

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
The Non-Project Assistance Program
To The Government Of The
Republic of Djibouti

Report No. 3-603-92-09-N
April 30, 1992



2810

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

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April 30, 1992

memorandum

TO: Fred C. Fischer, Director, REDSO/ESA

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

SUBJECT: Audit of The Non-Project Assistance Program to the Government of the Republic of Djibouti

Attached are five copies of a mission-contracted financial audit report of expenditures of the Non-Project Assistance Program to the Government of the Republic of Djibouti. The accounting firm of Bellhouse Mwangi Ernst & Young, Nairobi, Kenya performed the audit.

The Non-Project Assistance Program Project No. 603-0022 is a cash grant of approximately \$13 million provided from the Economic Support Fund to assist the Government of the Republic of Djibouti (GROD) in reducing its deficit, thereby supporting economic and political stability in the country. The grant funds were used to make debt service payments and import goods and services. As of September 30, 1991 \$8,302,742 had been disbursed by the GROD and \$1,300,974 was held in the special dollar account operated by the GROD. The audit covered all disbursements.

The audit objectives were to:

- express an opinion on the Fund Accountability Statement for the Non-Project Assistance Program to the GROD;
- evaluate and report on the internal control structure of the GROD; and
- determine and report on the GROD'S compliance with applicable laws, regulations and the grant agreement.

The auditors expressed an unqualified opinion on the Fund Accountability Statement stating that it presents fairly in all material respects, the financial position of the Non-Project Assistance Program to the GROD. The auditors identified questioned costs of \$904.42 (Section 2.2.8) and unsupported costs of \$894.76 (Section 2.2.4). The auditors also reported that interest in the amount of \$1,152.05 (Section 2.2.4) was not credited to the special dollar account.

The report on the internal control structure did not contain any material weaknesses. However the report did recommend (Section 3.3.2) that the GROD should maintain updated ledgers to account for receipts and payments of USAID funds, reconcile them with the bank statements regularly, and file original payment vouchers for easy retrieval.

The auditors reported that with respect to the items tested the GROD did not comply in all material aspects with the grant provisions and applicable laws and regulations. For example, the GROD did not comply with Section; 5.1 of the grant which requires payment vouchers to be filed for easy retrieval.

The draft report was submitted to REDSO/ESA for comment and their comments were taken into consideration in the preparation of the final report. A draft report was submitted to the GROD on February 5, 1991 but since no comments had been received within 60 days the final report is being issued without them.

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

Recommendation No. 1: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa:

- 1.1 determine the propriety and recover, as appropriate, interest not credited to**

the special dollar account of \$1,152.05 from the Government of the Republic of Djibouti;

- 1.2 determine the allowability and recover, as appropriate, questioned costs due to excess claims of \$904.42 from the Government of the Republic of Djibouti; and**
- 1.3 determine the allowability and recover, as appropriate, unsupported costs of \$894.76 from the Government of the Republic of Djibouti.**

Recommendation No. 2: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa obtain written assurance from the Government of the Republic of Djibouti to:

- 2.1 maintain updated ledgers to account for receipts and payments of A.I.D. funds;**
- 2.2 reconcile bank statements on a monthly basis; and**
- 2.3 file original payment vouchers for easy retrieval.**

Recommendation No. 3: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa amend the Grant Agreement to require that the Government of the Republic of Djibouti perform an annual audit of grant funds using the services of an international public accounting firm.

We consider Recommendations Nos. 1, 2 and 3 to be unresolved pending receipt of a plan for corrective action. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendations.

Thank you for the cooperation and courtesy extended to the representatives of Bellhouse Mwangi Ernst & Young and the Regional Inspector General for Audit.

Attachments - a/s.

