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Regional Inspector General for Audit
Nairobi, Kenya

Audit of Operational Program Grants to CARE International Comoros Under REDSO/ESA Project Nos. 602-0001 and 602-0002

Report No. 3-602-93-15-N
March 5, 1993

FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THIS INFORMATION OF 18 USC 208 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Regional Inspector General for Audit/Nairobi

March 05, 1993

MEMORANDUM

TO: REDSO/ESA Director, Fred C. Fischer

FROM for RIG/A/Nairobi, Everette B. Orr Joseph Farinella

SUBJECT: Audit of Operational Program Grants to CARE International, Comoros Under REDSO/ESA Project Nos. 602-0001 and 602-0002, Audit Report No. 3-602-93-15-N

Attached are five copies of an Agency-contracted financial audit report of Operational Program Grants to the Cooperative for American Relief Everywhere (CARE) International, Comoros Under Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) Project Nos. 602-0001 and 602-0002. The accounting firm of Kemp Chatteris Deloitte & Touche, Mauritius performed the audit.

REDSO/ESA awarded a $3.5 million Operational Program Grant to CARE International, Comoros, a U.S. private voluntary organization. The grant was awarded in May 1984 under Project No. 602-0001 and expired in May 1989 but was extended to May 1990. A follow on grant for $3.5 million was approved in August 1989 under the Anjouan Sustainable Agricultural Project No. 602-0002 which is scheduled to expire in August 1994. The purpose of these grants was to increase agricultural yields in the Comoros by increasing soil fertility and stemming erosion. The audit covered local expenditures of Comorian Francs 1.34 billion ($4.14 million) for the period May 1984 through February 1991.

The objectives of the audit were to:

> audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreements;

P.O. BOX 30261, NAIROBI, KENYA · PHONE: (254)-2-331160, EXT 402 · FAX: (254)-2-213951

- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and

- test the auditee's compliance with the terms of the grant agreements, as part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement, and report on any identified material instances of noncompliance.

Kemp Chatteris Deloitte & Touche reported that the Fund Accountability Statement fairly presented the status of funds authorized under the Operational Program Grants to CARE International, Comoros Under REDSO/ESA Project Nos. 602-0001 and 602-0002, except for ineligible costs of Comorian Francs 900,000 ($3,143) and unsupported costs of Comorian Francs 19,956,708 ($55,106). The report on internal control structure identified reportable non-material weaknesses. Further, the report on compliance noted two material instances of non-compliance: (1) USAID funds have been aggregated with other sources of funds; and (2) employees have been granted loans and advances from the bank account of CARE Comoros which includes USAID restricted funds.

The draft report was submitted to the auditee and REDSO/ESA for comment and their comments (Appendix I and Appendix II, respectively) were taken into consideration in the preparation of the final report by Kemp Chatteris Deloitte & Touche.

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 determine the allowability of the following questioned costs and recover, as appropriate, from the Cooperative for American Relief Everywhere, Comoros:

1.1 ineligible costs of Comorian Francs 900,000 ($3,143); and

1.2 unsupported costs of Comorian Francs 19,956,708 ($55,106).

Recommendation No. 2: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa obtain from the Cooperative for American Relief Everywhere, Comoros a plan of action for correction of internal control structure weaknesses and compliance procedures to ensure that:

2.1 funds are adequately recorded;

2.2 local procurement procedures are complied with;

2.3 recording and control of wages and salaries is strengthened;

2.4 A.I.D. grant funds are reconciled and are not commingled with other funds; and

2.5 A.I.D. grant funds are not loaned to staff.

We consider Recommendation Nos. 1 and 2 unresolved. Recommendation No. 1 will be resolved upon receipt of a final determination of the allowability of the questioned costs. The recommendation will be closed when REDSO/ESA takes action appropriate to its final determination. Recommendation No. 2 will be resolved upon receipt of a plan for corrective action. The recommendation will be closed when REDSO/ESA provides evidence that the corrective action has been implemented. Please respond to this report within 30 days indicating actions planned or already taken to implement the recommendations.

Thank you for the cooperation extended to Kemp Chatteris Deloitte & Touche and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s.

