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Regional Inspector General for Audit
Nairobi, Kenya

Audit of USAID/Rwanda Management of Cash Advances and Expenditures For Projects and Programs

Report No. 3-696-92-08
March 25, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 25, 1992

MEMORANDUM

TO : Gary L. Nelson, Mission Director, USAID/Rwanda

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

SUBJECT: Audit of USAID/Rwanda Management of Cash Advances and Expenditures for Projects and Programs

Enclosed are five copies of our audit report on USAID/Rwanda's Management of Cash Advances and Expenditures for Projects and Programs, Report No. 3-696-92-08.

We reviewed your comments on the draft report and included them as an appendix to this report. All recommendations are resolved and will be closed when appropriate actions are completed. Please respond to this report within 30 days indicating any actions planned to implement the recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

USAID/Rwanda's development objectives for Rwanda include agricultural production, natural resource management, small enterprise development, family planning and human resource development. As of August 31, 1991, USAID/Rwanda's portfolio consisted of 14 projects and one program with $73.6 million in obligations and $41.7 million in expenditures (see page 1).

Prior mission-contracted audits, performed under the supervision of RIG/A/Nairobi, and USAID/Rwanda's own assessments have identified major weaknesses in the internal controls of Rwandan recipient offices which have resulted in $4.2 million of questioned and unsupported costs out of $7.8 million audited. These weaknesses included the lack of:

- reports that compared projects' actual financial positions and expenditures with budgeted amounts;
- documentation supporting claims for the reimbursement of project expenditures;
- trained accounting staff; and
- controls over cash advances (see pages 7, 8 and 9).

In light of the magnitude of the findings in the mission-contracted financial audits, we assessed USAID/Rwanda's own financial management systems and internal control procedures which allowed the above problems to occur. We also audited: (1) USAID/Rwanda's financial controls over advances and project payments and (2) its assessing and monitoring procedures of the internal controls at its recipient offices. We conducted this performance audit in accordance with generally accepted government auditing standards. The audit fieldwork was conducted during the periods June 11 through June 28 and August 28 through September 20, 1991 (see page 2 and Appendix I).

Historically, USAID/Rwanda has given funds to recipients who were unable to manage, control and account for them. Our audit disclosed that current USAID/Rwanda management has taken aggressive action to correct the above problems, and we applaud

their efforts (see page 7). However, we identified both accomplishments and lingering problem areas as follows:

- USAID/Rwanda improved its oversight of recipients' financial operations -- however, USAID/Rwanda's procedures still did not ensure that recipients' accounting and internal control system weaknesses were corrected (see page 4).

- USAID/Rwanda followed A.I.D. policies and procedures in managing, collecting and accounting for advances to grant recipients (see page 9).

- USAID/Rwanda followed A.I.D. procedures and Standards For Internal Controls In The Federal Government in processing and accounting for project payments, except for: (1) documenting procedures relating to the processing of project payments and (2) physically controlling and accounting for check request forms and reconciling its transactions with Regional Administrative Management Center, Paris (RAMC/Paris) disbursements (see page 10).

The report contains three recommendations which are intended to assist USAID/Rwanda in further improving its management control over A.I.D. funds given to recipients. The first recommends that USAID/Rwanda: (1) take action to provide recipient offices with financial training and technical assistance to establish and maintain their financial management systems, (2) perform pre-award surveys of all future recipients and provide technical assistance where needed, and (3) issue a Project Implementation Letter which will prevent withdrawals from the Policy Reform Initiatives in Manufacturing and Employment Program special account until weaknesses are corrected. The second recommends that USAID/Rwanda document systems and procedures associated with processing and accounting for project payments. The third recommends that USAID/Rwanda establish and implement procedures to ensure that check request forms are properly controlled and that RAMC/Paris disbursements are reconciled with USAID/Rwanda's accounting transactions (see pages 5, 12 and 14).

The report also recommends that if the above recommendations are not implemented, the related weaknesses should be reported to the Assistant Administrator in the next annual Federal Managers' Financial Integrity Act's reporting cycle. In addition, this report presents our assessment of internal controls (see page 18) and reports on USAID/Rwanda's compliance with applicable laws and regulations (see page 21).

In commenting on the draft report, the Mission Director, USAID/Rwanda stated that the audit provided useful recommendations for improving management and accountability. He further stated that he has taken or will take immediate action to implement the recommendations. In addition, USAID/Rwanda suggested some wording changes which we have incorporated into this final report as appropriate (see page 23).

Office of the Inspector General

Office of the Inspector General
March 25, 1992

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INTRODUCTION

Background

Rwanda has limited natural resources and a near total reliance on coffee and tea for foreign exchange earnings. Ninety-five percent of Rwanda's population live in rural areas and rely on subsistence agriculture and the production of tea or coffee. In addition, Rwanda has an annual population growth rate of 3.4 percent.

The A.I.D. program in Rwanda focusses on reducing fertility rates, generating employment and raising agricultural production. Its objectives include small enterprise development, agricultural production, natural resource management, family planning and human resource development activities. These activities are implemented primarily through Government of Rwanda offices and U.S. contractors.

As of August 31, 1991, the portfolio was made up of 14 active projects and one program of which $73.6 million had been obligated and $41.7 million spent. These project and program activities included agricultural development, participant training, wildlife management, private enterprise, human resource development and cash transfers.

Recent mission-contracted audits on two of these projects and one program revealed weaknesses in financial management in recipient offices which led to $4.2 million of questioned and unsupported costs out of $7.8 million of total audited costs. The three mission-contracted audits examined the (1) Rwanda Policy Reform Initiatives in Manufacturing and Employment Program (Report No. 3-696-91-03-N dated January 15, 1991), (2) the Rwandan National Office of Population (Report No. 3-696-90-09-N dated September 17, 1990), and (3) the Agricultural Surveys and Policy Analysis Project (Report No. 3-696-92-08-N dated March 25, 1992). In addition, RIG/A/N performed an internal audit of Cash Advances To Projects In Rwanda in 1987 (Report No. 3-696-88-09 dated March 25, 1988). We conducted this audit based on our concerns over the results of these mission-contracted and internal audits.

Audit Objectives

The Office of the Regional Inspector General for Audit/Nairobi audited USAID/Rwanda's management of cash advances and expenditures for projects and programs to answer the following audit objectives:

1. Did USAID/Rwanda follow A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices?

2. Did USAID/Rwanda follow A.I.D. policies and procedures in managing, collecting and accounting for advances to grant recipients?

