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**Regional Inspector General for Audit
Dakar**

**AUDIT OF LOCAL COSTS CHARGED BY THE NIGERIEN NATIONAL
AGRONOMIC RESEARCH INSTITUTE UNDER THE NIGER
APPLIED AGRICULTURAL RESEARCH PROJECT NO. 683-0256,
JUNE 1, 1988 THROUGH JUNE 30, 1990**

**Audit Report No. 7-683-93-02-N
December 14, 1992**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

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December 14, 1992

MEMORANDUM

To: George T. Eaton, USAID/Niger

From: *Thomas B. Anklewich*
Thomas B. Anklewich, RIG/A/DAKAR

Subject: Audit of Local Costs Charged by the Nigerien National Agronomic Research Institute Under the Niger Applied Agricultural Research Project (No. 683-0256), June 1, 1988 through June 30, 1990, (Audit Report No. 7-683-93-02-N)

The attached audit report, prepared by the non-Federal audit firm of Price Waterhouse, Dakar presents the results of a financial audit of local costs managed by the Nigerien National Agronomic Institute (INRAN) under the Niger Applied Agricultural Research Project (NAARP).

In June 1987, USAID/Niger and the Government of Niger (GON) signed a project agreement to implement NAARP with the purpose of institutionalizing a system of agronomic research with strong functional linkages to extension services. Under this project, INRAN--a GON agronomic research organization--reported disbursements of \$1,050,423 during the period June 1, 1988 to June 30, 1990 for local currency expenditures related to NAARP implementation activities. In June 1990, USAID/Niger suspended all funding to INRAN due to irregularities in the ordering of supplies, keeping of inventory records, and controlling the usage of gasoline.

Price Waterhouse performed a financial audit of the \$1,050,423 in reported expenditures by INRAN in accordance with U.S. Government Auditing Standards to determine whether the Statement of Local Costs for the period June 1, 1988 through June 30, 1990 was fairly presented and whether INRAN complied with applicable laws, regulations and agreements that may have a material effect on the Statement of Local Costs. In carrying out this financial audit, the non-Federal auditors obtained an understanding of INRAN's internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed.

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Price Waterhouse reported that INRAN's Statement of Local Costs did not fairly present the local operating costs for the period audited. The audit identified questioned costs totaling \$141,726 which consisted of unaccounted for inventories and various ineligible and unsupported expenditures. The non-Federal auditor's evaluation of INRAN's internal control structure revealed material weaknesses in controls over financial reporting, expenditures and physical inventories. Finally, Price Waterhouse reported that INRAN did not comply with certain terms of the Project Grant Agreement such as diversion of project assets and supplies for non-project use.

USAID/Niger agreed with all of the auditor's recommendations except one which recommended that USAID/Niger formally approve INRAN's procedure manual. USAID/Niger noted that since the project is in a close down phase with no further A.I.D. funds being provided to INRAN, a review and acceptance of INRAN's operating manual by USAID/Niger was not necessary.

Because NAARP is to end in June 1993 and operational support to INRAN from USAID/Niger has been terminated, only the following recommendation is included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Niger resolve the questioned costs of \$141,726 (\$16,921 unsupported) and recover those costs determined to be unallowable.

Recommendation No. 1 is unresolved until we are advised of USAID/Niger's final determination regarding all of the unallowable and unsupported questioned costs. This recommendation can be resolved in its entirety when USAID/Niger submits its determination of the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are reimbursed by the GON. As of the date of this report issuance, acceptable evidence has been submitted to RIG/A/Dakar by USAID/Niger which sustains \$9,029 in the ineligible questioned costs related to an advance payment for services which were never received. Other documentary evidence concerning questioned costs for unaccounted for supplies was submitted by USAID/Niger and will be reviewed by RIG/A/Dakar to determine whether these documents adequately support the questioned expenditures.

Please advise within 30 days of receipt of this report of any actions planned or taken to close the recommendation.

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**AUDIT OF LOCAL COSTS CHARGED BY THE
NIGERIEN NATIONAL AGRONOMIC RESEARCH
INSTITUTE (INRAN) UNDER THE NIGER APPLIED
AGRICULTURAL RESEARCH PROJECT (NAARP)
(N° 683-0256)**

**AUDIT OF LOCAL COSTS CHARGED BY THE
NIGERIEN NATIONAL AGRONOMIC RESEARCH
INSTITUTE (INRAN) UNDER THE NIGER APPLIED
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(N° 683-0256)**

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PART I

EXECUTIVE SUMMARY

1.1 BACKGROUND

In June 1987, USAID and the Government of Niger (GON) signed a Grant Agreement to implement the Niger Applied Agricultural Research Project (No. 683-0256) (NAARP).

The Project was designed as phase two of the Niger Cereals Research Project (NCR) which was to develop the Nigerien National Agronomic Research Institute's (INRAN) capacity to undertake cereals research programs.