Attachment I

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

FINAL REPORT

AUDIT OF
OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS
UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

ATTACHMENTS

Kemp Chatteris
Deloitte &
Touche

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANT TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

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II	REDSO/ESA's comments

Kemp Chatteris
Deloitte &
Touche

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANT TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

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December 2, 1992

Deloitte Touche
Tohmatsu
International

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

I. INTRODUCTION

I.1 BACKGROUND

The Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) started to provide the Government of Comoros (GOC) with financial and technical assistance since 1984 through Cooperative for American Relief Everywhere (CARE), a US Private Voluntary Organisation. CARE has set up its main office in Moroni, the capital of the Comoros and has a sub-office in the island of Anjouan.

REDSO/ESA awarded a US$ 3.5 million operational program grant (OPG) to CARE under project No. 602-0001, for the first AID funded project in Comoros which commenced in May 1984 and expired in May 1989, with an extension to May 1990.

In August 1989, a follow-on grant to CARE Comoros for US$ 3.5 million was approved under the Anjouan Sustainable Agriculture Project (ASAP), No. 602-0002. This grant is due to expire in August 1994.

CARE was to implement the first project by undertaking two sub-project activities:

(i) The Development of the Rural Extension Service (CEFADER) vehicle workshop facilities while, at the same time, providing apprenticeship training, and

(ii) strengthening of the Local Rural Extension Service (CADER) in Western Anjouan to carry out a program of applied land and soil conservation with the local population.

Both sub-projects were to support the institutional development of CEFADER in stimulating rural development activities in the Comoros and would involve:-

(a) the placement of CARE technicians in the Comoros;

(b) providing hands-on training for local staff;

(c) the procurement of necessary equipment for project activities.

In addition to the above costs involved, CARE Comoros' headquarters' costs were also to be met from the OPG funds, as well as a portion of costs of CARE Kenya, the initial liaison office that provided liaison support for CARE, Comoros.

I.1 Background

The GOC, on the other hand, was to contribute in kind by providing CARE with housing, office accommodation and also to contribute to salaries of trainees and CADER staff support.

The ASAP represents a continuation and expansion of land and conservation efforts supported by USAID through CARE since 1984, with the following goals set out by CARE:

(i) "Its intermediate goal is to improve the soil fertility of 1,000 hectares of farmland in target areas of the island of Anjouan by 1994, and to achieve acceptance and practice of a range of field management options that enable farmers to vary crop mixes and optimise production".

(ii) "Its final goal is to increase the income of farmers in target areas by 30% on a sustainable basis by 1997".

I.2 AUDIT OBJECTIVES

The objectives of the audit were to:-

(a) audit the auditee's Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of the accounting described in the report the use of funds in accordance with the grant agreements;

(b) consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses;

(c) test the auditee's compliance with the terms of the grant agreements, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatements, and report on any identified material instances of non-compliance.

I.3 AUDIT SCOPE

The audit scope was established with the following specifications:-

(a) review and report on the validity and propriety of the Fund Accountability Statement for CARE Comoros, under projects 602-0001 and 602-0002 from the period May 28, 1984 to February 25, 1991 covering expenditures of Comorian Francs 1.34 billion ($4.14 million).

(b) evaluate and report on CARE Comoros' internal control structure with respect to project operations and to make recommendations for improvements where weaknesses are identified.

(c) review, assess and report on CARE Comoros' compliance with the operational program grant provisions and applicable US laws and regulations;

(d) design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statement amounts or the results of financial related audit;

(e) review bank statements for accounts in US Dollars and local currency to determine that they are reconciled on a timely basis and that transactions are appropriate;

(f) review agreements, handbooks and other pertinent information. Obtain copies of documents, records, reports and correspondence for inclusion with the audit working papers and preparation of audit report.

(g) review the USAID financial reports relating to project disbursements and ensure these reports reconcile to CARE Comoros Fund Accountability Statement. Document results and determine reasons for any differences. Make appropriate recommendations;

(h) identify costs as acceptable, ineligible and unsupportable and document fully ineligible and unsupported costs;

(i) obtain written representations from the management of CARE Comoros to complement other auditing procedures.

I.4 RESTRICTIONS ON AUDIT SCOPE

Our audit scope was restricted as follows:-

- USAID funds are aggregated with other sources of funding such as CARE unrestricted fund and sundry income derived from the sale of the garage at Moroni. It was therefore not possible to determine the amount of USAID fund out of the bank and cash balances at 25 February 1991.

CARE COMOROS COMMENTS

CARE comments that the grant agreement does not have a provision about aggregation of funds. It further states that the Auditors should be able to reconcile the total cash and bank balances for the Mission as a whole and not by individual donor.