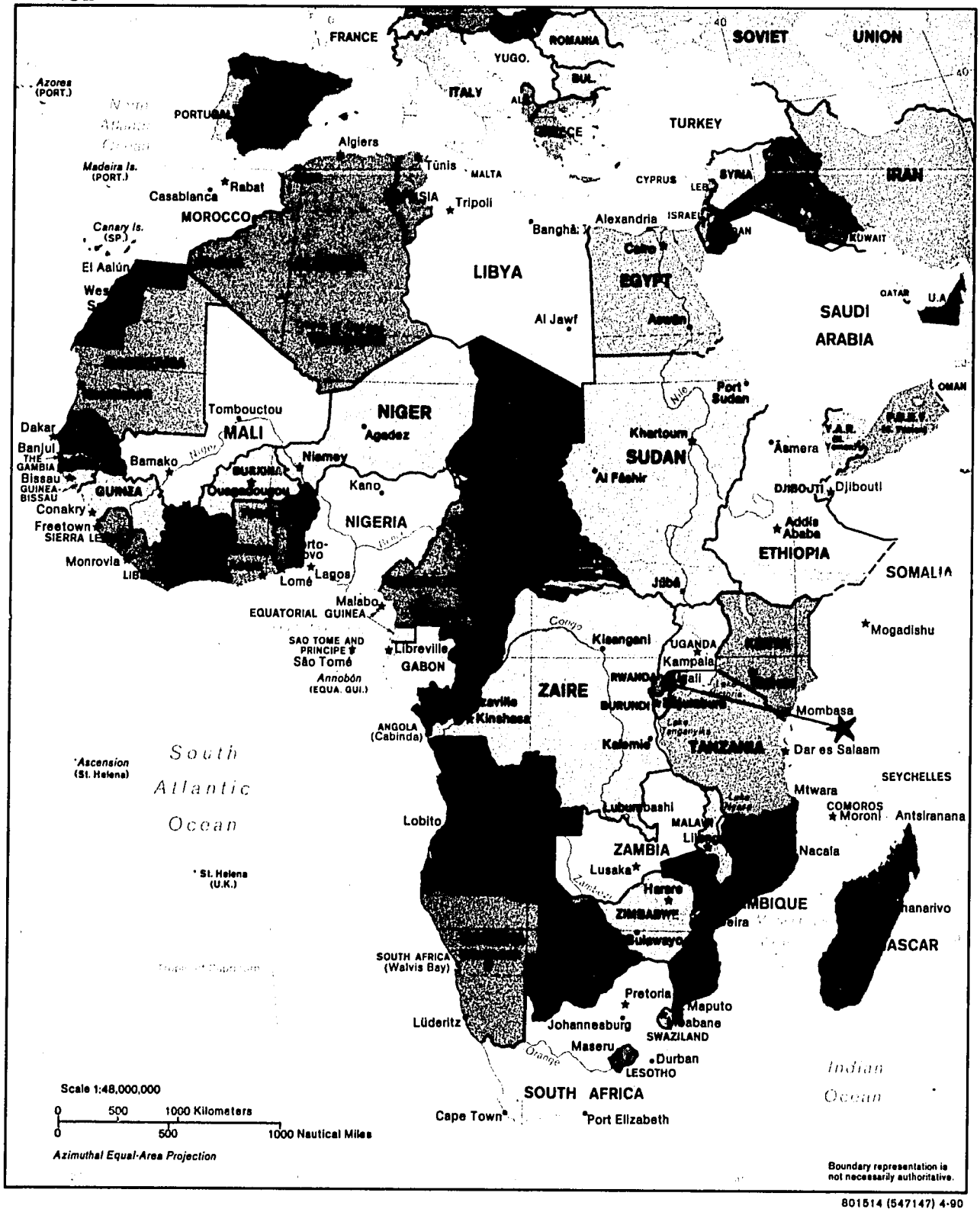
3. Did USAID/Rwanda follow A.I.D. procedures and Standards For Internal Controls In The Federal Government in processing and accounting for project payments?

In answering the audit objectives, we tested whether USAID/Rwanda: (1) complied with A.I.D. policies and procedures, (2) followed applicable standards for internal controls in the Federal Government, and (3) took action to ensure that recommendations contained in the mission-contracted audits were implemented. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Rwanda followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine that USAID/Rwanda was not following a procedure or not complying with a legal requirement,
- identify the causes and effects of the problems, and
- make recommendations to correct the conditions and causes of the problems.

Appendix I contains a complete discussion of the scope and methodology for this audit.

Africa



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REPORT OF AUDIT FINDINGS

Did USAID/Rwanda follow A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices?

Based on the findings contained in the mission-contracted audits of the Rwanda Policy Reform Initiatives in Manufacturing and Employment Program (PRIME), the Rwandan National Office of Population (ONAPO), and the Agricultural Surveys and Policy Analysis Project (ASPAP), USAID/Rwanda did not follow A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices prior to 1989. Based on our review of USAID/Rwanda's current procedures for PRIME, ONAPO, ASPAP and the Natural Resource Management Project (NRMP), we concluded that USAID/Rwanda has improved its assessing and monitoring to more closely follow A.I.D. policies and procedures. Currently, USAID/Rwanda is following A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices except that financial training and technical assistance was not provided to some of the recipient offices and monitoring was not sufficient to ensure that known control weaknesses over the PRIME special account were corrected.

Beginning in 1989, USAID/Rwanda has significantly improved its assessing and monitoring of the financial controls at the recipient offices in Rwanda. Before funds are initially disbursed by USAID/Rwanda, the controller's office conducts an assessment and prepares a report on the recipient's financial controls and accounting systems. The controller's office also conducts periodic visits to recipients' offices to review and update their understanding of the recipients' financial controls and accounting systems. Also, one recipient -- ONAPO -- has hired an expatriate financial management advisor to improve financial controls over project funds. The addition of this advisor has significantly improved that recipient office's financial controls, accounting systems and expenditure reporting.

However, the financial controls and accounting systems at many recipients are still weak. Three recent mission-contracted audits disclosed significant financial control and accounting weaknesses, yet significant improvements have only been made at one of the audited recipient offices -- ONAPO. The other recipient offices -- PRIME and ASPAP -- had weaknesses which included: (1) cash book balances which are not reconciled with bank

statements, (2) weak or nonexistent employment records, (3) no fixed asset registers, and (4) no double entry bookkeeping systems. Weaknesses in the three recipients have resulted in the untimely reporting of project expenditures to USAID/Rwanda and questioned and unsupported costs of $4,213,825. In addition, USAID/Rwanda's own review of NRMP recipient offices concluded that their accounting systems and financial controls were inadequate. Weaknesses at the NRMP's recipient offices include: (1) no accounting staff, (2) no general ledger and subsidiary ledgers, (3) accounting entries which do not refer to documentation which supports the entries, and (4) documentation that is not filed in such a way that it can be easily located.

The causes, effects of, and recommended corrective actions associated with USAID/Rwanda's weaknesses in assessing and monitoring the internal controls and accounting systems of recipient offices at PRIME, ASPAP, ONAPO and NRMP are discussed in the following sections.

Recipient Offices Need Financial Technical
Assistance and Closer Monitoring

A.I.D. policy states that if recipient offices do not have the capability to manage project or program funds, the mission should provide technical assistance in financial management areas. In addition, the Handbooks state that the direct reimbursement method of financing project assistance should be used only when the recipient office has the financial capability to operate under that method, and that special accounts for programs must be carefully monitored. USAID/Rwanda did not provide for needed technical assistance and sufficient monitoring of the local currency account. Weaknesses in USAID/Rwanda's monitoring procedures exist because USAID/Rwanda did not have a controller until August 1986, it did not place sufficient emphasis on monitoring, and the grant agreement did not require or provide funding for financial technical assistance. As a result, the mission-contracted audits of three recipient offices -- ONAPO, PRIME and ASPAP -- disclosed questioned and unsupported costs of $4.2 million.

Recommendation No. 1: We recommend that the Director USAID/Rwanda:

1.1 take action to provide financial training and technical assistance to the recipient offices of the Policy Reform Initiatives in Manufacturing and Employment Program, the Agricultural Surveys and Policy Analysis Project, and the Natural Resource Management Project to establish and maintain financial management systems and controls;

1.2 establish procedures to perform pre-award surveys of all future recipients and

provide technical assistance where needed;

1.3 **issue a Project Implementation Letter which prevents withdrawals from the Policy Reform Initiatives in Manufacturing and Employment Program Special Account until weaknesses are corrected; and**

1.4 **report these internal control weaknesses to the Assistant Administrator in the next annual Federal Managers' Financial Integrity Act's reporting cycle if they are not corrected.**

A.I.D. Handbook 1B states that the direct reimbursement method of financing project assistance should be used only when the host country possesses the managerial and financial capability to operate under that procedure. In addition, A.I.D. Handbook 3, covering project implementation, states that assistance in the financial management areas of a project is required in many cases and can be provided by A.I.D.'s field staff or by qualified consultants if longer term or intensive assistance is needed.

A.I.D. Supplemental Guidance on Programming Local Currency for non-project assistance agreements states that mission directors and cognizant and responsible mission staffs, including as appropriate controller and program operations personnel, should review with the recipient government the specific procedures for programming, releasing and controlling the local currency. If the government procedures need improvement, a portion of the local currency should be used to develop the necessary systems and procedures for financial oversight. The Mission and the host government should work out these procedures and the responsibility for implementing them prior to signing the agreement, and they should be reflected there and in subsequent implementation documents. This guidance adds that if A.I.D. should choose to directly associate jointly programmed local currency with host government projects, the mission should have reasonable assurance that the activities have been designed in accordance with sound financial practices. Missions should be prepared to take a more active role in implementation oversight in addition to reviewing the project documentation and host government procedures prior to approval of funding for the activity. In summary, this guidance states that it cannot be emphasized too strongly that special accounts, once established, must be carefully monitored and additional staff may or may not be required to carry out the additional management or control function associated with these accounts.