**AUDIT OF
THE NON-PROJECT ASSISTANCE PROGRAM
TO THE GOVERNMENT OF THE
REPUBLIC OF DJIBOUTI**

ATTACHMENTS

**AUDIT OF THE NON-PROJECT
ASSISTANCE PROGRAM TO THE
GOVERNMENT OF THE REPUBLIC
OF DJIBOUTI
AUDIT REPORT FOR THE PERIOD
1 MAY 1988 TO 30 SEPTEMBER 1991**

**NON-PROJECT ASSISTANCE PROGRAM TO THE
GOVERNMENT OF THE REPUBLIC OF DJIBOUTI
AUDIT REPORT FOR THE PERIOD 1 MAY 1988 TO 30 SEPTEMBER 1991**

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**NON-PROJECT ASSISTANCE PROGRAM TO THE
GOVERNMENT OF THE REPUBLIC OF DJIBOUTI
AUDIT REPORT FOR THE PERIOD 1 MAY 1988 TO 30 SEPTEMBER 1991**

GLOSSARY OF TERMS

GROD:	Government of the Republic of Djibouti
USAID:	United States Agency for International Development
NPA:	Non-Project Assistance Program
ESF:	Economic Support Fund
US:	United States
REDSO/ESA:	Regional Economic Development Service Office/Eastern & Southern Africa
\$:	US Dollars

1. INTRODUCTION

1.1 BACKGROUND

The Non-Project Assistance Program Project No 603-0022 (NPA) is a cash grant of approximately \$13 million provided from the Economic Support Fund (ESF) to assist the Government of the Republic of Djibouti (GROD) in reducing its deficits, thereby supporting economic and political stability in the country. The eligible uses of the grant are:

- i. Multilateral debt service payments
- ii. Eligible international debt service payments
- iii. Imports of US commodities and services for the public sector.

On April 20, 1988 REDSO/ESA approved the first Non-Project Assistance Program grant (603-K-601) cash transfer to Djibouti in the amount of US\$3.0 million. Four subsequent disbursements amounting to approximately \$6 million were thereafter approved. The final grant of approximately \$4 million has been approved but was not disbursed during the period under review.

Out of the total cash grant disbursed of \$ 9,042,475, interest thereon of \$348,291.78 and inter account transfers of \$212,949. An amount of \$8,302,742 has been disbursed to cost allocation as follows:

	\$
Debt service payments	5,853,549
Import of goods	1,946,035
Import of services	290,209
Inter account transfer	<u>212,949</u>
	<u>8,302,742</u>

As at September 30, 1991, \$1,300,974 was held in the special dollar account operated by the GROD.

The scope of the non federal audit included the verification of all cash grants disbursed to the GROD as well as any interest income generated thereon. As of June 30, 1991 total revenues (USAID cash grant) were \$9,042,475, interest income thereon \$348,292 and total expenditures (liquidations) reported were \$8,089,793 (see exhibit 1)

1.2 Pertinent clauses in the grant agreement include the following:

- a) The GROD would place the proceeds of the grant in an interest bearing special dollar account in a commercial bank of the government's choice. The government will obtain prior USAID approval to draw from this account for payments envisaged on the grant agreement.
- b) The interest earnings will be retained in the special account and be used in the same manner and for the same purposes as for the original grant.
- c) The funds provided shall not be used to finance military or paramilitary requirements of any kind including the procurement of commodities and/or services for these purposes, for luxury goods or for the repayment of military debt.
- d) If any of the dollars deposited in the special dollar account are utilized by the GROD for purposes not permitted under the terms of this agreement the grantee shall redeposit, within 60 days after receiving notice from USAID of such a breach, an equivalent amount of dollars into the special dollar account established pursuant to this agreement.
- e) The grantee will provide quarterly reports and such books, records and documents, relating to disbursements into and out of the special dollar account as necessary to show adequately without limitation compliance with the agreement. Such books, records and documents will be audited regularly and in accordance with generally accepted auditing standards and shall be maintained for three years after the date of last disbursement for each grant.

1.3 Audit Objectives and Scope

1.3.1 Objectives and Scope

Bellhouse Mwangi Ernst & Young were appointed under contract No 623-0000-I-(X)-9051-00 to perform a non-Federal audit of the Non-Project Assistance to the GROD with the following objectives:

- 1. To perform the audit in accordance with generally accepted auditing standards (GAAS) and the US Comptroller General's Government Auditing Standards (1988 Revision). For this Audit Government Auditing Standard 3.46 regarding an external quality control review was not met.**
- 2. To report on, in conjunction with the above, the fairness of the fund accountability statement, the internal control structure of the government's department concerned with respect to the program operations and the government's compliance with the grant provisions and applicable laws and regulations.**
- 3. To report on problem areas needing improvement and propose recommendations to correct problems identified.**

With respect to the grants disbursed, Bellhouse Mwangi Ernst & Young were requested to provide written opinion and reports on:

- the auditee's fund accountability statements**
- the auditee's internal control structure**
- the auditee's compliance with the grant agreement and applicable laws and regulations.**

1.3.2 Methodology

Commencing October 16, 1991 Bellhouse Mwangi Ernst & Young performed an initial survey of accounting records maintained by REDSO/ESA. The survey revealed that it was necessary to achieve a coverage of 100% in the verification of outflows from the grants. This was due to the lack of complete information available at

REDSO/ESA and also took into account the extent of the transactions within each grant.