AUDITOR RESPONSE

AID handbook 13, section on "accounting, audit and records" stipulates that the grantee's financial management system shall provide inter-alia for:-

- "records that identify adequately the source and application for AID sponsored activities ...".

Reconciliation of cash and bank balances by individual donor is an effective internal control. Compensating errors may remain undetected when performing reconciliation of cash and bank balances as a whole.

- The operational program grants to CARE Comoros have not been audited since their inception in 1984. Our audit which covers a period of seven years is characterised by a number of changes in directorship. The current director has only been able to provide representation for the period since assuming office in 1989.

CARE COMOROS COMMENTS

CARE comments that some sort of representation could have been obtained from former directors.

AUDITOR RESPONSE

Given that the audit covers a period that dates from 1984 and former directors were no longer posted at CARE Comoros office, representation from former directors might not be obtained or if obtained might not be valid. It is management's responsibility to submit representation.

I.4 Restrictions on Audit Scope

- We were unable to verify documents available in CARE New York and Philippines concerning USAID funds disbursed.

CARE COMOROS COMMENTS

CARE comments that if the scope of work did not include the audit of New York and Manila Charges, then Auditors' comments should be removed.

AUDITOR RESPONSE

The audit scope required the verification of USAID funds disbursed.

- We have not complied with the Government Auditing Standards Section 3.6 on Continuing Education and 3.46 on External Quality Control Review in Financial Audit Reports.

I.5 SUMMARY OF AUDIT RESULTS

I.5.1 Fund Accountability Statement

The results of our audit revealed the following:-

	US$	CF
Total amounts disbursed by CARE New York	4,142,716	1,345,743,229
Total amounts tested relative to amounts claimed	578,252	184,594,603
Costs recommended for acceptance	4,084,467	1,324,886,521
Ineligible Costs	3,143	900,000
Unsupported Costs	55,106	19,956,708
Questioned Costs	58,249	20,856,708

I.5.2 Internal Control Structure

Our study and evaluation of the internal control structure disclosed weaknesses in main areas such as accounting records, procurement and wages and salaries which were non-material.

I.5.3 Compliance with Laws, Regulations and Grant Agreements

Our evaluation of CARE Comoros' compliance with laws, regulations and grant agreements identified certain material instances of noncompliance which included USAID funds being aggregated with other sources of funds and personal loans and advances being granted to employees.

I.6 SUMMARY OF MANAGEMENT COMMENTS

I.6.1 CARE Comoros comments are included in full in Appendix I.

I.6.1.1 CARE comments that most of the costs which the auditors have classified as unsupported are actually only partially unsupported.

AUDITOR RESPONSE

Whilst we accept this comment, we still maintain that all expenditure made should be fully supported by documents.

I.6.1.2 CARE comments that AID handbook 13 on "accounting, audit and records" does not say anything about maintaining separate bank accounts for funds from different sources.

AUDITOR RESPONSE

In order to be able to comply with AID directives, we maintain that separate bank accounts should be kept to provide more effective control of funds from different sources.

I.6.1.3 In general, CARE Comoros agrees with our recommendations on the internal control structure policies and procedures.

I.6.2 REDSO/ESA comments are included in Appendix II.

REDSO/ESA comments that the audit report provides a fair assessment of CARE COMOROS activities except that it does not not agree with the Auditors' findings concerning ineligible costs of US$ 3,143, relating to rental of unoccupied property as per Section II.2.1.

AUDITOR RESPONSE

We are aware of the housing situation in Comoros. Our views are that CARE incurred expenditure not directly beneficial to the Project by renting unoccupied property for a long period and that such recommendation if ignored may set up a precedent and possibly lead to justification of expenses of a similar nature in the future. As pointed out in Recommendation No. 1 on page 23 of our report, the decision rests with REDSO to determine allowability of all ineligible costs and unsupported costs.

Kemp Chatteris Deloitte & Touche

Chartered Accountants

3rd Floor, Cerné House
La Chaussée
Port Louis, Mauritius
P.O. Box 322

Telephone: (230) 212-0223/4
(230) 212-5351/2
Facsimile: (230) 208 8002

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

II. INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of CARE, Comoros under Operational Project Grants of project Nos. 602-0001 and 602-0002 for the period May 28, 1984 to February 25, 1991. This statement is the responsibility of CARE, Comoros' management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards and the United States Comptroller General's Government Auditing Standards (1988 Revision) except for the restrictions on our audit scope discussed in part 1.4. These standards require 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 financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Fund Accountability Statement was prepared on the basis of cash receipt and disbursement which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for expenditures of US$ 3,143 (CF 900,000) which are ineligible and expenditures of US$ 55,106 (CF 19,956,708) which are unsupported, the Fund Accountability Statement of CARE Comoros under OPGs - project Nos. 602-0001 and 602-0002 for the period May 28, 1984 to February 25, 1991 (presented on page 10) is fairly stated in accordance with the terms and conditions of the grant agreements and the applicable US Government laws and regulations have been applied on a consistent basis.