The NAARP is to continue support to the research programs initiated under NCR, further develop research support services, and include applied research on irrigated agriculture. The Project purpose is to institutionalize within INRAN a system of applied agronomic research with strong functional linkages to extension services

Technical assistance is provided by Purdue University and several subcontractors.

AID authorized a total budget of \$ 16,874,000 for the project, of which \$2,869,000 was designated for Local Costs. The Project is scheduled for completion on July 1, 1993.

In June 1990, USAID/Niger suspended funding of INRAN due to irregularities in the ordering of supplies, poor inventory records for supplies and inadequate control over gasoline. As of June 30, 1990, AID had funded \$1,034,789 (F.CFA 318,466,329) for Local Costs.

1.2 AUDIT OBJECTIVES AND SCOPE

We performed a financial and compliance audit of the local costs charged by INRAN under the Niger Applied Agricultural Research project (N° 6830256).

The objectives of this financial and compliance audit were to:

- determine the reasonableness, allowability, and propriety of costs charged to the Local Cost Line Item by INRAN from June 1, 1988 through June 30, 1990;

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- review and evaluate the INRAN internal controls and operating procedures;
- determine whether the Project complied with applicable U.S. and Government of Niger (GON) laws and regulations.

The scope of our work consisted of the following:

- selective examination and testing to determine whether commodities, equipment and supplies were properly procured, utilized, accounted for and safeguarded in accordance with USAID regulations;
- a review of construction costs to determine the efficiency, economy and propriety of the expenses;
- a review of training and local operating costs to determine if the expenditures incurred were allowable, reasonable and relevant to project activities;
- a review of the Project's compliance with applicable U.S. and GON laws, regulations and agreements.

1.3 RESULTS OF THE AUDIT

1.3.1 STATEMENT OF LOCAL COSTS

We performed a financial audit of INRAN's statement of local costs for the period June 1, 1988 through June 30, 1990.

We identified certain transactions described in Note 2 to the Statement of Local Costs, that, in our opinion, are questionable costs. These questioned costs totaling \$ 141,726 represent a material amount relative to the total local costs of \$ 1,050,423 during the period.

In our opinion, because of the materiality of these questioned costs and the lack of sufficient documentation to further determine the extent of irregular transactions, the Statement of Local Costs does not fairly present, in conformity with generally accepted accounting principles, the local costs from June 1, 1988, to June 30, 1990.

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1.3.2 INTERNAL ACCOUNTING CONTROLS

In planning and performing our audit of INRAN, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of local costs and not to provide assurance on the internal control structure.

We noted the following deficiencies that we consider to be reportable and material conditions:

Financial Reporting - vouchers were not properly maintained and submitted in a timely manner. Some of the reimbursements claimed by INRAN from USAID/Niger in the submitted vouchers could not be reconciled to the accounting journal. Also, the vouchers were not submitted at the end of each month, as required.

Expenditures - Procedures did not ensure that goods and services were obtained at competitive prices and that Project supplies and spare parts were used only for Project purposes.

Inventory - duties were not adequately segregated, physical inventories were not performed, and receipt and delivery of inventory were not recorded.

1.3.3 COMPLIANCE

We performed tests of INRAN's compliance with applicable GON and AID regulations, laws, and agreements.

Our tests of transactions and records disclosed instances of noncompliance with those laws and regulations. These instances are fully described in Part IV of this report. Of particular importance among them are the following:

- Competitive purchasing procedures were not used as required by the Grant Agreement and GON laws.
- Project property was diverted for personal use.
- Project fuel and spare parts were used for non-Project vehicles.

The instances of noncompliance materially affect the Statement of Local Costs. Also, we cannot assure for the items not tested, that INRAN had complied, in all material respects with those provisions.

1.4 MANAGEMENT COMMENTS

Recommendation n° 1:

Mission agrees. A new Chief Accountant, appointed with USAID/Niger concurrence, is now reviewing and signing all records and worksheets. Reconciliations are now being completed on a regular basis. All accounting staff work is now being reviewed and approved by the Deputy Director for Administration and Finance.

Recommendation N° 2:

Mission agrees. However, the project has been decertified and no more funds will be provided.

Recommendation N° 3:

Mission agrees. On July 6, 1992 USAID/Niger liquidated the outstanding advance amount of \$9,029.00. Documentation is attached for your review.

Recommendation N° 4:

Mission agrees with recommendations 4A and 4B. Mission has been able to obtain evidence that F.CF 5,154,865 (\$16,737.11) was recorded on stock cards. Documentation is attached for your review.

Recommendation N° 5:

Mission does not agree. Since, as noted, the project has terminated its operational support, review by USAID of procedures manuals makes little sense at this point in time. A new World Bank-funded project began recently at INRAN? This project has its own set of procedures INRAN will have to follow.

Recommendation N° 6:

Mission agrees. USAID/Niger also agrees that a project termination audit should be done at the end of the project in July 1993.

Recommendation N° 7:

Mission agrees. USAID/Niger will ensure that all vehicles and equipment purchased with project funds will be properly marked. RIG/A/Dakar will be notified when markings have been completed on those vehicles and equipment which are not marked.

