Agriculture	902,080	3,007	223,853	746
20. Livestock	534,975	1,783	-	-
21. Tourism	83,715	279	-	-
22. Culture, Youth & Sports	899,956	3,000	89,005	297
23. Commerce & Industry	-	-	-	-
24. Mines & Energy	-	-	-	-
25. Public Works	487,273	1,624	-	-
26. Posts & Telecommunications	-	-	-	-
27. Transport & Civil Aviation	-	-	-	-
28. Advanced Teaching & Research	110,163	367	-	-
29. Urban & Housing Development	97,403	325	-	-
Equipment & Supplies	-	-	215,250	718
Income tax, pensions, etc.	-	-	13,137,886	43,792
	<u>25,185,066</u>	<u>83,950</u>	<u>19,517,364</u>	<u>65,058</u>
<u>SUMMARY</u>	<u>FCFA</u>	<u>\$</u>		
1st tranche	25,185,066	83,950		
2nd tranche	19,517,364	65,058		
	<u>44,702,430</u>	<u>149,008</u>		

## 6.6 PROCEDURE FOR RECEIPT OF GRANT FUNDS

1. GOC through the Ministry of Finance and Data Processing requests OAR/Chad to disburse the tranche after satisfying conditions precedent.
2. OAR/Chad reviews and approves documentation submitted by GOC usually evidenced by a Program Implementation letter.
3. OAR/Chad requests RAMC in Paris to deposit FCFA equal to the amount of the tranche into GOC's Disbursement account at BIAT.
4. GOC makes appropriate transfers to Special Account held at BEAC.

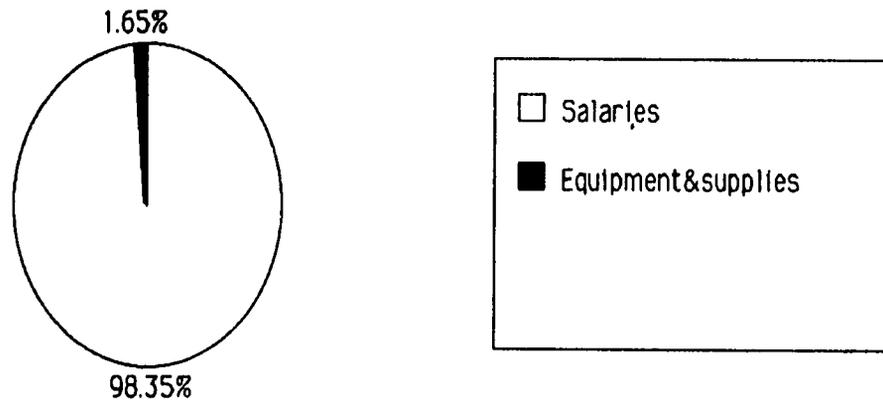
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## 6.7 PROCEDURE FOR DISBURSEMENT OF GRANT FUNDS BY GOC

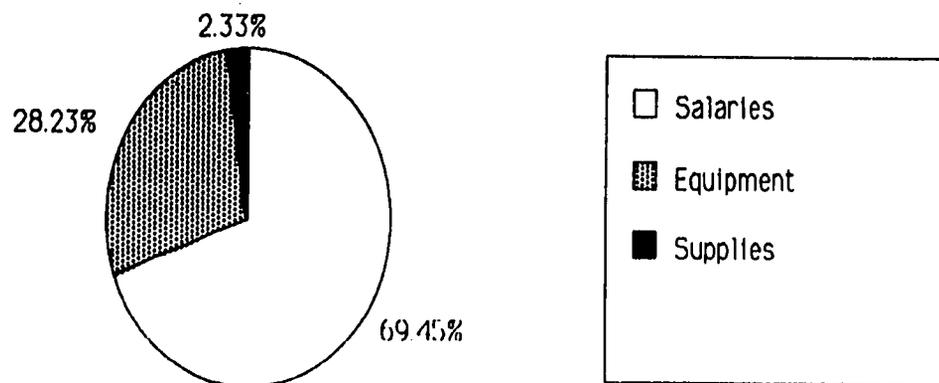
1. Requests for payment of salaries or expenditure for goods and services prepared by applicable Ministry and forwarded to the Ministry of Finance Budget Office.
2. Budget Office processes request and confirms availability of funds and compliance of payment request with personnel and procurement procedures.
3. Approved requests are then sent to the Ministry of General Inspection and State Control which double-checks for accuracy and conformity with GOC regulations.
4. Payment Orders together with supporting documentation and evidence of Budget Office approval are sent to the GOC Treasury for cash disbursement or credit transfer.
5. GOC Treasury maintains bank and related records for disbursements from the special account at BEAC.
6. OAR/Chad conducts monthly reviews including physical verification of salary payments, inspection of receipts, payroll journals and other records.