Financial 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. This report is intended solely for the information of CARE Comoros and the Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

Kemp Chatteris Deloitte & Touche

CHARTERED ACCOUNTANTS

Date: 2 December 1992

Deloitte Touche Tohmatsu International

Partners A Bonieux C Gujadhur R Konfortion
G Loumeau Y Pat Fong O Rawat

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AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

II.1 PROJECTS' FUND ACCOUNTABILITY STATEMENT DETAILED AS ACCEPTED, INELIGIBLE AND UNSUPPORTED
FOR THE PERIOD MAY 28, 1984 THROUGH FEBRUARY 25, 1991
SUMMARY BY EXPENDITURE CATEGORY

	Total amounts disbursed by CARE New York		Costs Recommended for Acceptance		Questioned Costs: Ineligible Costs		Questioned Costs: Unsupported Costs	
	US$	CF	US$	CF	US$	CF	US$	CF
International Personnel	964,598	312,605,595	959,898	311,255,595	3,143	900,000	1,557	450,000
National Personnel	556,644	171,528,011	556,644	171,528,011	-	-	-	-
International Travel	276,164	89,101,299	274,283	88,469,794	-	-	1,881	631,505
In-Country Travel	129,668	43,856,589	129,346	43,706,589	-	-	320	150,000
Vehicle Operation	442,026	134,563,553	442,026	134,563,553	-	-	-	-
Material and Equipment	1,060,427	364,336,831	1,022,180	349,719,478	-	-	38,247	14,617,353
Training	58,928	16,617,583	58,928	16,617,583	-	-	-	-
Other Direct Costs	654,263	213,133,768	641,162	209,025,918	-	-	13,101	4,107,850
Total Expenditure	US$ 4,142,716	CF 1,345,743,229	US$ 4,084,467	CF 1,324,886,521	US$ 3,143	CF 900,000	US$ 55,108	CF 19,956,709

Note: ■ The expenditures represent amounts claimed by CARE Comoros and disbursed by CARE New York in respect of expenditures incurred on the project for the period May 28, 1984 to February 25, 1991.

■ Disbursements by CARE New York are made in US Dollars and are accounted in Comorian francs (CF) by using the exchange rate ruling at the end of each financial month.

■ The Fund Accountability Statement has been expressed in Comorian francs using the average exchange rate for each financial year, as only an analysis by expenditure category and by financial year and not by month was available.

II.2 PROJECTS' COSTS DETAILED AS ACCEPTED, INELIGIBLE AND UNSUPPORTED

II.2.1 INTERNATIONAL PERSONNEL

This category includes salaries and other related costs in respect of international personnel working on the project. Total costs amount to US$ 964,598 (CF 312,605,595). Percentage of costs tested amounts to 0.93%.

AUDIT WORK

(a) Select a number of employees as per the expenditure analysis report and check their salaries to contracts of employment.

(b) For other related costs, select payments allocated to this category and agree to supporting documentation to ensure that costs are:-

- Allowable
- Allocable
- Reasonable

(c) Determine that the total expenditures are within the budget as set out in the Operational Project Grant (OPG) agreements or subsequent amendment letters.

RESULTS

(a) A number of employees were selected from the expenditure analysis report and their salaries agreed to their contracts of employment.

(b) (i) Regarding other expenditure falling under this category, costs of US$ 1,557 (CF 450,000) are unsupported for the following reasons:-

II.2.1 International Personnel

11.01.89 and 12.5.89, checks nos. 5021649 and 5021678

No rent agreement was provided to support rent paid in respect of D. Lafrechoux's accommodation. US$ 1,557 CF 450,000

CARE COMOROS COMMENTS

The rent agreement was the only missing document.

AUDITOR RESPONSE

We maintain that a rent agreement was required to justify payments effected.