In years before 1990, USAID/Rwanda did not follow A.I.D. procedures for assessing and monitoring the financial controls and accounting systems at recipient offices. Assessments of internal controls and periodic monitoring of financial management systems at recipient

offices were not performed. Historically, USAID/Rwanda has given funds to recipients who were unable to manage, control and account for them. In addition, project and program resources were not allocated to strengthen the recipient offices' financial controls and accounting systems.

Historically, USAID/Rwanda has given funds to recipients who were unable to manage, control and account for them.

Beginning in 1989, USAID/Rwanda has placed an increased emphasis on assessing, monitoring and strengthening financial controls at recipient offices. Assessments and periodic monitoring of recipient offices' financial controls and accounting systems are now conducted and reported on by the Controller's office. In addition, USAID/Rwanda has requested an audit of NRMP and another audit of ONAPO.

Also, an expatriate advisor has been hired at the ONAPO office to improve its financial controls and accounting systems. Through a Project Implementation Letter (PIL) and procedures developed with the Bank of Rwanda and the PRIME recipient office, funds now cannot be withdrawn from the PRIME local currency account without USAID/Rwanda's prior approval. In addition, USAID/Rwanda has recently issued a PIL and memo requiring significant improvements in the internal controls of the PRIME recipient office.

However, significant weaknesses still exist within the recipient offices administering project and PRIME program funds. The recently completed mission-contracted audit of ASPAP disclosed weaknesses which included that: (1) a double-entry system of bookkeeping was not maintained, (2) funds from A.I.D. and other sources were commingled, (3) requests to USAID/Rwanda for reimbursement totalling $626,856 could not be substantiated by the records in recipient offices, and (4) administrative and accounting duties at the recipient office were not properly defined or segregated. The partner in charge of the ASPAP audit stated that no amount of monitoring by USAID/Rwanda would benefit the ASPAP project until the weaknesses identified at the recipient office were corrected.

The mission contracted audit report of PRIME which was dated January 14, 1991 recommended the following financial control and accounting system improvements: (1) the reconciliation of cash book balances with bank statements, (2) the establishment of employment records, (3) the establishment of a fixed asset register, and (4) the preparation of reports that compared project's actual financial position and expenditures with budgeted amounts. Although these audit recommendations were considered closed based upon the issuance of a PIL by USAID/Rwanda, in actual fact corrective action has not been fully

implemented by PRIME as agreed to in the PIL. In addition, USAID/Rwanda's own monitoring and assessment of the NRMP recipient offices disclosed the following weaknesses: (1) the lack of trained accounting staff, (2) the lack of general ledgers and subsidiary ledgers, (3) accounting entries which do not refer to documentation which support the entries, and (4) documentation that is not filed in such a way that it can be easily located.

In addition, USAID/Rwanda did not report these material weaknesses to the Assistant Administrator in its latest internal control assessment.

Weaknesses in USAID/Rwanda's monitoring procedures arose and continue to exist because USAID/Rwanda did not have a controller until August 1986, it did not place sufficient emphasis on monitoring to ensure that financial management controls were in place at recipient offices, and the grant agreement did not require or provide funding for financial technical assistance if needed to improve the controls at recipient offices. In addition, the high turnover of administrative staff and the lack of trained accountants at recipient offices have hampered USAID/Rwanda's efforts to improve financial controls and accounting systems at recipient offices.

As a result, the recent mission-contracted audits of ONAPO, PRIME and ASPAP disclosed combined questioned and unsupported costs of $4,213,825 out of the $7,801,524 which were audited. In addition, USAID/Rwanda's own assessment of NRMP has identified significant weaknesses at this project's recipient offices.

While improvements have been made within ONAPO, weaknesses still exist in the other two offices in which the mission-contracted audits disclosed questioned and unsupported costs of $2,175,519. In addition, unless USAID/Rwanda takes action to ensure that recipient office financial controls and accounting systems are strengthened, future audits will identify additional questioned and unsupported costs. For example, the PRIME local currency account with a dollar equivalent of approximately $5.6 million and the ASPAP project with unspent funds of $3.1 million as of August 31, 1991 are potentially subject to increased risk of questioned and unsupported costs because of financial weaknesses that still exist at those organizations.

Although problems identified in prior audits have been partially addressed by USAID/Rwanda, corrective action is still needed at these recipient offices. Thus, USAID/Rwanda needs to take even stronger action by providing technical assistance to strengthen the recipient offices' financial controls and perform pre-award surveys of all future recipients. In addition, USAID/Rwanda needs to issue a Project Implementation Letter prohibiting PRIME special account withdrawals until weaknesses are corrected. If

corrective action is not taken, USAID/Rwanda should report these problems as material weaknesses in its next internal control assessment.

Did USAID/Rwanda follow A.I.D. policies and procedures in managing, collecting, and accounting for advances to grant recipients?

Based on our review of the findings in the mission-contracted audit report of ONAPO and our internal audit of Cash Advances To Projects In Rwanda, prior to 1990 USAID/Rwanda did not follow A.I.D. procedures and Standards For Internal Controls In The Federal Government in managing, collecting and accounting for advances to grant recipients. However, in recent years USAID/Rwanda has made significant improvements in its management of advances. As a result, based on the items tested, USAID/Rwanda is currently following A.I.D. procedures and internal control standards in the Federal Government in managing, collecting and accounting for advances to grant recipients.

According to A.I.D. Handbook 19, A.I.D. has responsibility to monitor the cash management practices of the recipient organizations to ensure that Federal cash is not maintained by them in excess of immediate disbursing needs and to ensure that excess cash balances are promptly returned to the U.S. Treasury. In addition, advances should be limited to the grantees' minimum disbursing needs -- usually 30 days. However, in exceptional cases, advances may be granted for up to 90 days of cash needs.

Based on our internal audit report of cash advances and according to the mission-contracted audit report on ONAPO, USAID/Rwanda did not properly monitor and control its cash advances in earlier years -- 1981 through 1989. We noted that: (1) advances were not always properly certified by the mission controller, (2) USAID/Rwanda did not review the cash needs of the recipients before making the advances, (3) additional advances were made to grantees even while previous advances were still outstanding, and (4) USAID/Rwanda did not formally request the liquidation or refund of advances which were delinquent. These weak controls associated with advances contributed to the approximately $2 million of questioned and unsupported costs disclosed in the ONAPO mission-contracted audit report.

Based in part on the recommendations in the prior internal audit, USAID/Rwanda issued a mission order in October 1988 which led to the strengthening of its controls over advances. This mission order: (1) required USAID/Rwanda to request a refund of large advances if a project was delayed or the funds were not used as originally scheduled and (2) prohibited the controller from issuing further advances until the expenditures relating to a previous advance were reported.

As a result of the mission order, and a greater emphasis placed on financial controls

associated with advances, significant improvements have been made in USAID/Rwanda's control and monitoring of advances. For example, in currently controlling the issuance of advances, the controller and project officers reviewed and approved advance requests to ensure compliance with terms of the grant agreements and A.I.D. Handbook guidelines. All advances included in our review were permitted under the terms of the grant agreements, and USAID/Rwanda obtained and reviewed grantees estimates for 90 days of cash needs.

Based on our tests of 24 advances totaling $286,185, we noted that USAID/Rwanda was currently monitoring and controlling its outstanding project advances in accordance with A.I.D. Handbook guidelines. According to USAID/Rwanda's records, outstanding project advances as of June 5, 1991 totalled only $303,210, as compared to $1,391,385 outstanding on September 11, 1987. Of the $303,210 outstanding as June 5, 1991, $124,117 (41 per cent) was outstanding two months or less, $72,853 (24 per cent) was outstanding two to six months, and $106,240 (35 per cent) was outstanding over six months. Although this aging showed that over half of the advances have been outstanding for more than two months, USAID/Rwanda was aware of these older advances and was taking appropriate action to liquidate or collect them.

We noted that for delinquent advances, the USAID/Rwanda Controller's office formally notified the appropriate project officer who then followed-up with appropriate host country project management. In addition, we also noted that, if needed, USAID/Rwanda requested and received repayment of advances in cases where project activities and related expenditures were delayed. This monitoring of cash advances was significantly improved from prior years.

Thus, based on the items tested, we concluded that USAID/Rwanda has significantly improved its controls over advances. The improvements made by USAID/Rwanda in following A.I.D. procedures and Standards For Internal Controls In The Federal Government in managing, collecting and accounting for advances to grant recipients is commendable.