The principal audit steps performed included:

- A review of terms and conditions of the grant agreements and other project documents as deemed necessary.
- A review of the internal control structure.
- Performance of detailed audit procedures for compliance, internal controls and errors or irregularities.
- Reconciliation of financial reports submitted to REDSO/ESA to records maintained by GROD to determine their accuracy and supportability.

13.3 Limitations

The principal limitation encountered concerned the availability of original support documentation due to the poor state of storage of the documentation in Djibouti.

All vouchers and related disbursement documents pertaining to the grants are currently co-mingled with other treasury documents and have been stored in one place over the years, rendering retrieval an arduous process.

An initial audit visit to Djibouti was undertaken from 25 October 1991 to 9 November 1991. During this visit it was not possible to obtain adequate support documents for approximately 22% of payments out of the special dollar account. In addition 5% of such payments were not supported at all.

These statistics were not acceptable and the auditee was requested to make all required documents available for verification at a subsequent visit. This was duly done.

In addition it was considered necessary to obtain direct and independent confirmations from all the recipients of monies paid out of the special dollar account. No replies have been received to the auditor's written requests.

A letter of representation requested from the auditee (as required by SAS 19) has not yet been received.

1.4 SUMMARY OF AUDIT RESULTS

1.4.1 Fund Accountability Statement

Our testing revealed an error of \$1,152.05 being interest earned over the period 1 August 1988 and 12 December 1988 and not compounded.

In addition a payment to Fond Africain de Developpement (FAD) amounting to \$894.76 could not be supported by the auditee.

Further in May 1991 the auditee claimed an amount of \$904.42 additional to actual requirements.

Written representation have not been provided by GROD as required by SAS 19.

1.4.2 Internal Control Structure

We noted a lack of monthly reconciliation of cash book and bank statements. The effects of this weakness are detailed in our report on the internal control structure.

1.4.3 Compliance with Grant and Related Provisions

We noted non-compliance in some areas with grant and related provisions. The Government of Djibouti took corrective measures as soon as the departures were notified to them by USAID.

2. FUND ACCOUNTABILITY STATEMENT

2.1 INDEPENDENT AUDITORS REPORT

We have audited the Fund Accountability Statement for the Non-Project Assistance Program Project No 603-0022 to Djibouti for the period May 1 1988 through September 30, 1991. This statement is the responsibility of the Government of the Republic of Djibouti (GROD). Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards except that the GROD did not provide a letter of representation as provided by SAS 19 and Government Auditing Standards issued by the Comptroller General of United States of America (1988 revision). For this audit Government Auditing Standard 3.46 regarding an external quality control review was not met. These standards required that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, the financial position of the Non-Project Assistance to Djibouti in conformity with generally acceptable accounting principles and of the inflows and outflows for the period 1 May 1988 through September 30 1991.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the information of GROD and The Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

BELLHOUSE MWANGI ERNST & YOUNG

A handwritten signature in black ink, appearing to read "Dennis R. ...". The signature is written in a cursive style with a long horizontal stroke at the end.

27 April 1992

2.2 FINDINGS AND RECOMMENDATIONS

2.2.1 Introduction

The fund accountability statement was prepared from the records maintained by GROD, and is included in this report as Exhibit 1.

The scope of the audit included all the disbursements made out of the grants from May 1, 1988 to September 30, 1991.

As described in section 1.3.3 we encountered a limitation with respect to the availability of original documentation supporting the outflows from the grants due to lack of proper retention and retrieval procedures.

2.2.2 Sample Selection Criteria

Due to the absence of the fund accountability statements at the commencement of the audit (which we subsequently prepared) and in view of the limited amount of transactions (both inflows and outflows,) a 100% verification approach was adopted.