**6.8 PIE DIAGRAM ILLUSTRATING DISBURSEMENT OF GRANT**

**1ST TRANCHE**



**2ND TRANCHE**



**6.9 Details of unsupported expenditure**

1st tranche

OP No. (Payment Order No.)	AMOUNT PCFA	AMOUNT \$
078/282	23,160	77
105/403	46,360	155
110/421	18,520	62
243/1333	46,360	155
185/984	46,360	155
245/1336	19,206	64
244/1327	19,206	64
245/1337	18,520	62
195/986	18,520	62
195/985	23,160	77
080/304	79,307	264
066/232	66,712	222
044,161	57,871	193
069/245	93,886	373
089/360	181,559	605
093/374	111,992	313
105/407	112,159	374
240/1306	34,319	114
198/1004	123,653	412
192/965	123,653	412
170/675	32,237	107
187/928	63,771	213
205/117	13,448,486	44,828
196/993	4,488,156	14,961
246/1344	97,403	325
221/1210	97,403	325
211/1144	97,400	325
279/1059	78,843	263
257/1506	69,563	232
257/1507	69,563	232
070/248	88,638	295
089/361	51,977	173
206/1126	78,421	261
235/1504	44,925	150
175/693	377,513	1,258
173/681	377,513	1,258
001/220	73,136	244
061/221	33,368	111
085/328	88,123	294
193/979	31,701	106
193/980	31,701	106
156/631	42,648	142
157/635	42,648	142
C/F	<u>21,169,620</u>	<u>70,566</u>

**6.9 Details of unsupported expenditure**

1st tranche (Cont'd)

OP No. (Payment Order No.)	AMOUNT FCFA	AMOUNT \$
B/f	21,169,620	70,566
022/084	899,881	3,000
66/233	56,385	188
200/1206	393,544	1,312
235/1284	150,717	502
171/679	150,717	502
171/678	150,717	502
271/1593	126,914	423
245/1342	408,061	1,360
066/234	83,715	279
056/211	78,426	261
019/078	156,510	522
012/050	62,561	209
84/326	156,510	522
259/1513	156,510	522
202/1045	132,929	443
169/672	156,510	522
191/963	487,273	1,624
156/633	110,163	367
137/521	97,403	324
	<u>25,185,066</u>	<u>83,950</u>

6.9 Details of unsupported expenditure

2nd tranche

OP No. (Payment Order No.)	AMOUNT FCFA	AMOUNT \$
273/1597	36,172	121
273/1598	36,172	121
298/1737	67,861	226
295/1732	58,811	196
245/1320	34,319	114
311/1807	8,658	29
334/2120	73,136	244
334/2119	73,136	244
334/2118	73,136	244
334/2117	73,136	244
331/2112	51,978	173
331/2111	51,978	173
331/2110	51,978	173
331/2113	51,978	173
355/2248	51,928	173
299/1743	45,203	151
299/1744	45,203	151
146/551	4,300,086	14,334
348/2181	42,651	142
349/2188	78,843	263
349/2191	74,019	247
353/2220	10,000	33
356/2341	64,920	216
354/2226	54,622	182
354/2227	54,622	182
358/2344	42,651	142
324/2036	69,560	232
379/2667	73,131	244
278/1649	43,161	144
278/1650	42,161	141
315/1833	8,080	26
315/1834	8,080	26
236/1290	150,717	502
292/1726	73,136	244
285/1701	89,005	297
30/39	215,250	718
Payments in respect of salary deductions (IRPP, pensions etc) for which bordereaux could not be traced	13,137,886	43,793
	<u>19,517,364</u>	<u>65,058</u>

## 6.10 Full text of OAR/Chad comments

OAR/Chad appreciates assistance of non-federal audit of GOC and USAID management of SDM-4 cash transfer resources. Suggestions and recommendations in subject audit are being used to examine and strengthen OAR/Chad and GOC Ministry of Economy and Finance (MEF) capacity to implement this type of program.