Did USAID/Rwanda follow A.I.D. procedures and Standards For Internal Controls In The Federal Government in processing and accounting for project payments?

Based on the findings contained in the mission-contracted audits of ONAPO and ASPAP, USAID/Rwanda did not follow A.I.D. procedures and Standards For Internal Controls In The Federal Government in processing and accounting for project payments prior to 1990. However, for the 1990 and 1991 items tested during our audit, USAID/Rwanda followed these procedures and standards except for: (1) documenting procedures relating to the

processing of project payments and (2) physically controlling and accounting for check request forms.

In the years prior to 1990, many weaknesses existed in USAID/Rwanda's processing and accounting for project payments. The Controller's office staff (namely the financial analysts and voucher examiners) needed training in areas such as internal control techniques and accounting requirements for recipients. Vouchers in some cases were not reviewed or approved by the project officer, and in other cases the controller had not certified the vouchers for payment. In addition USAID/Rwanda did not require, obtain or review supporting documentation backing up the claimed project expenditures. Furthermore, USAID/Rwanda had not clearly documented the responsibilities and procedures associated with processing and controlling project vouchers.

Our audit disclosed that USAID/Rwanda had done a commendable job in correcting most past weaknesses. All of the 51 voucher payments tested and examined for the years 1990 and 1991 were properly approved by the project officer and certified by the controller. All 51 vouchers had adequate supporting documentation, and no questioned or unsupported costs were noted. In addition, voucher examiners and financial analysts had received training in areas such as financial analysis and accounting requirements for recipients. Furthermore some, but not all, systems and procedures for processing and accounting for project payments were documented.

For example, USAID/Rwanda has documented its systems and procedures relating to: administrative control over audits, program office responsibilities, filing, file maintenance, receipt of invoices, project officer approval of vouchers, voucher tracking, funds availability, and the approval, issuance and liquidation of advances. Grant agreements for all of the currently active projects and the one program contained provisions, where required, allowing A.I.D. or its agents to audit the grantees' A.I.D.-funded expenditures. In addition, mission-contracted audits were already conducted for two projects, another mission-contracted audit was in process for another project, and five additional mission-contracted audits of other projects were scheduled for the future.

Our review of USAID/Rwanda's internal controls disclosed that although USAID/Rwanda had documented some of its systems and procedures for processing and accounting for project payments, not all such procedures were documented. In the years prior to 1989 (and to a lesser extent for 1989 and later), the lack of fully documented procedures and clearly defined systems hampered USAID/Rwanda's ability to monitor, account for and control project expenditures.

Our review of USAID/Rwanda's procedures and internal controls over project payments also

found significant weaknesses in its control and accountability over check request forms. USAID/Rwanda does not control, limit access to or account for these request forms. Further, $514,907 of Regional Administrative Management Center, Paris (RAMC/Paris) disbursements are not reconciled with the Mission Accounting and Control System (MACS). The lack of control and accountability over the check request forms and the $514,907 of unreconciled disbursements from RAMC/Paris result in a significant weakness in USAID/Rwanda's internal controls over cash disbursements.

The lack of well documented procedures and weaknesses in controls over check request forms are discussed in the following sections.

Project Payment Procedures Need to be Documented in Writing

GAO Standards For Internal Controls In The Federal Government specify that internal control systems should be clearly documented. Although USAID/Rwanda had documented some procedures and systems for processing and accounting for project payments, not all such procedures were documented. Not all significant procedures and systems have been documented because USAID/Rwanda did not have its own controller until August 1986 and it did not begin certifying its own vouchers until February 1989. Also, because of USAID/Rwanda's focus in trying to correct the problems identified in mission-contracted audits and the normal day-to-day workload, not all procedures had been documented in writing as of the time of our audit. As a result, USAID/Rwanda's ability to monitor, account for and control project expenditures in earlier years was hampered, leading to $2.7 million in unsupported and questioned costs which were identified in two recent mission-contracted audits. Although there is currently more emphasis placed on the importance of controls over project payments, fully documented procedures are needed to help ensure that this emphasis will continue in the future.

Recommendation No. 2: We recommend that the Director USAID/Rwanda:

2.1 document systems and procedures for processing and accounting for project payments; and

2.2 report this internal control weakness to the Assistant Administrator in the next annual Federal Managers' Financial Integrity Act's reporting cycle if it is not corrected.

GAO Standards For Internal Controls In The Federal Government specify that internal control systems and accounting procedures should be clearly documented; the documentation

should identify the cycles objectives and techniques, and the documentation should appear in management directives, administrative policy and accounting manuals. These standards stipulate that the duties, responsibilities and accountabilities assigned to each staff member be clearly communicated. A.I.D. Handbook 19 also states that "the Mission Controller function includes: providing the Mission with uniform guidance and procedures for financial management of all funds available to the Mission".

Beginning in 1989, USAID/Rwanda started improving its systems and procedures for processing and accounting for project payments. In addition, USAID/Rwanda has documented some of these systems and procedures. These include administrative controls over audits, program office responsibilities, filing, file maintenance, receipt of invoices, project officer approval of vouchers, voucher tracking, funds availability, and the approval, issuance and liquidation of advances.

...not all implemented systems have been documented

However, not all implemented systems have been documented. Other procedures that need to be documented include but are not limited to: (1) MACS coding sheet preparation and submission, (2) MACS reconciliation with RAMC/Paris disbursements, (3) check request preparation, control and submission, and (4) voucher review and verification. USAID/Rwanda did not report this documentation problem as a material weakness to the Assistant Administrator in its latest internal control assessment.

Not all of USAID/Rwanda's procedures and systems have been documented because USAID/Rwanda did not have its own controller until August 1986 and it did not begin certifying its own vouchers until February 1989. In addition, USAID/Rwanda did not place a high priority on financial controls as evidenced by: (1) discussions with past and present USAID/Rwanda officials, (2) review of documentation for the years prior to 1990, and (3) the significant problems identified in mission-contracted audits. Currently USAID/Rwanda management is placing a greater emphasis on financial controls and is in the process of documenting its systems and procedures related to the processing and accounting for project payments. However, because of USAID/Rwanda's focus in trying to correct the problems identified in the mission-contracted audits and normal daily workload, not all procedures had been documented in writing at the time of our audit in September 1991.

The lack of well documented procedures and clearly defined systems hampered USAID/Rwanda's ability to monitor, account for and control project expenditures. In the earlier years there were no written policies or procedures regarding the issuing, monitoring,

or liquidating of advances. In addition, the USAID/Rwanda voucher examiners and financial analysts were not properly trained and did not have clearly defined procedures for carrying out their assigned tasks. As a result, two recent mission contracted audits (ONAPO and ASPAP) disclosed questioned and unsupported costs of $2,716,993. In addition, this lack of clearly defined systems has contributed to significant internal control weaknesses regarding the need to control check request forms as discussed in the following finding. Although USAID/Rwanda is placing more emphasis on financial controls and accounting procedures, formalizing these procedures and systems will help to ensure that these controls will remain in effect in the future, in spite of key personnel changes that regularly occur within missions. For example, at the time of our audit in September 1991, both the Mission Director and the controller were scheduled to be re-assigned to other USAID missions within six months.

Thus, we concluded that USAID/Rwanda needed to complete the documentation of its systems and procedures associated with project payments. If not completed, USAID/Rwanda should report this material weakness in its next internal control assessment.

Check Request Forms Need to be Controlled
and Disbursements Should be Reconciled

GAO Standards For Internal Controls In The Federal Government specify that highly vulnerable documents should be accounted for and access to them should be limited. These standards, the A.I.D. Handbook and the U.S. Treasury Manual specify that disbursements should be reconciled to the underlying transactions. USAID/Rwanda, however, does not control or account for its check request forms and has not reconciled $514,907 of its RAMC/Paris disbursements with MACS. USAID/Rwanda felt that the review and control procedures performed by RAMC/Paris were adequate and unreconciled items remained open because of difficulties in the reconciliation process. As a result, an indeterminable amount of $11.3 million, which is part of USAID/Rwanda's fiscal year 1991 budget of $40.4 million, is subject to potential unauthorized and fraudulent use.