Recommendation N° 8:

Mission agrees.

Recommendation N° 9:

Missions agrees.

Recommendation N° 10

Mission agrees.

PART II**INDEPENDENT AUDITOR'S REPORT
ON NAARP STATEMENT OF LOCAL COSTS**

We have audited the statement of local costs charged by the Nigerien National Agronomic Research Institute (INRAN) under the Niger Applied Agricultural Research Project for the period June 1, 1988 through June 30, 1990. This statement is the responsibility of INRAN's management. Our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of local costs is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of local costs. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the statement of local costs. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the Statement of Local Costs, our audit revealed costs totaling F.CFA 43,651,164 (\$ 141,726) which we consider as questionable. These costs are described further in the internal control and compliance findings. These questioned costs are material relative to the total local costs during the period. In addition, the Project had not maintained adequate records to enable a determination of the propriety and allowability of other costs.

In our opinion, because of the materiality of these questioned costs and the lack of sufficient documentation to further determine the extent of irregular transactions, the Statement of Local Costs does not fairly present, in conformity with generally accepted accounting principles, the local costs from June 1, 1988, to June 30, 1990.



Mayoro WADE
Partner

February 28, 1992

INRAN
STATEMENT OF LOCAL COSTS
FOR THE PERIOD JUNE 1, 1988 THROUGH JUNE 30, 1990

<u>BUDGET CATEGORIES</u>	<u>AMOUNT</u>	
	<u>F.CFA</u>	<u>USD</u>
Personnel	99,464,938	\$ 322,938
Training	14,875,935	48,298
Services	80,752,484	262,183
Transportation	123,884,180	402,221
Equipment	720,000	2,338
Construction	2,478,703	8,048
Irrigation	328,400	1,066
Workshops	1,026,000	3,331
TOTAL	<u>323,530,640</u> =====	<u>\$1,050,423</u> =====

The accompanying notes are an integral part of this financial statement.

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NOTES TO THE STATEMENT OF LOCAL COSTS

NOTE 1: ACCOUNTING POLICIES

1.1 ENVIRONMENT

The Project accounting policies are governed by a manual of financial and administrative procedures which was prepared in August 1988 but not formally approved by USAID/Niger. The accounts are normally maintained at the Project office which periodically submits vouchers to USAID/Niger. USAID approval of these vouchers is required for further cash disbursements by USAID.

For the period of June 1, 1988 to June 30, 1990, USAID/Niger records show a total reimbursement of F.CFA 318,466,329 (\$1,034,789), a difference of F.CFA 5,064,311 (\$16,443) from the total expenditures shown in the INRAN Statement of Local Costs. This difference is due to costs that were not reimbursed by USAID. The amount is immaterial relative to the total local costs.

In June 1990 USAID/Niger performed a 121(d) review of the Project accounting system which resulted in the suspension of AID funding to INRAN because of:

- irregularities in the ordering of supplies;
- poor inventory records for supplies;
- inadequate control over consumption of gasoline.

1.2 EXCHANGE RATES

The Project disburses funds to its suppliers in local currency F.CFA, reports the amounts to USAID in F.CFA and receives cash advances from USAID in F.CFA.

For each cash advance voucher, USAID/Niger determines the US Dollar equivalent of the reported local currency amounts and indicates the exchange rate used.

For estimating the financial impact of findings and questioned costs in this report, we used an average exchange rate computed as follows:

- Total expenditures in F.CFA reimbursed by USAID	318,466,329
- Total advances in US\$ made by USAID	1,034,789
- Average exchange rate for the period audited (318,466,329: 1,034,789.17)	307.75
- Exchange rate	\$1 = F.CFA 308

**NOTES TO STATEMENT OF LOCAL COSTS
FOR THE PERIOD JUNE 1, 1988 THROUGH JUNE 30, 1990**

NOTE 2: QUESTIONED COSTS

Following is the summary of costs which, in our opinion, are questionable. The questioned costs are described in greater detail in the internal control and compliance findings.

	<u>F.CFA</u>	<u>USD</u>
1. Project property unaccounted for		
Supplies were not recorded in the inventory records, not shown as issued, and not found in existing inventories. (Finding 3.3c)	19,602,627	\$ 63,645
2. Improper use of Project property/funds		
Car spare parts were purchased and used on vehicles which did not belong to the Project. (Findings 3.2d and 4.5a)	7,231,870	23,480
Repairs were made on cars which did not belong to the Project. (Findings 3.2d and 4.5b)	5,205,150	16,900
Fuel was used by cars which did not belong to the Project. (Findings 3.2d and 4.5c)	2,191,000	7,114
Equipment /services were purchased for personal use. (Finding 4.5d)	1,374,464	4,463
Per diems were paid improperly (Findings 3.2e and 4.6)	53,500	174
3. Work not performed		
Advance payment of fencing (Kollo) was made in 1990 but the work had not been performed as of the audit date. (Finding 3.2b)	2,780,932	9,029
4. Undocumented purchases		
Purchases without supporting invoices. (Finding 3.2h)	5,211,621	16,921
TOTAL QUESTIONED COSTS	<u>43, 651,164</u> =====	<u>\$141,726</u> =====

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PART III**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL ACCOUNTING CONTROL**

We have audited the statement of local costs charged by the Nigerien National Agronomic Research Institute (INRAN) under the Niger Applied Agricultural Research Project (NAARP) for the period June 1, 1988, through June 30, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of local costs is free of material misstatement.