Subsequent to receipt of final draft audit report, and RIG/Dakar December 11, 1991 confirmation of such (91 Dakar 14537), OAR/Chad has met frequently with GOC MEF officials to prepare and provide full and accurate responses to audit recommendations. This has not been easy or automatic. Political and military instability have continued in Chad since a serious clash between pro- and anti-Government military occurred on October 13, 1991 in the capital Ndjamen, and since then has been contained to areas only four hours drive from the capital. Throughout this period of strife the GOC has tried to devote adequate civilian resources to addressing the draft audit concerns. However, because of (1) the continuing military activity in the nearby countryside (see Ndjamen 0254), and (2) the fact that all U.S. Government personnel in Chad are working under an Authorized Evacuation status, the comments contained herein may, in some aspects, appear less complete than would be obtained under conditions of national stability and peace.

The comments below are keyed to each specific recommendation listed in the subject draft audit report:

5.1.1 Unsupported expenditures: OAR/Chad accepts the recommendation "to require the GOC to provide the documentation supporting expenditure of FCFA 44,702,430 (\$149,008), failing which the Special Account should be reimbursed". This sum represents 1.9 percent of the total amount expended through the two tranches.

In numerous meetings with Ministry of Finance and Treasury officials, OAR/Chad has received the total cooperation of those involved in reviewing the project-related files. Supporting documentation has been identified. In this regard, it is helpful to remember two aspects about the general conditions within which this cash transfer program operates:

First, the total wage bill for GOC civilian employees approximates FCFA 3 billion per month. By extrapolation, 40-50 percent of that total is generated by salaries for the eligible development-oriented ministries and their employees working in the capital city. The USAID cash transfer program, therefore, provides an amount sufficient for the payment of only 2-3 months of salary per year for those employees eligible to be paid with program resources. Salaries for the remainder of the year for these civil servants, and for others not in the program, are paid with funds made available to the GOC from other donors/sources.

Secondly, the basic employment documents of the GOC, such as the published version of the decree (arrete) formalizing the employment, promotion and/or transfer of an individual, are attached to the Ministry of Finance Budget Office's Ordre de Payement (Payment Order) for the first month in which the individual commences his/her service with the GOC, and/or that particular personal salary change becomes effective. An effort to reproduce this supporting documentation for attachment to each and every monthly Ordre de Payement for each employee would physically and financially swamp the GOC salary system. Therefore, the Ordre de Payement (Payment Order) includes a preprinted block (front of page, left column, fourth row) labelled "Pieces justificatives de la depense:" (supporting documents for this expenditure).

In company with Treasury officials we surveyed several of the groups of documents listed in Annex 6.5 of the draft audit report, and in each case the "Pieces justificatives" block was complete, indicating the type and location of the supporting documentation. Therefore, we elected to randomly test the availability of the cited supporting documentation. From the list of unsupported expenditures in Annex 6.5 we tested the documentation for three ministries (Finance and Data Processing, Education and Public Health), plus for the Income Tax, Pensions, etc. line item. The expenditures listed in Annex 6.5 for these four categories total FCFA 21 million, or 46.9 percent of the reportedly unsupported total. Within these four categories we examined the documentation for five items totalling FCFA 3.4 million, the equivalent of 16.2 percent of the four-categories total, or 7.6 percent of the reportedly unsupported total.

In each and every test the payment order (Ordre de Payement) led to the Mandat de Payement, the cash voucher (Bon de Caisse) with the employee's personal identification card number and signature showing actual receipt of the salary (or direct transfer of funds to a numbered bank account) a certificate of service (Certificate de Prise de Service) from the specific office where he/she works, and/or a copy of the decree verifying the employment and position of the individual(s) concerned.

The situation with the Pensions, Income Tax category was slightly different. As with all payments made with these AID resources, those for Pensions, Income Tax, etc. are grouped by office under a Mandat de Payement, and several of the latter documents are grouped together under a Bordereau. Among the Pension, Income tax documents at the Treasury there is no single Bordereau or Mandat de Payment which corresponds with the Annex 6.5 total of FCFA 13,137,886. We assume that the audit team added several individual Ordre de Payements together, but we are unable to identify which. Therefore, in view of the need to provide a timely response to the auditors we elected to test the Pensions, Income tax documentation for the same five items tested above for the three ministries. In each case we found that the Mandat de Payement shows transfer of the pension and tax funds to the Treasury, along with information in the "Pieces justificatives" block which references the number of the relevant cash voucher (Bon de Caisse).

Photocopies of all documents related to the above tests materials are available in OAR/Chad files.