Recommendation No. 3: We recommend that the Director USAID/Rwanda:

3.1 establish and implement procedures to ensure that check request forms (Form SF1166) are properly controlled and accounted for in accordance with internal control standards of the Federal Government;

3.2 establish procedures to ensure that Regional Administrative Management Center, Paris disbursements are reconciled with Mission Accounting and Control System transactions in a timely manner, including $514,907 in unreconciled items through February 1991; and

3.3 report these internal control weaknesses to the Assistant Administrator in the next annual Federal Managers' Financial Integrity Act's reporting cycle if these weaknesses are not corrected.

GAO Standards For Internal Controls In The Federal Government specify that access to highly vulnerable documents -- such as the check request form SF1166 -- be limited to authorized individuals and accountability for the custody and use of the documents be assigned and maintained. In addition, the standards describe the following recommended controls: (1) keeping the documents locked in a safe, (2) having each document pre-numbered in sequential order, and (3) assigning custodial accountability to responsible individuals. These standards also specify that transactions should be "promptly recorded and properly classified" and "periodic comparisons shall be made of the resources with the recorded accountability to determine whether the two agree". In addition, A.I.D. Handbook 19, pursuant to the Budget and Accounting Procedures Act of 1950, specifies that A.I.D. accounting systems should be designed to: (1) provide effective control over, and accountability for, all funds for which A.I.D. is responsible and (2) provide suitable integration of A.I.D.'s accounting with the central accounting and reporting operations of the U.S. Treasury Department. Treasury Manual TFM 2-3100 requires that all payments be properly recorded and each A.I.D. paying location, such as USAID/Rwanda, reconcile on a monthly basis its records to the disbursing office servicing it.

The SF1166 check request forms are prepared by the USAID/Rwanda Controller's office, signed by the controller and sent to RAMC/Paris (the disbursing office). From these forms RAMC/Paris prepares and distributes the requested checks. However, according to a supervisor of Form SF1166 processors at RAMC/Paris, they do not verify the authorized signer on every check request with the authorized signatures on file. Instead only the first and last check request forms in the batch are compared with the signature card on file. The other check request forms are compared with the signature on the previously processed Form SF1166. Thus, these forms are highly vulnerable documents, and if not properly controlled can lead to the issuance of unauthorized and fraudulent checks.

Unfortunately USAID/Rwanda's controls over these forms are weak. Physical access to these forms is available to many employees as the forms are not stored in a locked or limited access storage area, and during the workday access to the forms in the work area is not limited. In addition, no one is assigned custodial accountability to maintain and account for the documents on hand, issued or used. Although the documents when prepared by the printer are sequentially pre-numbered, USAID/Rwanda marks out the pre-numbering upon receipt and assigns a new number at the time the forms are processed -- thus, making it difficult for USAID/Rwanda to account for all of the forms.

Further, our audit disclosed $514,907 in disbursements from RAMC/Paris which did not reconcile with MACS transactions. If properly reconciled, and as a control over RAMC/Paris disbursements, each RAMC/Paris disbursement should have an offsetting and matching MACS transaction. However, according to the reconciliation statement of MACS and RAMC/Paris as of February 1991 there were 139 RAMC/Paris disbursements totalling $514,907 which were not matched with corresponding MACS transactions.

In addition, USAID/Rwanda did not report the lack of control over check request forms or the unreconciled disbursements to the Assistant Administrator in its latest internal control assessment.

USAID/Rwanda did not control its SF1166 check request forms because it felt that the review and control procedures performed by RAMC/Paris were adequate to prevent and detect the issuance of unauthorized or fraudulent checks. USAID/Rwanda management also felt that if additional controls over these forms were needed, the A.I.D. Handbook or Controller's Manual would have specified this need on an agency-wide basis. However after our discussions during the audit fieldwork, USAID/Rwanda management agreed with us that additional controls over these forms were needed.

USAID/Rwanda did not reconcile all RAMC/Paris disbursements with MACS report transactions because of difficulties in the reconciliation process. Factors contributing to difficulties in reconciliation process include: (1) the fact that USAID/Rwanda initiates original accounting transactions and prepares the MACS input documents but must rely on RFMC/Nairobi to enter this data into the MACS system and (2) timing differences between when RAMC/Paris pays an item and when the item is entered into the MACS system by RFMC/Nairobi. In addition, USAID/Rwanda management felt that RFMC/Nairobi would have to be directly and significantly involved in the reconciliation process.

An indeterminable amount of $11.3 million, which is part of USAID/Rwanda's fiscal year 1991 budget of $40.4 million is subject to potential unauthorized and fraudulent use.

As a result of the lack of controls over check request forms and the unreconciled RAMC/Paris disbursements, there is a significantly increased risk that unauthorized and fraudulent checks could be issued and remain undetected. An indeterminable amount of $11.3 million, which is part of USAID/Rwanda's fiscal year 1991 budget of $40.4 million is subject to potential unauthorized and fraudulent use.

Thus, in our opinion USAID/Rwanda needs to strengthen its control over its check request forms and reconcile its RAMC/Paris disbursements with its MACS transactions including $514,907 in unreconciled items as of February 1991. If these recommendations are not implemented, USAID/Rwanda should report these material weaknesses in its next internal control assessment.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit work to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives and

- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered USAID/Rwanda's internal control structure to determine our auditing procedures in order to answer the audit objectives and not to provide assurance on its overall internal control structure.

For the purpose of this report, we have classified significant internal control policies and procedures applicable to the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation--and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each objective.

General Background on Internal Controls

The management of A.I.D., including USAID/Rwanda, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (the Integrity Act) in September 1982. This Act, which

amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued Standards For Internal Controls In The Federal Government to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government. According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because: (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

For the first audit objective we determined whether USAID/Rwanda followed A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices. For this objective we have classified policies and procedures into: (1) the procedures used by USAID/Rwanda to assess the financial controls at recipient offices and (2) the procedures used by USAID/Rwanda to monitor and ensure that the internal controls and accounting systems at recipient offices are functioning properly.

We reviewed USAID/Rwanda's internal controls relating to its assessing and monitoring procedures. Our audit showed that these controls were properly implemented, except for two weaknesses: (1) financial training and technical assistance were not provided to some recipient offices and (2) monitoring was not sufficient to ensure that known control weaknesses over the Policy Reform Initiatives in Manufacturing and Employment Program Special Account were corrected. As a result of these weaknesses, we expanded our review of USAID/Rwanda's procedures to achieve our objective of determining if USAID/Rwanda followed A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices. Finally, USAID/Rwanda did not report these weaknesses in its latest internal control assessment under the Federal Managers' Financial Integrity Act.

Conclusions for Audit Objective Two

The second audit objective determined whether USAID/Rwanda followed A.I.D. policies and procedures in managing, collecting and accounting for advances to grant recipients. For this objective, we have classified policies and procedures into: (1) the monitoring of cash management practices, advance needs, and advance liquidations and (2) the internal processing, approval and accounting for advances by USAID/Rwanda. We reviewed USAID/Rwanda's internal controls relating to managing, collecting and accounting of advances and our tests showed that the controls were logically and consistently applied. Therefore, we limited our tests to the planned audit steps and the initial sample selected.

Conclusions for Audit Objective Three

This third audit objective determined whether USAID/Rwanda followed A.I.D. procedures and Standards For Internal Controls In The Federal Government in processing and accounting for project payments. In planning and performing our audit we considered the applicable procedures in the A.I.D. Handbooks and the internal controls specified in the Federal Government's standards for internal controls. For the purpose of this report we have classified policies and procedures into the processing, approving, paying and accounting for project vouchers.

We reviewed USAID/Rwanda's internal controls relating to the processing and accounting for project payments. Our assessment showed that USAID/Rwanda's controls were logically designed and consistently applied except for the lack of written procedures, weak control over check request forms and unreconciled Regional Administrative Management Center/Paris disbursements. Therefore, we conducted more extensive testing to achieve our objective of determining if USAID/Rwanda followed A.I.D. procedures and standards for internal controls in the Federal Government in processing and accounting for project payments. Finally, USAID/Rwanda did not report these weaknesses in its latest internal control assessment under the Federal Managers' Financial Integrity Act.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Rwanda's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect the audit objectives) and

- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Rwanda's compliance with applicable sections of the Federal Managers' Financial Integrity Act, the Budget and Accounting Procedures Act and Treasury Manual requirements as they could affect our objectives. However, our objective was not to provide an opinion on USAID/Rwanda's overall compliance with such provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of non-

compliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with laws and regulations stated above is the overall responsibility of USAID/Rwanda's management. As part of fairly, objectively and reliably answering the audit objectives, we performed tests of USAID/Rwanda's compliance with them.