2.2.3 Audit Results

Results from our audit show that generally inflows and outflows were sufficiently authorized and duly supported by original and approved documents. As indicated in the summary below, only one payment amounting to \$894.70 was not supported. In addition (as explained in section 2.2.8) a payment amounting to \$904 is questionable.

Grant		Costs Claimed	Accepted	Unsupported	Questioned
		\$	\$	\$	\$
603-K-601	1988 BTA 77	3,079,491	3,078,597	894	-
603-K-601A	1989 BTA 59	3,168,126	3,168,126	-	-
603-K-602B	1990 BTC 61	1,766,072	1,766,072	-	-
603-K-601C	1991 BTD 62	<u>289,053</u>	<u>288,149</u>	<u>-</u>	<u>904</u>
	Total	8,302,742	8,300,944	894	904
		_____	_____	_____	_____

An alternative verification procedure for all payments was carried out by direct confirmation from the recipients. The result of this exercise was not successful as no replies were received, however, in one case a verbal reply failed to confirm monies paid.

Recommendation

On the basis of the information verified, some of which (including bank advice and payee requests) is independently generated from GROD, payments made should be accepted as bona fide.

2.2.4 Loss of revenue and unsupported costs

Findings

An amount of \$1,152.05 being compounded interest on grant 603-K-601 was not credited.

Questioned costs which were not supported amounted to \$894.76 recorded as debt servicing of credit received from Fond Africain de Developpement (FAD)

Recommendation

GROD should require the bank to refund the questioned interest income of \$1,152.05. GROD should also provide independent proof of the payment to FAD.

2.2.5 Telex Support Documentation

Findings

Costs supported by telexes amounted to \$1,850,269 (21.8% of total costs). These can be categorized as:

	\$
a. Payments for goods	1,014
b. Payments for services	29,819
c. Debt servicing	1,819,436

Under debt servicing was an amount of \$46,615 for which the telex was illegible as it had been destroyed by water in the archives.

A review indicated that some of the loanees do not always send formal requests for payments due but prefer doing this by telex to save time. At times the telexes indicate the outstanding loan amount which is lower than the loan amount disclosed in the previous telex requesting payment. This is an indication that payment was received on the previous instalment.

USAID have not rejected the use of telexes as support for payments made in the past, however, this is not sound practice as there is no positive assurance that the payments are for the intended purpose.

Recommendation

REDSO/ESA should resolve on the acceptability of these support documents.

2.2.6 Payments by GROD claimed from NPA funds

Findings

It was noted that payments analyzed below were made out of GROD funds and later refunded from the NPA grant funds.

	\$
a. Payments for goods	231,064
b. Debt servicing	<u>273,073</u>
	504,137
	—————

Recommendation

Future payments by GROD should not be reimbursed from the NPA grant funds and REDSO/ESA should, in the future, emphasize the prohibition of such reimbursements.

2.2.7 Reconciliation of records maintained and financial reports

Findings

The financial reports by GROD to REDSO/ESA on NPA fund utilization are prepared directly from bank statements. No reconciliations are performed to agree this information to the basic records.

Recommendation

Separate books of accounts should be maintained by GROD for all NPA funds. Reconciliations between the basic records and the bank statements should be performed regularly and financial reports to REDSO/ESA prepared from these books.

2.2.8 Questioned cost: Excess Claim

Findings

In May 1991 GROD claimed an amount of \$103,266.79 from NPA funds. Actual expenditure against this claim amounted to \$102,362.37 leaving an excess of \$904.42.

Recommendation

The amount of the excess should be claimed from GROD, or accounted for on the next disbursement.

2.2.9 Written representation have not been provided by GROD as required by SAS 19

3. INTERNAL CONTROL STRUCTURE

3.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement for the Non-Project Assistance Program Project No 603-0022 to Djibouti for the period 1 May 1988 through September 30 1991, and have issued our report thereon dated 27 April 1992

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 revision). For this audit Government Auditing Standard 3.46 regarding an external quality control review was not met. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement we considered the internal control structure established by the Government of the Republic of Djibouti (GROD) in so far as it relates to grant funds in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The GROD is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 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 GROD's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

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

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Control Environment

- written procedures
- personnel capabilities

Accounting System

- accounting records and USGAAP reporting
- reconciliations to independently generated information

Control Procedures

- disbursements
- Treasury management

For all of 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 did not note any 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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. However, we noted certain matters involving the internal control structure and its operation that we have reported in Section 3.3

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. The report is intended solely for the information of GROD and The Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

BELLHOUSE MWANGI ERNST & YOUNG

A handwritten signature in black ink, appearing to read "B. Mwangi", written in a cursive style.