(b) (ii) Costs amounting to US$ 3,143 (CF 900,000) are ineligible for the following reasons:-

From September 1989 to June 1990 inclusive, the project rented a house which remained unoccupied for a period of six months. US$ 3,143 CF 900,000

CARE COMOROS COMMENTS

CARE Comoros explained that due to difficulties in finding a suitable accommodation in Anjouan, the house in question was kept for a Monitoring and Evaluation officer who was due to arrive in Comoros.

AUDITOR RESPONSE

We are aware of the housing situation in Comoros. However, the additional information does not change our view that the amounts paid are ineligible as the expenditure incurred was not directly beneficial to the project.

(c) Total expenditures are within the budget as set out in the OPG agreements.

CONCLUSION

We consider that in respect of international personnel, costs amounting to US$ 959,898 (CF 311,255,595) should be accepted while costs of US$ 1,557 (CF 450,000) are unsupported and costs of US$ 3,143 (CF 900,000) are ineligible.

II.2.2 NATIONAL PERSONNEL

This category includes salaries and wages of local staff working on the project. Total expenditure amounts to US$ 556,644 (CF 171,528,011). Percentage of costs tested amounts to 2.8%.

AUDIT WORK

(a) Select a number of employees as per payroll records and check their salaries to contracts of employment.

(b) Review salary costs on a monthly basis to ensure that they appear reasonable. Enquire into major movements.

(c) Ensure total expenditures are within budget as set out in the OPG agreements or subsequent amendment letters.

RESULTS

(a) Selected employees from payroll records were checked and agreed to employees contracts of employment.

(b) Salary costs on a monthly basis appeared reasonable.

(c) Total expenditures are within the budget as set out in the OPG agreements.

CONCLUSION

We consider that in respect of national personnel, the entire costs of US$ 556,644 (CF 171,528,011) should be accepted.

II.2.3 INTERNATIONAL TRAVEL

This category relates to expenditure incurred on air fares, per diems and other incidental costs in respect of overseas travelling. Total expenditure amounts to US$ 276,164 (CF 89,101,299). Percentage of costs tested amounts to 6.5%.

AUDIT WORK

(a) Select payments allocated to this category and agree to supporting documentation such as:-

(i) suppliers' invoices

(ii) travel expenses report

(iii) per diem allowance records

(b) Determine that the total expenditures are within budget set out in the OPG agreements or subsequent amendment letters.

RESULTS

(a) The following expense is unsupported as follows:

" 8.14.86 - Bank transfer of US$ 4,666 (CF 1,566,510)

Travel expenses in respect of VEERKAMP and FORESTER were only supported by invoices totalling US$ 2,785 (CF 935,005). The balance of US$ 1,881 (CF 631,505) is therefore unsupported.

CARE COMOROS COMMENTS

CARE Comoros did not comment on this point.

(b) International travel expenditure in respect of project No. 602-0001 exceeded the budget set out in the OPG agreement as subsequently amended (see Exhibit II). However, the overrun of US$ 151,243 has been rectified through a budget line reallocation.

CONCLUSION

We consider that international travel costs of US$ 274,283 (CF 88,469,794) should be accepted while costs of US$ 1,881 (CF 631,505) are unsupported.

II.2.4 IN-COUNTRY TRAVEL

This category relates to travelling expenses incurred by staff travelling inter-island. Total expenditures amount to US$ 129,666 (CF 43,856,589). Percentage of costs tested amounts to 7.1%.

AUDIT WORK

(a) Select payments allocated to this category and agree to supporting documents such as:

(i) suppliers' invoices

(ii) per diem allowance records

(iii) check request forms for approval and signature

(b) Ensure that total expenditure are within budget as set out in the OPG agreements or subsequent amendment letters.

RESULTS

(a) Costs amounting to US$ 320 (CF 150,000) are unsupported for the following reasons:

" 8.20.84 - Check No. 5025122

Rent paid for C. GAVITT's accommodation was not supported by a rental agreement Moreover we did not see any authorization for payment

US$ 320	CF 150,000
===	=======

CARE COMOROS COMMENTS

A verbal agreement was reached between the two parties concerned.

AUDITOR RESPONSE

This information does not change our view that a written agreement was required to substantiate rent paid.

(b) Actual expenditures incurred on project No. 602-0001 exceeded the budget set out in the OPG agreement as subsequently amended (see Exhibit II). However, the overrun of US$ 5,656 has been rectified through a budget line reallocation.