Furthermore, the ready availability and recovery of supporting documentation is being improved, and the issue is gradually being removed as a possible problem. The GOC continues to expand computerization of civil servant salaries. As of December 1991, the MEF Computer Center is processing the monthly salaries for approximately 20,000 persons, or about 80 percent of the public work force. The computerized system provides for multiple copies of the monthly statement of earnings for each employee, and will fulfil the auditors criteria for supporting documentation as listed in section 5.1.1. of the draft audit report.

In view of the consistent availability of the supporting documentation for all of the items tested it is requested that Recommendation 5.1.1. be closed.

5.1.2. Final Utilization Report: OAR/Chad accepts the recommendation to "require the GOC to present utilization reports for the disbursement of FCFA 60,372,663 (\$201,242), failing which the Special Account should be reimbursed".

GOC Treasury officials have prepared a final utilization report for the FCFA 60,372,637 not yet reported on for the Support to Development Ministries III (677-0055) grant. This report has been received by OAR/Chad, it has been reviewed by the project officer and it appears consistent with other similar reports submitted in the past.

It is requested that Recommendation 5.1.2 be closed.

5.1.3 Variations Between Actual and Budgeted Expenditures: OAR/Chad accepts the recommendation that the GOC "provide a written explanation of the more significant variations noted between the planned and actual expenditures under the second tranche. The Mission Controller should review the explanation for reasonableness. In the future, the Project Officer should impress upon the relevant GOC officials the need for utilization reports of actual expenditures to reasonably correspond with the utilization plan".

This recommendation was passed to the GOC, along with all others, on December 11, 1991. In addition, OAR/Chad personnel have discussed this topic with GOC officials in the MEF Budget Office and have received information that a written explanation of the significant variations will contain some or all of the following points:

- GOC good intentions to comply with the approved plan figures are evident from the close correspondence between planned and actual expenditure performance reported for the first tranche. The differences noted for the second tranche represent a unique set of circumstances.

- Most of the claimed variance at the root of this recommendation can be found in a more thorough analysis of the data in the draft audit report itself. For example: it is valid to compare actual versus planned expenditures when the two exercises occur only 2-3 months apart, and the actual amount of FCFA received is greater than the planned for amount, due to movement of the exchange rate. This occurred in the first tranche situation. However, when the exchange rate movement is downward, and the actual amount received is 17 percent less than that planned for, then accommodating cuts and changes have to be made. This was necessitated in the second tranche, where the planning took place in November 1989 at the exchange rate of FCFA 310/\$1, but the actual funds were received in October 1990 at the exchange rate of FCFA 256/\$1. It was not a question of whether or not changes were appropriate, but only a question of where they were to be made. That was a judgment called by the GOC, i.e., to impose the reduction in available funds entirely on a few ministries, or to spread the reduction amongst all of the ministries, cutting each one where feasible. The GOC opted for the latter approach.

- Details for the second tranche in Annex 6.4 show the addition of a new line item for Income Tax, Pensions etc. While this addition does not influence the difference between the total amounts planned for and actually expended, it does account for a share of the differences between the planned and actual amounts for each individual ministry. The utilization plan for the second tranche listed gross salary payments by ministry. The report of actual utilization lists the net salary payments, pensions and taxes separately.

- Information available in section 5.1.3 and Annex 6.1 of the draft audit report, plus the actual exchange rate, and the GOC utilization plan submitted in November 1989 for the second tranche, combine to explain 69 percent of the "Variance" column total of FCFA 535 million. The difference of FCFA 167 million as follows: (1) minus FCFA 216 million due to the lower exchange rate actually received; (2) minus FCFA 16 million for interest planned to have been earned if the second tranche had been delivered when first requested by the GOC; and (3) minus FCFA 136 million originally thought by the MEF Budget Office to be the residual from the first tranche. This figure was taken from an early erroneous draft copy of the utilization report for the first tranche prepared by the Treasury officials. That utilization report was later corrected prior to submission to OAR/Chad, and appears as Annex 6.1. The same error, however, was carried over into the second tranche planning by the Budget Office and was not noticed or corrected at that time.

- Officials at the GOC MEF Budget Office maintain that a combination of two factors account for the remaining FCFA 167 million difference. First, there is a lack of precise data for estimating the amount needed for salaries for a particular ministry for any specific month. At best, most data is already several months old and somewhat out of date by the time it is available to the Budget Office for planning purposes. Secondly, before the out-of-date planning figures can be put into effect there always are other changes taking place. The transitoriness of bureaucrats, particularly among the highly skilled and better paid group at the upper levels, results in frequent movement among ministries.