27 April 1992

3.2 WORK PERFORMED

We reviewed the internal control structure in relation to those elements which related to the USAID grant.

We obtained an understanding of the design of relevant procedures and we assessed control risk.

Our review considered the significant internal control structure policies and procedures categorized as follows:

Control Environment

- written procedures
- personnel capabilities

Accounting System

- accounting records and USAID reporting
- reconciliations to independently generated information

Control Procedures

- disbursements
- Treasury management

3.3 FINDINGS AND RECOMMENDATIONS

3.3.1 Control environment

Our review indicated that established written procedures exist for the management of grant funds, the accounting of which is integrated with the management of all Treasury funds.

The capability of personnel involved in the management of these funds was considered acceptable. There are consequently no specific recommendations under this category.

3.3.2 Accounting system

- a. Treasury maintains separate ledgers for USAID funds. These records are at most times not up to date. It is therefore difficult to accurately identify USAID receipts and payments from these ledgers. Such identification can only be obtained through a time consuming analysis or from independent records including bank statements.

However no reconciliation is performed between the latter records and the basic ledgers. Reporting to USAID is therefore based on information obtained from bank statements. This has the effect of transcribing errors or omissions on these statements to the reports.

Recommendation

GROD should maintain updated ledgers to account for receipts and payments of USAID funds. Bank statements should be regularly, preferably monthly, reconciled to these ledgers. The reconciled position should form the basis of reports to USAID.

- b. We noted that vouchers related to USAID grant transactions were not easy to retrieve due to poor filing systems at the Treasury. The Treasury files all vouchers using a series based on budget lines despite the fact that USAID transactions are recorded under a different serial. It is therefore a time consuming exercise to confirm that payments recorded are bona fide.

Recommendation

Treasury should separately file all originals of USAID grant related vouchers for easy retrieval.

If it is necessary to maintain these vouchers under a budget line filing system, photocopies of originals would suffice.

3.3.3 Control procedures

Many instances were noted where telexes and cables were presented as supporting evidence of payments. Although this may be acceptable, it does not provide complete assurance that payments are bona fide.

Recommendation

USAID should resolve on whether the nature of this evidence is acceptable as complete proof that payments have been made to the correct recipients. Consideration could be given to a requirement that sampled recipients confirm directly to USAID (say semi annually) receipt of program funds.

**4. COMPLIANCE WITH GRANT PROVISIONS
AND APPLICABLE LAWS AND REGULATIONS**

4.1 INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement for the Non-Project Assistance Program Project No 603-0022 to Djibouti for the period 1 May 1988 through September 30 1991, and have issued our report thereon dated
.....27 April 1992

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 revision). For this audit, Government Auditing Standard 3.46 regarding an external quality control review was not met. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to the program funds is the responsibility of The Government of the Republic of Djibouti (GROD). As part of our audit, we performed tests of GROD's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements 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 and binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the financial statements. The results of our tests of compliance disclose the following material instance of noncompliance.

GROD claimed amounts totalling \$504,137 from the grant after having made payment of these amounts from Treasury funds.

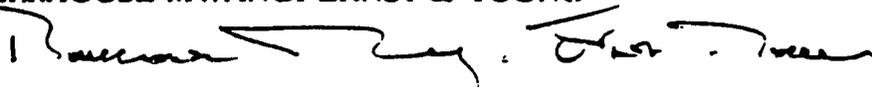
This material instance on noncompliance has been considered in forming an opinion on whether GROD's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

As reported in section 4.3 our testing of transactions, and records selected disclosed other instances of noncompliance with applicable laws and regulations.

Except as described above the results of our tests of compliance indicate that with respect to the items tested GROD complied, in all material respects, with the provisions referred to in the third paragraph of this report.

Information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. The report is intended for the information of GROD and The Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

BELLHOUSE MWANGI ERNST & YOUNG



27 April 1992

4.2 INTRODUCTION

Our audit of USAID Non-Project Assistance Program to the GROD included obtaining assurances that the GROD complied with grant provisions and applicable laws and regulations.