In planning and performing our audit of INRAN's local costs, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of local costs and not to provide assurance on the internal control structure.

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

- Financial reporting
- Expenditures
- Inventory

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

We noted certain deficiencies in 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 are significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertion of management in the statement of local costs.

These reportable conditions included the following:

- **Financial Reporting** - vouchers were not properly maintained and submitted in a timely manner. Some of the reimbursements claimed by INRAN from USAID/Niger in the submitted vouchers could not be reconciled to the accounting journal. Also, the vouchers were not submitted at the end of each month, as required.
- **Expenditures** - Procedures did not ensure that goods and services were obtained at competitive prices and that Project supplies and spare parts were used only for Project purposes.
- **Inventory** - duties were not adequately segregated, physical inventories were not performed, and receipt and delivery of inventory was not recorded.

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

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

Because of these material weaknesses, we did not rely on the internal control structure in determining our audit procedures for the purpose of expressing our opinion on the statement of local costs.

This report is intended for the information of the audit committee, management, and others within INRAN and USAID/Niger. This restriction is not intended to limit the distribution of this report which is a matter of public record.



Mayoro WADE
Partner

February 28, 1992

INTERNAL ACCOUNTING CONTROL FINDINGS AND RECOMMENDATIONS

3.1 FINANCIAL REPORTING: SUPERVISORY REVIEW AND DOCUMENTATION PROCEDURES FOR FINANCIAL REPORTING NEED IMPROVEMENT

Supervisory review and documentation procedures for financial reporting need to be improved as evidenced by the following conditions:

- a) Supervisory review of the accountants work was not evidenced.

Daily transactions were recorded in the bank journal but the arithmetical accuracy of the Journal was not verified. We noted several instances of incorrect page totals; however, the net result of these errors was immaterial.

- b) Reimbursements claimed by INRAN did not reconcile with the accounting records.

The Project did not apply consistent procedures for ensuring that vouchers were properly maintained and submitted in a timely manner. The reimbursements claimed by INRAN from USAID/Niger in the submitted vouchers could not be reconciled to the accounting journal. Also, the vouchers were submitted for different Project stations at varying time intervals, and not at the end of each month, as required.

The specific standards for internal control systems prescribed by the U.S. Comptroller General require that the objectives of an internal control system are to be ensured through continuous supervision and that transactions are to be promptly recorded, properly classified and clearly documented. Also, Project Implementation Letter (PIL) No. 4 specifies that "the project accounting books should be current and closed at the end of each month to facilitate the preparation of reports and submission of reimbursement vouchers to the USAID Controller."

Although accounting records were maintained and vouchers submitted with supporting documentation, the Project had not established specific procedures for recording and reviewing daily operations, closing accounts at month-end, and preparing vouchers to ensure consistent and accurate records.

The effect of these internal control weaknesses are the following:

- a) Incorrect or altered accounting records may not be detected or corrected.
- b) Inconsistent procedures for recording vouchers resulted in differences totaling F.CFA 5,064,311 (\$ 16,443) between USAID/Niger and Project records and difficulty in determining the origin of the differences (See Note 1.1 to the statement of Local Costs).

RECOMMENDATION N° 1

- a) The accountant's records and worksheets should be regularly reviewed by the Chief Accountant and this review should be clearly documented (signature and date).
- b) Procedures should be implemented to ensure a standard cutoff period for entering transactions on monthly vouchers and facilitate the reconciling of the submitted vouchers to the Project accounting records.

3.2 EXPENDITURES: INTERNAL ACCOUNTING CONTROLS OVER EXPENDITURES NEED TO BE STRENGTHENED

Internal accounting controls over expenditures need to be established, improved, and enforced as evidenced by the following conditions:

- a) Competitive purchasing controls were not implemented.

We reviewed purchases of the Niamey, Kollo, and Maradi stations totaling F.CFA 150,709,241 and representing 73 % of total expenditures for services, transport, and equipment. None of the purchases had supporting documentation, such as pro forma invoices, indicating that the Project had used competitive procurement practices.

- b) Pre-financed work was not monitored to ensure performance.

In 1990, an advance of F.CFA 2,780,932 (\$9,029) was paid for installing fencing at the Kollo station. As of the date of our audit, the work had not yet been performed and no follow-up of the status of the work had been performed. (See Note 2 to the Statement of Local Costs, Item 3.)