Conclusions on Compliance

The results of our tests of compliance indicated that, with respect to the items tested, USAID/Rwanda complied with applicable requirements of the Federal Managers' Financial Integrity Act, the Budget and Accounting Procedures Act and Treasury Manual.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Rwanda commented that the audit provided useful recommendations for improving management and accountability and stated that it has or will take immediate action to implement the recommendations. In addition, USAID/Rwanda suggested some rewording which we have incorporated into this final report as appropriate.

USAID/Rwanda agreed with Recommendation No. 1.1 and has already initiated action on four fronts to help recipient offices establish and maintain financial management systems and controls. It has: (1) created a project support unit which will include a Rwandan financial analyst to work with all recipient offices to establish and maintain financial management systems and controls, (2) begun investigating the feasibility of having a half-time expatriate accountant work with and oversee this unit, (3) taken steps to have a contractor conduct financial management workshops in Rwanda, and (4) received approval to establish a United States direct hire financial analyst position in the Controller's office in fiscal year 1992. Based on USAID/Rwanda's stated actions, RIG/A/N considers this recommendation resolved. This recommendation can be closed when this office receives documentary evidence that the recommended financial training and technical assistance is being provided to recipient offices, including the exact amount of funds that have actually been reprogrammed and/or spent to provide this training and technical assistance.

USAID/Rwanda agreed with the intent of Recommendation No. 1.2 but suggested some revisions to more sharply focus the recommendation. These suggested revisions included issuing a Project Implementation Letter, instead of a mission order, and specifying that the recommendation applies to Policy Reform Initiatives in Manufacturing and Employment (PRIME) project-type funding and not to PRIME non-project activities. We have made these revisions to the final report. Based on USAID/Rwanda's comments, RIG/A/N considers this recommendation resolved. This recommendation can be closed by providing this office with a copy of the Project Implementation Letter that prohibits the issuance of de-blocking letters thus preventing withdrawals from the PRIME special account for project-type and project coordination unit activities until weaknesses are corrected.

USAID/Rwanda agreed with Recommendation No. 1.3. Based on USAID/Rwanda's reply, RIG/A/N considers this recommendation resolved. This recommendation can be closed by

closing Recommendation Nos. 1.1 and 1.2, or by providing this office with documentary evidence that these internal control weaknesses have been reported to the Assistant Administrator if the problems are not corrected.

In response to Recommendation Nos. 2.1 and 2.2 USAID/Rwanda stated that detailed and written operating procedures in processing project and operating expense payment vouchers have been issued and implemented. Procedures for review and verification of all payment vouchers from the day of receipt until funds are disbursed have been formalized. In addition, USAID/Rwanda stated that this internal control weakness was reported to the Assistant Administrator in its fiscal year 1990 internal control assessment. With respect to documenting a system for MACS coding sheet preparation and submission, USAID/Rwanda stated that such guidance is issued by RFMC/Nairobi and adhered to by USAID/Rwanda. However, USAID/Rwanda stated that in conjunction with RFMC/Nairobi it will determine whether additional procedures are needed for MACS coding sheet preparation and submission after the arrival of its new controller in August 1992. Based on USAID/Rwanda's response, RIG/A/N considers this recommendation resolved. This recommendation can be closed by providing this office with copies of the procedures that USAID/Rwanda has established for processing project payments.

In reply to Recommendation No. 3.1, USAID/Rwanda stated that it has eliminated this weakness by switching to the PAYTRACK/DATELS system to control requests for RAMC/Paris disbursements. USAID/Rwanda responded to Recommendation No. 3.2 by stating that it has reconciled the $514,907 of unreconciled items identified in our audit. However, in responding to Recommendation No. 3.3 USAID/Rwanda commented that performing these reconciliations would continue to be difficult until an automated reconciliation system -- which they stated the Office of Information Resource Management is working on -- is developed. As such USAID/Rwanda stated that it will report this reconciliation weakness to the Assistant Administrator in its next internal control assessment. Based on USAID/Rwanda's response to Recommendation Nos. 3.1, 3.2 and 3.3, RIG/A/N considers these recommendations resolved. These recommendations can be closed by providing this office with documentary evidence that the PAYTRACK/DATELS system has been implemented and that the $514,907 of unreconciled items have now been reconciled. If these weaknesses remain uncorrected, then Recommendation No. 3.3 can be closed by reporting them to the Assistant Administrator in USAID/Rwanda's next internal control assessment.

SCOPE AND METHODOLOGY

Scope

We performed a functional audit in accordance with generally accepted government auditing standards. In addition, we utilized three mission-contracted audit reports: (1) the Rwandan National Office of Population (ONAPO) by Price Waterhouse (Report No. 3-696-90-09-N; dated September 17, 1990), (2) the Rwanda Policy Reform Initiatives in Manufacturing and Employment (PRIME) by KPMG Peat Marwick (Report No. 3-696-91-03-N; dated January 15, 1991), and (3) the Agricultural Surveys and Policy Analysis (ASPAP) by Kemp Chatteris Deloitte Ross Tohmatsu (Report No. 3-696-92-08-N dated March 25, 1992). We also reviewed the internal performance audit of Cash Advances To Projects In Rwanda (Report No. 3-696-88-09; dated March 25, 1988). The three mission- contracted audits and the internal audit were conducted in accordance with generally accepted government auditing standards. Our audit fieldwork was conducted during the periods June 11 through June 28, 1991 and August 28 through September 20, 1991.

Although USAID/Rwanda has 14 currently active projects and one program with obligations of $73.6 million and expenditures of $41.7 million, seven of the projects with obligations of $29.9 million and expenditures of $21.6 million were excluded from our audit scope because A.I.D. in Washington D.C. paid and handled the financial administration of all or most of the expenditures associated with these projects. Thus our scope included four major projects: the Natural Resource Management Project, ONAPO, ASPAP, and the Food Storage and Marketing Projects -- and three project funds -- Self Help, Human Rights and HIV/AIDS. In addition, the one currently active program -- PRIME -- with available local currency having a dollar equivalent balance of $5.6 million was also included in our audit. The seven projects and one program which were included in the scope of our audit had obligations of $43.7 million and expenditures of $20.1 million.

For Audit Objectives One, Two and Three we reviewed, analyzed and documented USAID/Rwanda's controls related to advances, project payments, and assessing and

monitoring the financial management of recipient offices. For Audit Objective One, because this objective dealt with the Mission's assessing and monitoring procedures and not with specific accounting transactions, we did not test or examine any specific transactions and did not rely on Mission Accounting and Control System (MACS) data in performing our work associated with this objective. We instead reviewed USAID/Rwanda's procedures for the four projects and visited three recipient offices -- ONAPO, ASPAP and PRIME. For Audit Objective Two we tested $286,185 -- 62 percent of the total outstanding advances on June 5, 1991 of $460,844. This testing was conducted to verify the reliability of the MACS data and to determine if USAID/Rwanda followed A.I.D. policies and procedures in managing, collecting and accounting for advances to grant recipients. To answer the third objective we initially examined and tested 22 vouchers totaling $410,576, out of $2.4 million total vouchers. Because of control weaknesses associated with check request forms we expanded our testing of voucher payments, examining an additional 29 payments totaling $593,430. We tested these 51 payments to verify the reliability of the MACS data and to determine if USAID/Rwanda followed A.I.D. procedures and internal control standards in processing and accounting for project payments. Our tests included vouchers from 1990 and 1991.

We conducted our fieldwork in the A.I.D. offices of USAID/Rwanda located in Kigali, Rwanda and the Regional Financial Management Center, Nairobi (RFMC/Nairobi) located in Nairobi, Kenya. In addition, we also held discussions in Kigali, Rwanda with administrative and financial employees of ONAPO, PRIME and ASPAP. We had a telephone conversation with a check processing supervisor who works at the Regional Administrative Management Center, Paris (RAMC/Paris). To assure ourselves that we could rely on the work of Price Waterhouse, Kemp Chatteris Deloitte Ross Tohmatsu and KPMG Peat Marwick, we reviewed and approved their audit programs and conducted desk reviews of their reports. In addition, we also met with the Kemp Chatteris partner involved in the ASPAP audit.