Procedures performed to test such compliance included the following:-

- i) a review of grant provisions and related regulations to identify those provisions and regulations which could have a material effect on the fund accountability statement.
- ii) audit procedures including detailed testing to confirm GROD's compliance with these provisions and regulations.

4.3 FINDINGS AND RECOMMENDATIONS

In the course of our audit, we noted the following instances of noncompliance:

As noted in section 2.2.6, GROD claimed an amount of \$504,137 after having made payment of these amounts from Treasury funds. Such an action is prohibited under the grant agreement.

Future payments by GROD should not be reimbursed from the NPA grant funds and REDSO/ESA should, in the future, emphasize on the prohibition of such reimbursements.

- * The auditee did not provide all documents required as indicated in section 5.1 of the grant agreement. For the purpose of the audit we requested vouchers in support of some payments. These were not found within a reasonable time resulting in a temporary postponement of the audit. One payment, albeit minimal, is still unsupported.

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
NON-PROJECT ASSISTANCE PROGRAM TO THE GOVERNMENT
OF THE REPUBLIC OF DJIBOUTI**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD MAY 1 1988 TO SEPTEMBER 30 1991**

Year Grant No A/C No:	NOTE	FY 1988 603-K-601 BTA 77	FY 1989 603-K-601A BTA 69	FY 1990 603-K-601B BTC 61	FY 1991 603-K-601C BTD 62	TOTAL
		\$	\$	\$	\$	\$
REVENUE						
Grant		3,000,000.00	3,000,000.00	1,742,475.00	1,300,000.00	9,042,475.00
Interest		<u>79,490.06</u>	<u>192,766.11</u>	<u>20,695.53</u>	<u>55,340.08</u>	<u>348,291.78</u>
TOTAL REVENUE:		<u>3,079,490.06</u>	<u>3,192,766.11</u>	<u>1,763,170.53</u>	<u>1,355,340.08</u>	<u>9,390,766.78</u>
EXPENDITURE:						
Debt service payments		1,298,235.10	2,537,144.30	1,766,072.33	252,096.93	5,853,548.66
Import of US goods		1,556,513.76	389,521.65	-	-	1,946,035.41
Import of US services		<u>38,715.21</u>	<u>241,459.80</u>	<u>-</u>	<u>10,034.00</u>	<u>290,209.01</u>
TOTAL EXPENDITURES		<u>2,893,464.07</u>	<u>3,168,125.75</u>	<u>1,766,072.33</u>	<u>262,130.93</u>	<u>8,089,793.08</u>
Inter account transfers	1	<u>(186,027.45)</u>	<u>210,047.66</u>	<u>2,901.80</u>	<u>(26,922.01)</u>	<u>-</u>
BALANCE IN BANK (Committed but not expended)		<u>(1.46)</u>	<u>234,688.02</u>	<u>-</u>	<u>1,066,287.14</u>	<u>1,300,973.70</u>
		=====	=====	=====	=====	=====

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
NON-PROJECT ASSISTANCE PROGRAM TO THE GOVERNMENT
OF THE REPUBLIC OF DJIBOUTI**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD MAY 1 1988 TO SEPTEMBER 30 1991**

1. Interaccount transfers

Interaccount transfers represent balances transferred from other grant accounts and amounts transferred to clear overdrafts at the expiry of the specific grant accounts.

2. Departures from grant agreements

The main departures from the agreements were as follows:

- a. A payment of \$894.76 in FY 1988 to Fond Africain de Developpement (FAD) could not be supported by the auditee.
- b. The auditee claimed an amount of \$904.42 in FY 1991 in excess of actual requirements.
- c. Interest earned in FY 1988 is understated by \$1,152.05 being interest earned not compounded.
- d. Auditee claimed payments amounting to \$504,137 from the grant after making such payments from their own funds.

MISSION AND AUDITEE RESPONSE

A draft of this report was sent to the Government of the Republic of Djibouti (the auditee) as well as to REDSO/ESA on February 5, 1992. A response was received from the Regional Financial Management Centre on behalf of REDSO/ESA and consisted of minor issues which have now been incorporated in the report. No response has been received from the auditee.

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