CONCLUSION

We consider that in-country travel costs of US$ 129,346 (CF 43,706,589) should be accepted while costs of US$ 320 (CF 150,000) are unsupported.

II.2.5 VEHICLE OPERATION

This category includes fuel, repairs and maintenance, insurance and other incidental costs in respect of the project's vehicles. Total costs amount to US$ 442,026 (CF 134,563,553). Percentage of costs tested amounts to 6.5%.

AUDIT WORK

(a) Select payments allocated to this category and agree to supporting documentation to ensure that costs are:

- allowable
- allocable
- reasonable

(b) Determine that the total expenditure are within the budget as set out in the OPG agreements or subsequent amendment letters.

RESULTS

(a) Special levies paid on motor vehicles in 1988 and 1989 amounting to US$ 497 (CF 150,000) which were identified by the auditors as ineligible costs have been refunded by CARE subsequent to the period under review.

(b) Total expenditures are within the budget as set out in the OPG agreements.

CONCLUSION

We consider that the entire vehicle operation costs of US$ 442,026 (CF 134,563,553) should be accepted.

II.2.6 MATERIAL AND EQUIPMENT

This category includes purchase costs of fixed assets such as motor vehicles, bicycles, vehicle spare parts and building material. Total expenditure amounts to US$ 1,060,427 (CF 364,336,831). Percentage of costs tested amounts to 39.8%.

AUDIT WORK

(a) Select payments allocated to this category and agree to supporting documentation to ensure that costs are:

- allowable
- allocable
- reasonable

(b) Determine that total expenditures are within budget as set out in the OPG agreement or subsequent amendment letters.

RESULTS

(a)(i) Costs of US$ 38,247 (CF 14,617,353) are unsupported for the following reasons:

	US$	CF
1.24.85 - Check No. 5036402		
4.25.85 - Check No. 5036467		
Vehicle spare parts purchased from Technique et Constructions:		
Total payments amounted to CF 17,117,843 against a contract value of CF 14,252,440		
We understand that the difference of CF 2,865,403 represent an additional supplier's invoice. This invoice was not available for verification	6,187	2,865,403
4.25.85 - Check No. 5036469		
Purchase of 1 Pick up van 404 from G. Moulin:		
No quotation request from suppliers was seen	7,961	3,687,000
CARE COMOROS COMMENTS		
CARE did not comment on the above points.		
Balance carried forward	14,148	6,552,403

II.2.6 Material and Equipment

	US$	CF
Balance brought forward	14,148	6,552,403
12.12.85 - Check No. 3073816		
Spare parts for Anjouan Office was not supported by any documentation	8,201	3,166,000
CARE COMOROS COMMENTS		
CARE Comoros has found a copy invoice.		
AUDITOR RESPONSE		
We maintain that the expenditure is still unsupported.		
1.21.87 - Check No. 3106736		
Construction Material purchased from ETS Salimamoud was not supported by		
(i) quotation requests from suppliers		
(ii) a delivery note	8,813	2,721,200
CARE COMOROS COMMENTS		
CARE Comoros did not comment on this point.		
8.27.87 - Check No. 5005200		
Payment in respect of bicycles was only supported by a delivery note. No quotation appeared to have been requested and no purchase order was raised.	3,072	900,000
CARE COMOROS COMMENTS		
CEFADER was given priority for materials they had on hand.		
AUDITOR RESPONSE		
This fact does not preclude the requirement of a purchase order in order to comply with control procedures in force.		
Balance carried forward	34,234	13,339,603

II.2.6 Material and Equipment

	US$	CF
Balance brought forward	32,234	13,339,603
13.9.88 - Anjouan Cash Book		
Purchase of tyres was only supported by an approval for payment. A purchase order was not raised and there was no evidence of tyres being received.	4,013	1,277,750
CARE COMOROS COMMENTS		
CARE Comoros did not comment on this point.		
Total unsupported costs	US$ 38,247	CF 14,617,353

(b) Total expenditures are within the budget set out in the OPG agreements.

"

CONCLUSION

We consider that costs of US$ 1,022,180 (CF 349,719,478) should be accepted while costs of US$ 38,247 (CF 14,617,353) are unsupported.

II.2.7 TRAINING

This category relates to expenditure incurred on training courses including training material for local personnel. Total expenditure amounts to US$ 58,928 (CF 16,617,583). Percentage of costs tested amounts to 6.3%.