Our audit was limited to: (1) reviews and tests of USAID/Rwanda's systems and procedures associated with monitoring the financial management of recipient offices, managing advances, and processing project voucher payments, and (2) review of the Price Waterhouse, Kemp Chatteris Deloitte Ross Tohmatsu and KPMG Peat Marwick reports and the weaknesses in USAID/Rwanda's systems that allowed the problems identified in the mission-contracted audit reports to occur. We also reviewed the internal performance audit of Cash Advances To Projects In Rwanda. The scope of our audit did not include reviewing the records, internal controls and procedures associated with advances, project expenditures or local currency expenditures at the recipient offices responsible for administering the project and program funds provided by A.I.D.

Methodology

The methodology for each audit objective follows:

Audit Objective One

The first audit objective consisted of gathering and analyzing information to determine whether USAID/Rwanda followed A.I.D. policies and procedures in assessing and monitoring the internal controls and accounting systems of recipient offices of NRMP, PRIME, ONAPO and ASPAP. We reviewed USAID/Rwanda documentation and correspondence, interviewed USAID/Rwanda personnel for the three projects and one program, and reviewed the recently completed mission-contracted audit reports of PRIME, ONAPO and ASPAP. Because of the internal control weaknesses noted in the mission-contracted audits we expanded our audit procedures by visiting the recipient offices and interviewing the personnel associated with PRIME, ONAPO and ASPAP to review USAID/Rwanda's assessing and monitoring procedures, the financial control weaknesses at the recipient offices disclosed in the mission-contracted audits and the steps being taken to correct these weaknesses.

We did not include the Food Storage and Marketing Project in our review of USAID/Rwanda's monitoring and assessing of recipient offices' systems because only $30,000 was remaining to be spent out of total life-of-project funding of $2.9 million and the project's anticipated completion date was December 31, 1991. In addition, the Self Help, Human Rights, and HIV/AIDS project funds were excluded from our audit work associated with this objective because of the nature of these funds. These projects are not typical projects but consist of many grants of several thousand dollars to many different grantees for very short term and specific activities. As described in the preceding scope section, work was not done on seven other projects because AID/W handled most of the administration and payments for these projects.

Audit Objective Two

The second audit objective consisted of gathering, analyzing and testing documentation and information to determine whether USAID/Rwanda followed A.I.D. procedures and standards for internal controls in managing and controlling advances to grant recipients. We tested and analyzed $286,185 -- 62 percent of the $460,844 total outstanding advances at June 5, 1991. We examined and tested documentation to determine if: (1) the MACS data was reliable, (2) the issuance of advances was authorized in the grant agreement or Project Implementation Letters (PIL's), (3) advances were approved by the controller and project

officer, (4) the advance information reflected in the MACS report and USAID/Rwanda's advance ledger was reliable, (5) grantee cash needs, were reviewed and advances limited to no more than 90 days of their cash needs, and (6) advances were properly monitored, with the project officer and grantee being formally notified of delinquent advances. The documentation we reviewed included grant agreements, PIL's, requests for advances with projected cash needs, vouchers, correspondence, MACS reports and USAID/Rwanda's advance ledgers. In addition we interviewed USAID/Rwanda and RFMC/Nairobi personnel and reviewed USAID/Rwanda's written procedures relating to advances.

To achieve this objective we relied on computer-processed data contained in MACS. We assessed the reliability of this data by comparing original source documents with the MACS data. Based on these tests we concluded that the data was sufficiently reliable to be used in meeting this objective.

Audit Objective Three

To accomplish our third audit objective we determined whether USAID/Rwanda followed A.I.D. procedures and Standards For Internal Controls In The Federal Government in processing and accounting for project payments. To make this determination we: (1) conducted tests to determine the reliability of computer processed data, (2) reviewed, analyzed and tested USAID/Rwanda's internal controls and procedures for processing project payments, (3) initially examined and tested 22 vouchers totaling $410,576 out of total vouchers of $2.4 million, (4) expanded our testing of payments to include an additional 29 payments totalling $593,430, (5) reviewed the matching report of RAMC/Paris disbursements with USAID/Rwanda transactions, (6) reviewed grant agreements, amendments, PILs and related correspondence, and (7) interviewed USAID/Rwanda, RFMC/Nairobi and RAMC/Paris personnel.

The vouchers tested included no/pay liquidating, cash payment and advance vouchers which were representative of the currently active projects in the $2.4 million universe of project vouchers. In addition, we expanded our testing of payments to include an additional 29 vouchers because of weaknesses noticed in USAID/Rwanda's controls over check request forms.

To achieve this objective we relied on computer processed data. We assessed the reliability of this data by comparing original source documents with the computer data. Based on these tests we concluded that the data was sufficiently reliable to be used in meeting this objective.

MEMORANDUM

February 28, 1992

TO : Toby Jarman, RIG/A /N

FROM: Gary L. Nelson, Director, USAID/Rwanda

SUBJ: USAID/Rwanda Comments on Draft Audit Report No. 3-696-92-XX

REF: Draft Audit Report No. 3-696-92-XX - USAID/Rwanda's Management of Cash Advances and Expenditures for Projects and Programs

SUMMARY

The Mission appreciates having the opportunity to comment on the audit report and believes that the audit has provided useful recommendations for improving management and accountability. The comments below set forth the actions, taken or planned, to implement the report recommendations, as well as suggested changes in the draft report to clarify or focus the draft recommendations.

Comments on Recommendation One

Draft Recommendation No. 1.1 States, *"We recommend that the director USAID/Rwanda: reprogram project/program funds, estimated at $350,000, or take other appropriate action to provide financial training and technical assistance to the recipient offices to establish and maintain financial management systems and controls."*

The Mission agrees with the recommendation and notes that it has already initiated actions on four fronts to help recipient offices establish and maintain financial management systems and controls. Specifically, the Mission:

- has created a project support unit (PSU) and has already completed the selection process, which involved RFMC/Nairobi and REDSO/ESA staff, to hire a Rwandan financial analyst (this financial analyst's function is to work with all recipient offices to establish and maintain financial management systems and controls that meet AID standards of accountability);

- is investigating the feasibility of having a half-time expatriate CPA work with and oversee the work of the PSU financial analyst (the expatriate identified for

this position has worked for USAID/Rwanda over the past six years and is currently the financial advisor on a major USAID/Rwanda project);

has taken steps to have a contractor conduct financial management workshops in Rwanda under the HRDA project in-country training component (the first candidates for these practical seminars/training sessions would include the financial staff from organizations/GOR offices receiving USAID funds); and

has requested (in FY 1991) and received AID/W and embassy approval (FY 1992) to establish a new USDH financial analyst position in the USAID/Rwanda office of the controller. One of this USDH's primary responsibilities will be to monitor the performance of recipient offices. Recommendations made by the USDH analyst would then be incorporated into the PSU and expatriate analyst's workplans. A USDH financial analyst with appropriate experience has been identified by AID/W and USAID/Rwanda to fill the position. What remains to be done is for the Under Secretary of State to formally approve the new position in Rwanda and for AID to formally classify the position.

The Mission notes that it will devote all the resources necessary to correct the deficiency, whether it costs $350,000 or more. The contract Rwandan and expatriate analysts will be funded by the projects receiving financial advice from the PSU. All new projects designed in FY 1992 and thereafter will be required to buy into the PSU.

Draft Recommendation No. 1.2 states, *"Issue a Mission Order applicable to the Policy Reform Initiatives in Manufacturing and Employment Program's special account which prohibits the issuance of de-blocking letters thus preventing withdrawals from the PRIME special account until weaknesses are corrected;"*

The Mission agrees with the intent of the recommendation, but firmly believes that it needs to be more sharply focused to change it from being a punitive recommendation to a corrective recommendation.

First, the Mission believes that, since the resolution requires action by the Government of Rwanda, a "Project Implementation Letter" (PIL), rather than a "Mission Order," is the more appropriate instrument to implement this recommendation. The Mission has already drafted a PIL; raised the issue with the Minister of Planning, who is the Government of Rwanda official responsible for PRIME; and, raised the issue with PRIME Rwandan project staff.