- c) Fuel consumption was not recorded

Registers for recording fuel consumption of Project vehicles were not complete and current. For example, one register did not have any entries for the period of November 1987 to April 1991 although the vehicle was in use during the period. Another register showed only 121 liters used over a distance of 4664 kilometers.

- d) Project supplies and services were used on non-Project vehicles.

We noted that, during the period of July 1989 to December 1989, 66 tires and 22 batteries were used on non-Project vehicles. The total cost of the tires and batteries was F.CFA 7,231,870 (\$23,480).

In addition, repairs totaling F.CFA 5,205,150 (\$16,900) were performed at Project cost on vehicles which did not belong to the Project.

We also reviewed fuel consumption records for the period of March 21, 1990 - June 21, 1990 (when the Project was decertified), and found that fuel supplies were used for all INRAN vehicles including those that did not belong to the Project. The total amount of fuel consumed by non-Project vehicles was F.CFA 2,191,000 (\$7,114). Because records had not been maintained prior to that period, we were unable to determine the amount of unallowable fuel expenses from June 1, 1988 to March 21, 1990.

(See Note 2 to the Statement of Local Costs, Item 2.)

- e) Per diems were paid incorrectly.

We noted that per diems of F.CFA 53,500 (\$174) were paid to employees who had not traveled outside of their duty stations. (See Note 2 to the Statement of Local Costs, Item 2.)

- f) Bank reconciliations were not done.

The Kollo station did not perform regular monthly bank reconciliations. During the period from 1988 to 1990, only four bank reconciliations had been done.

- g) The Project did not maintain adequate employee files to permit identification of temporary workers.

Temporary workers were hired for a few days at a time according to seasonal requirements. Because most of the workers were illiterate, receipt of wages was indicated by the worker's fingerprint. However, no records were maintained to document the bona fide existence of the employees and to validate the fingerprints. A RIG/I/D investigation revealed irregularities in the payment of wages; however, because adequate documentation did not exist, verification of the irregularities could not be performed. The amount paid to temporary workers for the period under examination was F.CFA 24,599,477 (\$ 79,868).

- h) Supporting invoices for expenditures were not found.

We tested F.CFA 25,819,154, or 72%, out of a total of F.CFA 35,862,391 in expenditures at the Kollo station. We did not find supporting invoices for 13 transactions totaling F.CFA 5,211,621 (\$16,921). (See Note 2 to the Statement of Local Costs, Item 4.)

Following are the requirements concerning competitive bidding, documentation, use of project goods and services, and per diems.

- Concerning competitive purchasing and project monitoring, the Grant Agreement, Annex 2, Section C4, states that "No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis."

Also PIL No. 2, Parts B3a and B4, states "For procurements worth an estimated value not exceeding \$100,000 or the local equivalent thereof, procurement will be made based on the informal solicitation of quotations from a reasonable number of sources...no less than three (3) quotations will be obtained for each procurement.records should show the nature and extent of solicitation of prospective supplies of goods and services acquired, the basis of award of contract and orders and overall progress of the project toward completion."

- Concerning documentation requirements for purchase and usage of Project supplies and services, the Grant Agreement in Section B.5 (b) that "the Grantee will maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and use of goods and services acquired under the Grant".
- Concerning use of Project resources, the Grant Agreement Section B.3 (a) states that "Any resources financed under the Grant will be devoted to the Project until the completion of the Project.."
- AID regulations (letter n° 643) require that per diems be paid only if employees spend the night outside their duty stations.
- Specific standards promulgated by the U.S. Comptroller General require that "accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree." Bank reconciliations are necessary to ensure adequate accountability of cash resources.

INRAN management failed to implement adequate controls regarding procurement, use, and documentation of goods and services and did not consistently apply existing procedures. Also, adequate supervision and instruction were not provided to employees. For example, many of the drivers were illiterate and were not able to maintain fuel logbooks. However, procedures were not implemented to provide alternative methods for documenting fuel consumption.

As a result, significant amounts of questioned costs were billed to USAID. Also, inadequate documentation of invoices, fuel consumption, and temporary employees prevented the determination of the validity and propriety of expenditures.

RECOMMENDATION N° 2

We recommend that the Project establish procedures and controls to ensure that purchases are competitive, work is monitored to ensure performance, use of fuel is logged, project supplies are used and services are performed exclusively on Project vehicles, bank reconciliations are performed regularly, and that all supporting documents are retained and filed correctly.

RECOMMENDATION N° 3

In addition, we recommend the following:

- a) USAID/Niger recover the amount of F.CFA 2,790,932 (\$9,029) for the advance payment of work that was not performed
- b) USAID/Niger recover F.CFA 5,211,621 (\$16,921) for undocumented purchases. (Also see Finding 4.5 for recommendations concerning recovery of other amounts.)