AUDIT WORK

(a) Select payments allocated to this category and agree to supporting documentation to ensure that costs are:

- allowable
- allocable
- reasonable

(b) Determine that the total expenditure are within budget set out in the OPG agreements or subsequent amendment letters.

RESULTS

(a) All payments selected were properly supported and related to the project.

(b) Total expenditures are within budget.

CONCLUSION

We consider that the entire training costs of US$ 58,928 (CF 16,617,583) should be accepted.

II.2.8 OTHER DIRECT COSTS

Other direct costs include office furniture and equipment and sundry expenses. Total costs amount to US$ 654,263 (CF 213,133,768). Percentage of costs tested amounts to 6.1%.

AUDIT WORK

(a) Select payments allocated to this category and agree to supporting documentation to ensure that costs are:

- allowable
- allocable
- reasonable

(b) Determine that the total expenditures are within budget as set out in the OPG agreements or subsequent amendment letters.

RESULTS

(a) Costs of US$ 13,101 (CF 4,107,850) are unsupported for the following reasons:

	US$	CF
10.9.84 - Check No. 5025140		
The purchase of a wardrobe was not supported by:		
(i) a supplier's invoice		
(ii) an authorisation for payment	299	140,000
10.22.84 - Check No. 5025151		
Purchase of rewiring material was not supported by:		
(i) a purchase order		
(ii) a delivery note	127	59,800
10.18.85 - Check No. 3069226		
Furniture for Anjouan office has been accounted twice due to a misallocation	1,767	511,650
Balance carried forward	2,193	711,450

II.2.8 Other Direct Costs

	US$	CF
Balance brought forward	2,193	711,450
10.18.85/11.3.65		
Furniture for Anjouan office as per above:		
This was correctly accounted in Anjouan's cash book. However no supporting documentation was available except for an acknowledgement slip signed without the name stated on it	1,767	511,650
8.14.86 - Check No. 5073556		
Purchase of two washing machines from ETS Abdallah Fils:		
(i) No purchase order seen		
(ii) No approval for payment	1,847	620,000
10.27.86 - Check No. 3095537		
Purchase of air conditioners from Technique et Constructions was not supported by request for quotations from suppliers	4,744	1,562,400
12.1.87 - Check No. 5108619		
Purchase of photocopying machine from Technique et Constructions:-		
(i) No purchase order		
(ii) No approval for payment seen	2,550	702,350
Total unsupported costs	US$ 13,101	4,107,850

CARE COMOROS COMMENTS

CARE Comoros did not comment on any of the point mentioned above.

II.2.8 Other Direct Costs

(b) Total expenditure incurred in respect of project No. 602-0001 exceeded the budget set out in the OPG agreement as subsequently amended (see Exhibit II). However, the budget overrun of US$ 362,704 has been rectified through a budget line reallocation.

CONCLUSION

We consider that other direct costs of US$ 641,162 (CF 209,025,918) should be accepted while costs of US$ 13,101 (CF 4,107,850) are unsupported.

RECOMMENDATION NO. 1

We recommend that REDSO/ESA determine allowability of ineligible costs of US$ 3,143 (CF 900,000) and unsupported costs of US$ 55,106 (CF 19,956,708) details as discussed in Section II.2.

RECOMMENDATION NO. 2

We recommend that written authorisation should be obtained from REDSO/ESA prior to any reallocation of budget line items. Accordingly, REDSO/ESA should ratify all budget line items which have been exceeded as identified under Section II.2 and set out on Exhibit II.

II.3 OTHER MATTERS

Garage at Anjouan

OBSERVATIONS

We note that total expenditures of US$ 57,653 (CF 15,909,832) have been incurred in 1987 on the construction of a garage at Anjouan. The garage never came into operation but was instead ceded to the GOC, subsequent to a study carried out by the Consultancy Firm, Deloitte Haskins & Sells, in November 1988.

Deloitte Haskins & Sells recommended inter-alia that the GOC should lease the garage building to a public or private enterprise.

RECOMMENDATION NO. 3

We recommend that in accordance with the recommendations of Deloitte Haskins & Sells, CARE should follow up with the GOC for the lease of the garage building. In this way, the cost of the building could be partly if not fully recouped.

CARE COMOROS COMMENTS

CARE is contacting the Ministry of Production to envisage the possibility to lease the garage to a private operator.