Second, the Mission notes that the issues identified by the audit of PRIME all concern the use of funds for specific project-type activities and studies and for supporting the PRIME coordination unit. There were no issues with the use of funds for non-project-type of activities under PRIME. Since the recommendation currently does not tightly focus on where problems existed, it is punitive as

opposed to being corrective. As such, the Mission requests that RIG/A/Nairobi more sharply focus its recommendation on the areas where the problem has been confirmed -- In the use of local funds, authorized by deblocking letters, for project-specific activities and for support of the GOR PRIME coordination unit.

Taking the Mission's two recommendations into account, the following language is suggested for draft Audit Recommendation No. 1.2:

> ***"Issue a Project Implementation Letter (PIL) under the Policy Reform Initiatives in Manufacturing and Employment Program that prohibits the issuance of de-blocking letters against the local currency special account for project-type and project coordination unit activities until the weaknesses are corrected."***

Draft Recommendation No. 1.3 States, *"Report these internal control weaknesses to the Assistant Administrator in the next annual Federal Manager's Financial Integrity Act's reporting cycle if they are not corrected."*

The Mission agrees with this recommendation.

Comments on Recommendation Two

Draft Recommendation No. 2.1 States, *"We recommend that the Director USAID/Rwanda: document systems and procedures for processing project payments; and report this internal control weakness to the Assistant Administrator in the next annual Federal Manager's Financial Integrity Act's reporting cycle if it is not corrected."*

The Mission notes that, on November 20, 1990, USAID began using a new voucher tracking system (VTS), a semi-automated system run on Lotus 1-2-3, to collect all required data for reporting and monitoring vouchering activity. The expanded data base and discipline imposed by the new system has resulted in increased control over the voucher and payment process. Furthermore, detailed and written operating procedures for the new VTS system in processing project and OE payments vouchers have been issued by the controller's office and are now fully implemented. Procedures for review and verification of all payment vouchers, from the day of receipt until the voucher has been processed and a check cut by the disbursing office or cash issued by Mission cashier, have thus been formalized.

This internal control weakness had been previously reported to the Assistant Administrator during USAID/Rwanda's FY 1990 Internal Control Assessment. Among the other planned corrective actions to address this recommendation was the establishment and implementation of the semi-automated voucher tracking

system which has been operational since November 20, 1990. Tested during the FY 1991 Mission ICA, this control technique has been rated strong.

With respect to documenting a system for MACS coding sheet preparation and submission, the Mission understands that RFMC/Nairobi (as the official accounting station for USAID/Rwanda) is responsible for documenting the MACS coding sheets preparation and submission process and for issuing instructions to its client posts, including USAID/Rwanda. Such guidance is regularly issued by RFMC/Nairobi, and USAID/Rwanda adheres to the RFMC procedures as issued and/or amended in the preparation and submission of MACS coding sheets.

The Mission notes that it will not have a resident controller until August 30, 1992. However, upon his arrival, USAID/Rwanda will review the recommendation and raise the issue with RFMC/Nairobi. If discussions with RFMC/Nairobi come to the conclusion that the Mission has to provide additional and/or supplemental procedures for the MACS coding sheets preparation and submission, then USAID/Rwanda will do so. If this is the case, the resolution date will be December 31, 1992.

Comments on Recommendation Three

Draft Recommendation No. 3.1 states, *"We recommend that the Director USAID/Rwanda: "establish and implement procedures to ensure that check request form (form sf 1166) are properly controlled and accounted for in accordance with internal control standards of the federal government;"*

In its efforts to address this internal control weakness as previously identified in the Mission Internal Control Assessment for FY 1990 and in the FY 1991 testing of control techniques exercise, USAID/Rwanda on November 1, 1991, moved to the PAYTRACK/DATELS system to control and to request payment checks from RAMC/Paris in lieu of using SF 1166. For this purpose, the Mission received in December 1991 and January 1992 two-week TDY assistance from RFMC/Nairobi to train controller's office operating staff and to strengthen the Mission's capacity and capability in the use of the voucher tracking/DATEL system. USAID/Rwanda now has a set of the voucher tracking/DATEL system user manuals, and detailed and written procedures for the newly designed and implemented system are in place and are followed. The DATEL Generation System (DGS) is run on a Lotus 1-2-3 with a key to control and to restrict access to only the key personnel involved in processing check requests for payment and allows the Mission to print both cashier and non-cashier DATELS; and, consists of data file containing information required for controlling and accounting for all payment check requests in accordance with the internal control standards of the federal government.

Draft Recommendation No. 3.2 states *"establish procedures to ensure that Regional Administrative Management Center Paris disbursements are reconciled with Mission accounting and control system transactions in a timely manner, including $514,907 in unreconciled items through February 1991;"*

Draft Recommendation No. 3.3 states *"report these internal control weaknesses to the Assistant Administrator in the next annual Federal Manager's Financial Integrity Act's reporting cycle if they are not corrected."*

With a team from RFMC/Nairobi, the Mission has cleared most of the reconciliation actions with MACS and RAMC/Paris. All reconciling items through September 1991, including the $514,907 identified in the draft audit report, have been cleared. However, the problem remaining in this issue is one of timing. The Mission will probably never be more up-to-date than it is now in reconciling transactions in a timely basis as long as it is dependent upon RFMC/Nairobi for the production of its MACS reports. USAID/Rwanda notes that the initial reconciliation is performed in Nairobi since RFMC/Nairobi prepares the U-101 report for Mission; the list of reconciling items comes months later after the transaction first hits either RAMC/Paris or RFMC/Nairobi's accounting systems. For example, the Mission has not yet received the 1221 reconciliation report for the periods ending December 30, 1991, and January 30, 1992.

The mission understands that IRM has been working on an automated program to perform the reconciliation and to report reconciliations on a cumulative basis. Unless better resources are made available to the Mission, such as that under development by IRM, and reports are issued on time, USAID/Rwanda will continue encountering difficulties in reconciling MACS and RAMC/Paris transactions on a timely basis. However, USAID/Rwanda agrees with part of the recommendation in setting up procedures to document the 1221 reconciliation process and to continue to report the internal control weakness to the Assistant Administrator in the next Mission ICA. Resolution date is December 30, 1992 after the arrival of the resident controller at post.

General Comments on the Draft Audit

On draft audit report page 30, and again page 31, RIG/A/Nairobi writes, "An indeterminable amount of USAID/Rwanda's fiscal year 1991 budget of $40.4 million is subject to unauthorized and fraudulent use." This statement refers to the need for USAID/Rwanda to control its check request forms in its dealings with RAMC/Paris.

However, the Mission notes that $40.4 Million vastly overstates the Mission's potential vulnerability. First, of the $40.4 million OYB in FT 91, $25 million was for the PMPR program. The PMPR documents were made available to the

RIG/A/Nairobi team, and USAID/Rwanda staff responsible for designing and implementing PMPR spoke with the team. Funds disbursed under that program are disbursed directly by FA/FM/A/NPA, as specified in Handbook 4 (and supplementary AID/W guidance). RAMC/Paris is not involved, no "checks" are issued, and the system critiqued in the audit is not applicable to the PMPR program. This $25 million is not vulnerable to the systemic weakness identified in the audit and should be deducted from the $40.4 million cited.

Second, of the remaining $15.4 million ($40.4 million less $25.0 million), over $4.0 million is to be disbursed through Bank Letters of Credit, not checks and therefore is not vulnerable. This leaves a balance of only $11.3 million of potential vulnerability.

Consequently, the Mission recommends that RIG/A/Nairobi modify the sentence to avoid conveying a magnitude of potential vulnerability that is incorrect by a factor of more than four times. Finally, the Mission notes that, to date, there have been no instances or suspected instances of unauthorized and fraudulent issuances of checks through this system.

The Mission suggests that these sentences, including the highlight, be modified to read:

> "An indeterminable amount of $11.3 million, which is part of USAID/Rwanda's fiscal year 1991 budget of $40.4 million, is subject to potential unauthorized and fraudulent use. To date, however, there have been no instances of unauthorized and fraudulent issuances of checks under the current system."

In view of the above comments, please advise USAID/Rwanda of the status of the audit report.

APPENDIX III

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