3.3 **INVENTORY: CONTROLS OVER INVENTORY WERE NOT PROPERLY IMPLEMENTED**

INRAN did not implement adequate internal accounting controls over inventory as evidenced by the following:

- a) These was no separation of duties and responsibilities. For example, employees assigned custody of supplies were also responsible for maintaining the stock records.
- b) Physical inventories were not performed regularly to determine accuracy of inventory records.

For example the Niamey and Kollo stations did not perform physical inventories.

- c) Inventory records were not maintained for all items, and the receipt or delivery of goods were not always recorded. Specifically, we noted that certain items were acknowledged as received but were not recorded in the inventory records. Furthermore, the items were not in the physical inventory and no records existed indicating the items had been issued. The total amount of these items was F.CFA 19,602,627 (\$63,645), with the following breakdown by station (See Note 2 to the Statement of Local Costs, Item 1):

	F.CFA
Niamey	13,762,447
Kollo	4,587,180
Maradi	1,253,000
	<u>19 602 627</u>
	=====

The Grant Agreement in Section B.5 (b) states that "the Grantee will maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant". Also, standards of the U.S. Comptroller General require that "accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree."

Without adequate inventory records, segregation of duties, and the performance of physical inventories and reconciliations, items can be diverted, lost, damaged, or used for non-Project purposes without timely detection and prevention.

RECOMMENDATION N° 4

We recommend the following:

- a) Employees responsible for custody of property and supplies should not handle recordkeeping. Also receipts and issuances of inventory items should be recorded at the time of the physical movement of the items.
- b) Regular physical inventories and reconciliations of the physical inventories to the inventory records should be performed.
- c) USAID/Niger should recover from INRAN the amount of F.CFA 19,602,627.(\$63,645) for unaccounted inventory.

PART IV

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH A.I.D. AND THE GOVERNMENT OF NIGER
LAWS AND REGULATIONS**

We have audited the statement of local costs charged by the Nigerien National Agronomic Research Institute (INRAN) under the Niger Applied Agricultural Research Project (NAARP) for the period June 1, 1988, through June 30, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of local costs is free of material misstatement.

Compliance with laws, regulations, grant agreements, and binding policies and procedures applicable to NAARP is the responsibility of the Project's management. As part of our audit, we performed tests of the Project's compliance with certain provisions of the June 10, 1987, Grant Agreement, and the various implementation letters issued by USAID. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the statement of local costs is 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, Grant Agreement, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the statement of local costs. The results of our tests of compliance disclosed the following material instances of noncompliance with applicable Government of Niger (GON) and USAID laws and regulations.

These instances included the following:

- Competitive purchasing procedures were not used as required by the Grant Agreement and GON laws.
- Project property was diverted for use in personal residences.
- Project fuel, spare parts and services were used for non-Project vehicles.

We considered these material instances of noncompliance in forming our opinion on whether the INRAN statement of local costs is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated February 28, 1992, on that financial statement.

Our testing of transactions, and records disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance are identified in the schedule of questioned costs (Note 2 to the statement of local costs) and the following findings.

The instances of noncompliance materially affect the Statement of Local Costs. Also, we cannot assure for the items not tested, that INRAN had complied, in all material respects, with those provisions.

With respect to items not tested, the extent of noncompliance noted in our testing indicates that, with respect to the transactions that occurred in the administration of the Project, and were not tested by us, there is more than a relatively low risk that INRAN may have violated applicable GON and USAID laws and regulations.

This report is intended for the information of the audit committee, management, and others within INRAN and AID. This restriction is not intended to limit the distribution of this report which is a matter of public record.



Mayoro WADE
Partner

February 28, 1992

COMPLIANCE FINDINGS AND RECOMMENDATIONS

4.1 THE PROJECT PROCEDURES MANUAL WAS NOT FORMALLY APPROVED BY USAID/NIGER

USAID/Niger did not formally approve the INRAN procedures manual.

USAID/Niger specified in PIL No. 4 that the Project was "required to develop administrative procedures...These procedures should be prepared for USAID's review and concurrence not later than 120 days after receiving the first cash advance."

The Project prepared a manual in August 1988. Although USAID/Niger received a copy of it, the mission did not provide formal approval or comments for revision.

Without USAID/Niger's formal approval of the manual, the Project assumed its procedures were adequate and continued to follow these procedures despite inadequacies in internal controls.

RECOMMENDATION N° 5

We recommend that USAID/Niger formally review project procedures manuals, with either written approval or comments for revisions requiring subsequent review and approval.

4.2 ANNUAL EXTERNAL AUDITS WERE NOT PERFORMED

No external audit of the Project local expenditures was previously performed.

The Grant Agreement states in Annex 1, Section III A1(c), that "the project will finance an annual external audit which will cover local expenditures...The audit will be conducted within the first quarter following completion of each year of the Project."

Because annual external audits were not performed, the Project was unable to identify and correct weaknesses in its accounting and internal control system.

RECOMMENDATION N° 6

We recommend that annual external audits of local expenditures be performed.