These factors notwithstanding, the GOC MEF officials have reaffirmed their intention and desire to maintain actual expenditures in line with their planning documents to the greatest extent possible. The OAR/Chad Acting Controller has reviewed this information from the GOC and believes that it is consistent with the intent and purpose of the recommendation.

It is requested that Recommendation 5.1.3 be closed.

5.2.1 Loss of the Audit Trail: OAR/Chad accepts the recommendation "that the accounting system at the GOC Treasury be revised to ensure an adequate audit trail. A cash book written up in strict chronological sequence, with a referencing system to facilitate reconciliation with the AID ledger, should be established for each bank account. Similarly, reference numbers should be entered on the AID ledger to track individual entries to the associated payment orders. In the absence of a computer database, this system should be set up manually. We further recommend that utilization reports be prepared monthly and agreed or reconciled to the cash books. A bank reconciliation statement should then be prepared for both accounts to ensure the completeness of the accounting records."

This acceptance is based on the OAR/Chad Controller's Office review and understanding of the limited comments and explanation contained in the draft audit report.

The recommendation and explanation therewith were translated into French and passed to the GOC Minister of Economy and Finance, with copies made available to Budget Office and Treasury officials for discussion purposes. Budget Office officials defer to the Treasury for decisions in this area since the majority of implementation responsibility, and therefore any increase in workload, will fall on Treasury personnel. It is OAR/Chad opinion that installation and the eventual smooth functioning of the details involved in this recommendation will also require the input of substantial time by AID mission personnel.

The implementation of this recommendation is beyond the immediate control of OAR/Chad, and has become a moot point for the GOC for the foreseeable future. This is because OAR/Chad and the GOC have been informed that a shortage of resources has force discontinuance of the ESF cash transfer program with the completion of the third tranche of this particular phase (677-0061). This effectively removes the considerable leverage we would need to effect such a significant change in the GOC accounting system.

It is requested that Recommendation 5.2.1 be closed.

**5.2.2 Lack of Inventory Controls:** OAR/Chad accepts the recommendation that the "GOC create an equipment register based on paid suppliers invoices in order to establish the quantity and value of the missing equipment. In the future, an equipment register should be created for all equipment purchased with U.S. Government funds. This register should include: description of assets; serial/model/identification number; date of purchase; location; estimated useful life. Each item of equipment should be labelled or given distinguishing marks and cross-referenced to the equipment register. Periodically, the Controller's Office should carry out spot-checks on the existence of items recorded in the register."

It should be noted, however, that according to the Special Investigator from RIG/Dakar for IG/I Case No. D910041 (Mr. Thomas X. D'Amico), the draft audit "observation" comments at the foundation of this recommendation are not accurate. An MEF physical inventory system does exist and it obviates the need for the accompanying recommendation for all but a small portion of the materials purchased with these ESF resources, that is expenditures of ESF Program funds for materials, totalled FCFA 254,289,963 (about \$847,633), of which 90 percent of FCFA 228,422,820 was spent for vehicles, which are already adequately inventoried by the GOC, in accordance with the guidelines in the subject recommendation.

OAR/Chad and MEF Budget Office personnel visited the office of Materials in the Administration and Materials Section of the MEF and inspected the inventory system for transportation equipment. This same system provided the basic information used by the GOC to originally report the stolen equipment to OAR/Chad (see GOC MEF letter No. DB/MEF/DG/SE/91 of May 16, 1991), which in turn was used to alert RIG/Dakar to the situation (see 91 Ndjamena 02611 and 91 Abidjan 010778). During RIG/I D'Amico's investigation in Ndjamena he verified that the recommended inventory does exist. The only item recommended in the audit that is not recorded in the MEF inventory system is an estimate of useful life.

On the other hand, an inventory for office equipment does not exist as recommended. During discussions with the MEF Materials personnel OAR/Chad was informed that the MEF is now in the process of attempting to extend the MEF transportation equipment inventory system to the entire government and for all government purchases. Discussions within the GOC to obtain approval for this policy are currently at the interministerial level. MEF Materials officials indicated that after the policy issue is decided that they would then approach OAR/Chad for technical assistance to examine the entire question. The MEF was given unofficial assurance that OAR/Chad would be willing to discuss the possibilities of providing such assistance after the GOC has decided on the policy aspects.