4.3 NOT ALL AID-FINANCED GOODS WERE APPROPRIATELY MARKED

During the physical inspection of AID-financed equipment and vehicles, we noted that several items did not have AID emblems as required. Four vehicles, purchased with AID funds under the preceding project (NCR) and in use by INRAN, were not marked. Also 13 of 23 project funded motorcross cycles were not marked.

The Grant Agreement in Annexe 2 Section B.8 states that "The Grantee will mark goods financed by AID, as described in Project Implementation Letters". Also PIL n° 2 issued by USAID/Niger indicates that "Vehicles and equipment are to carry the official AID emblem".

Because the items were not marked, they were not readily identifiable as AID-financed equipment. Clear identification provides an additional control for ensuring the use of Project supplies and parts for Project vehicles.

RECOMMENDATION N° 7

We recommend that a procedure be established to ensure that AID-funded vehicles and equipment are marked at receipt of the item or Project commencement.

4.4 PROCUREMENT PRACTICES WERE NOT COMPETITIVE

As stated in Finding 3.2 (a) above, the Project did not have any documentation of competitive procurement, such as proforma invoices or competitive bids. To estimate the effect, we conducted a review of purchases of tires and inner tubes made by the Project from inception to June 30, 1991, from various suppliers in Niger, comparing the different prices billed to the Project. We determined the difference between the price paid and the lowest price paid for a similar purchase during the period. Our study revealed the following:

	F.CFA	
The Project purchased 143 tires and inner tubes of various sizes for total value:	12,408,935	
Comparable purchases based on lowest prices paid during the period:	10,807,575	
	<hr/>	
Overpricing	1,601,360	= \$ 5,199

This estimate of overpricing is for one type of expenditure only; other types of purchases may also have been similarly overpriced.

The Grant Agreement Annex 2, Section C4 states that "No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis." Also PIL No. 2, Parts B3a and B4, states "For procurements worth an estimated value not exceeding \$100,000 or the local equivalent thereof, procurement will be made based on the informal solicitation of quotations from a reasonable number of sources...no less than three (3) quotations will be obtained for each procurement...records should show the nature and extent of solicitation of prospective supplies of goods and services acquired, the basis of award of contract and orders..."

INRAN management stated that they used competitive purchasing procedures but did not retain the supporting documentation. However, the comparative study we performed indicates that the lowest prices were not always obtained.

As a result, procurement were not always made at the lowest available prices. The extent of the overpricing for the various types of expenditures cannot be determined.

RECOMMENDATION N° 8

We recommend that the Project use competitive purchasing procedures and that all supporting documentation be retained in project files.

4.5 PROJECT PROPERTY WAS USED IMPROPERLY

Project property was used on non-Project vehicles or for personal use as evidenced by the following:

- a. Spare parts for an amount of F.CFA 7,231,870 (\$23,480) were used for vehicles which did not belong to the Project. (See Note 2 to the Statement of Local Costs, Item 2.)

	F.CFA
Batteries	813,320
Tires	<u>6,418,550</u>
	7,231,870
	=====

- b. Repairs for F.CFA 5,205,150 (\$16,900) were performed at Project cost on vehicles which did not belong to the Project. (See Note 2 to the Statement of Local Costs, Item 2.)

	F.CFA
Repairs made at Maradi	2,198,820
Repairs made at Niamey	2,590,830
Repairs made at Kollo	243,500
Repairs made on unidentified vehicle	172,000
	<u>5,205,150</u>
	=====

- c. During the period of March 21, 1990 - June 21, 1990 (when the Project was decertified), fuel procured at Project cost was used for vehicles that did not belong to the Project.

The total amount of fuel consumed by non-Project vehicles was F.CFA 2,191,000 (\$7,114). Because records had not been maintained prior to that period, we were unable to determine the amount of unallowable fuel expenses from June 1, 1988 to March 21, 1990. (See Note 2 to the Statement of Local Costs, Item 2.)

- d. Furniture and home appliances were procured by the Project for F.CFA 1,374,464 (\$4,463) and then diverted to the residences of the Director of INRAN in Niamey and the CNRA Manager in Maradi. (See Note 2 to the Statement of Local Costs, Item 2.)

These purchases are detailed below:

<u>DESCRIPTION</u>	<u>F.CFA</u>
Stove	139 375
Refrigerator	345 000
Painting the Manager's residence	399 500
Upgrading of a mattress	153 000
Total equipment purchased for personal use of the CNRA Manager	<hr/> 1 036 875 =====
Furniture for the residence of the Director of INRAN	337 589
Total equipment directed to the house of the Director of INRAN	<hr/> 337 589
TOTAL	<hr/> 1 374 464 =====

The Grant Agreement, Section B.3a, states that "Any resources financed under the Grant will be devoted to the Project until the completion of the Project."

Because the Project management did not establish proper control over expenditures, Project property was improperly used and project funds were wasted.

RECOMMENDATION N° 9

We recommend the following:

- a) USAID Niger should recover the amount of F.CFA 7,231,870 (\$23,480) for spare parts that were used on non-Project vehicles.
- b) USAID Niger should recover the amount of F.CFA 5,205,150 (\$16,900) for repairs of non-Project vehicles.
- c) USAID Niger should recover the amount of F.CFA 2,191,000 (\$7,114) for fuel consumed by non-Project vehicles.
- d) USAID Niger should recover the amount of F.CFA 1,374,464 (\$4,463) for equipment purchased for personal use.

4.6 IMPROPER PER DIEMS WERE PAID TO PROJECT EMPLOYEES

Per diems totaling F.CFA 53,500 (\$174) were paid to employees who had not traveled outside their duty stations (See Note 2 to the Statement of Local Costs, Item 2.)

AID regulations (Letter No. 643) require that per diem be paid only if employees spend the night outside their duty stations

Because the Project Management failed to follow the procedure in force, project funds were improperly used.

RECOMMENDATION N° 10

We recommend that USAID/Niger recover the amount of F.CFA 53,500 (\$174) for improper per diems paid to project employees.



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MEMORANDUM

TO: Thomas B. Anklewich, RIG/A/DAKAR

FROM: George T. Eaton, Mission Director
 USAID/Niger 

SUBJECT: Audit of Local Costs Charged by the Nigerien National Agronomic Research Institute Under the Niger Applied Agriculture Research Project (No. 683-0256), June 1, 1988 through June 30, 1990

REF: Your transmittal memo. dated August 28, 1992

USAID/Niger has reviewed the Price Waterhouse draft on the subject financial audit of local costs and hereby provides comments and evidence to respond to the recommendations contained in the draft report.

I. OVERVIEW

Due to the long expanse of time between the actual dates of the audit, and the release of the draft report, some events have taken place which affect the audit recommendations. The audit was performed from February to March 1992, and an initial draft report was not received at USAID/Niger until early June 1992. Following its receipt, the Mission Controller's office staff responsible for the NAAR project worked with the Project Officer to identify and verify areas uncovered in the audit which were evidently not clear to auditors. This included many areas concerned with vehicles, spare parts, inventories, gas usage, etc. There had been some areas not clear to the auditors concerning vehicles, such as which items were purchased by the NAAR project and which were supported by the NAAR project. This verification process continued throughout June, July and August 1992.

The project, as stated in the draft report, was decertified by USAID/Niger in June 1990. Our Mission at that point began to pay suppliers directly and ceased cash advances to INRAN. In July 1991, our Mission ceased all procurement except for essentials such as paper and fuel. Dismissals and transfers of key INRAN officials have been carried out as a result of the information supplied by the

Mission to the Government of Niger eg. fraudulent submissions, misuse of equipment, and poor record keeping.

Many of the recommendations contained in the subject draft report cannot be acted upon by USAID in terms of installing new systems and regulations since the project is basically in a close down phase, with only outstanding billings remaining to be processed. The irregularities uncovered by USAID/Niger constituted one of the important factors in the Mission's decision not to proceed with a second phase of this project, as originally intended and written in the project paper.

II. COMMENTS ON RECOMMENDATIONS

The audit report contains ten (10) recommendations. The following comments should be considered by both your office and Price Waterhouse in finalizing the audit report.

Recommendation No. 1:

Mission agrees. A new Chief Accountant, appointed with USAID/Niger concurrence, is now reviewing and signing all records and worksheets. Reconciliations are now being completed on a regular basis. All accounting staff work is now being reviewed and approved by the Deputy Director for Administration and Finance.

Recommendation No. 2:

Mission agrees. However, the project has been decertified and no more funds will be provided.

Recommendation No. 3:

Mission agrees. On July 6, 1992 USAID/Niger liquidated the outstanding advance amount of \$9,029.00. Documentation is attached for your review.

Recommendation No. 4:

Mission agrees with recommendations 4A and 4B. Mission has been able to obtain evidence that FCFA 5,154,865 (\$16,737.11) was recorded on stock cards. Documentation is attached for your review.

Recommendation No. 5:

Mission does not agree. Since, as noted, the project has terminated its operational support, review by USAID of procedures manuals makes little sense at this point in time. A new World Bank-funded project began recently at INRAN. This project has its own set of procedures INRAN will have to follow.

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Recommendation No. 6:

Mission agrees. USAID/Niger also agrees that a project termination audit should be done at the end of the project in July 1993.

Recommendation No. 7:

Mission agrees. USAID/Niger will ensure that all vehicles and equipment purchased with project funds will be properly marked. RIG/A/Dakar will be notified when markings have been completed on those vehicles and equipment which are not marked.

Recommendation No. 8: Mission agrees.

Recommendation No. 9: Mission agrees.

Recommendation No. 10: Mission agrees.

Finally, it is clear that most of the recommendations are directed to the Government of Niger and upon receipt of the audit report in French and English from Price Waterhouse, it will be presented to INRAN for their comments and appropriate action. Please ensure that the word Nigerien is spelled correctly in the final report.

Attachments: a/s

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