When the policy guidelines for such a government wide inventory system are established, and OAR/Chad has received an official request to discuss the provision of technical assistance, we will communicate our opinions to RIG/Dakar.

**5.2.3 Monitoring:** OAR/Chad accepts the recommendation that "OAR/Chad fully comply with the monitoring requirements of the PAAD. This would ensure a third level of control over the disbursement of the Grant after the GOC Budget Office and the Ministry of General Inspection and State Control.

As indicated in the PAAD, the monitoring will be conducted by the Project Officer and by the Controller's Office.

It is requested that Recommendation 5.2.3 be closed.

**5.2.4 Inadequate Physical Controls at GOC Data Processing Unit:** OAR/Chad accepts the recommendation "to consider financing the purchase of the required equipment and take steps to ensure that the remaining physical controls are put in place at the Data Processing Unit."

In keeping with a previously-recognized need in this area, and in response to a request from the GOC Minister of Economy and Finance, OAR/Chad financed two person-months of technical assistance to the Data Processing Center during November and December 1991. The local branch of the firm SOMINFOR, a French-based firm well-experienced in IBM equipment and systems, provided the technical assistance. Along with aspects included in the original terms of reference, the final report from this technical assistance discussed some of the specific items in this recommendation e.g., a disaster recovery program and the need for backup facilities.

OAR/Chad recognizes the importance of the physical controls specified in the recommendation, but is somewhat hampered in responding with an immediate solution which requires the purchase of materials. We are able to use OVB PD&S project funds to obtain technical assistance, but cannot use these funds for the purchase of materials. Unfortunately, we have no other project currently underway through which the recommended materials could be made available.

There are, however, two other donor interventions through which it may be possible to eventually correct the noted weaknesses. The French Cooperation Fund (FAC) began providing longterm technical assistance to the Data Processing Center during the last week of January 1992. We have not yet been able to obtain a copy of the terms of reference for this technical assistance, but will do so and determine the possibility of having the French provide the recommended necessary materials through the new FAC effort.

On a longer term basis, the World Bank has just completed the term of reference for large study of the entire civil service, to include the data processing needs of the GOC, beginning with the existing Data Processing Center. This \$300,000 study will be financed through the World Bank's Technical Assistance Project, and will begin in March 1992. We have mentioned the draft audit findings in this recommendation to local officials in the World Bank Resident Representative's office, and they have indicated some interest. We intend to continue to follow these FAC and World Bank possibilities for satisfying the recommendation.

It is requested that Recommendation 5.2.4 be closed.

5.3 Compliance with Applicable Laws and Regulations: OAR/Chad accepts this recommendation to "establish the total amount of taxes paid and require the GOC to reimburse the Special Account with the amount so established in accordance with Section 5.3 of the Grant Agreement."

Officials in the MEF Budget Office have reaffirmed to OAR/Chad, as they did to Investigator D'Amico, that standard GOC purchasing practices were followed when the subject transportation equipment was purchased and the necessary taxes were paid. In subsequent discussions with vehicle vendor representatives they have verified to OAR/Chad that the payment of taxes by every ministry in the GOC is normal procedure when equipment is purchased with GOC resources. However, these vendors also explained that if it had been indicated to them at the time of purchase that USAID ESF resources were being used, it would have been possible to avoid payment of the taxes.

As indicated in the documentation for investigation IG/I Case No. D910041 of October 4, 1991, the exact amount of tax paid on the purchase of the vehicles is not known. The tax amounts are not indicated on the relevant bills of sale, which merely show the total price paid for vehicle and a comment that the price includes the payment of all applicable taxes. The vehicle vendors have indicated their willingness to be of assistance in determining the exact amount of tax paid. Official letters requesting this assistance have been prepared for the vendors and are being translated for immediate forwarding to the vendors.

In the meantime, OAR/Chad discussions with officials at the MEF and the Treasury have gone forward using the investigator's report estimate of approximately FCFA 62,350,000 (\$208,000). Officials at the MEF Budget Office have indicated their willingness to comply with the recommendation to reimburse the special account, but have (1) agreed that there is a need to determine the tax amount more precisely than the current estimate, and (2) have indicated that the final approval to reimburse will have to be made by the Minister of Economy and Finance. Due to the constrained financial status of the GOC this will not be an easy action. OAR/Chad has prepared a letter to the Minister requesting an opportunity to discuss the need to comply with this recommendation. We have every confidence that the GOC will meet their obligations in this matter, and we will inform RIG/Dakar when the recommendation has been complied with.

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