Kemp Chatteris
Deloitte &
Touche

Chartered Accountants
3rd Floor, Cerné House
La Chaussée
Port Louis, Mauritius
P.O. Box 322

Telephone: (230) 212-0223/4
(230) 212-5351/2
Facsimile: (230) 208 8002

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

III. INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

We have audited the Fund Accountability Statement of CARE, Comoros under operational program grants Nos. 602-0001 and 602-0002 for the period May 28, 1984 to February 25, 1991 and have issued our report thereon dated December 2, 1992.

We conducted our audit in accordance with Generally Accepted Auditing Standards and Government Auditing Standards (1988 Revision) 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 Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement for the period May 28, 1984 to February 25, 1991, we considered the Project's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of CARE, Comoros is responsible for establishing and maintaining an internal control structure for the projects.

In fulfilling this responsibility, estimates and judgements 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 assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the 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.

Deloitte Touche
Tohmatsu
International

Partners A Bonieux C Gujadhur R Konfortion
G Loumeau Y Pat Fong O Rawat

III. Independent auditor's report on the internal control structure

For the purpose of this report, we have classified the significar internal control structure policies and procedures in the followir categories:-

1. General
2. Accounting Records
3. Management of Fixed Assets
4. Procurement
5. Stocks
6. Wages/Salaries
7. Vehicles Operation
8. Bank System
9. Cash System
10. Internal Audit

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standarc 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 entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable conditions were observed:-

(i) Inadequate recording of funds obtained from different sources.

(ii) Local procurement procedures were not complied with.

(iii) Weak recording and control in wages and salaries.

In view of the weaknesses identified which we consider not material, the system of internal accounting control of CARE Comoros was adequate for the purpose of properly identifying and accounting for expenditures to USAID.

III. Independent auditor's report on the internal control structure

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

Financial 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. This report is intended solely for the information of CARE Comoros and the Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

Kemp Chatteris Deloitte & Touche

CHARTERED ACCOUNTANTS

Date: 2 December 1992

III.1 GENERAL

For the purpose of our audit, we have studied and evaluated CARE Comoros' internal control structure in force but concentrated more on those operated by the present management. Our tests of inquiry supplemented by observations and examination of documents covered mostly the period from 1990 since present management has been in place. We have been generally satisfied with the systems of internal control but our inquiries have revealed that initial control procedures, although detailed in procedural manuals, were not adequately followed, more specifically as regards the garage. The systems of control in force at the garage were not followed and operated properly, resulting in inadequate control on stocks and garage work. The internal control structure has improved since the inception of the project. However, we are making below suggestions in areas we feel can be improved.

CARE COMOROS COMMENTS

CARE finds the above comments on garage management unfair given the complexity of the operation and the skills of human resources available in the Comoros.

AUDITOR RESPONSE

We believe our comments are not unfair. CARE agrees that garage management could have done a better job.

III.2 ACCOUNTING RECORDS

OBSERVATIONS

(i) The Grant Aid to CARE Comoros is received through New York, which funds CARE Comoros on a monthly basis. The funds remitted by New York incorporate CARE's own unrestricted funds.

(ii) It is not clear from the Status Report (SF 269) submitted quarterly by CARE New York to USAID and the Quarterly Financial Reports submitted by CARE Comoros to USAID, whether the period expenses which include project expenses incurred and paid for by CARE, New York and indirect expenses charged by CARE, have been drawn by CARE.

(iii) Thus on the basis of the existing records maintained by CARE Comoros, actual total drawdowns by New York and total funds available could not be easily determined. Analysis of funds on hand into restricted USAID funds, unrestricted CARE funds or other funds could also not be made.

(iv) It was time consuming to retrieve documents in the existing filing system used. There is a tendency to open up too many subsidiary files with the result that various files need to be searched to put together all the relevant documents concerning one transaction.

RECOMMENDATION NO. 4

4.(i) To facilitate project funds follow up and improve project accounts recording, steps should be taken by CARE to provide the following in respect of the project:-

(a) Funds drawn for the period.

(b) Balance of funds available.

(c) Unrestricted funds remitted to Comoros.

(d) Analysis of funds on hand into restricted, unrestricted or other.

CARE COMOROS COMMENTS

CARE comments that AID handbook 13 does not say anything about maintaining a separate bank account. AID handbook states that the accounting records must be supported by documentation that will identify, segregate, accumulate and record all costs incurred under a grant.

CARE additionally comments that it is their understanding that procedures regarding reimbursement of expenses comply with USAID Standard Provisions and the provisions of the Grant.

III.2 Accounting Records

AUDITOR RESPONSE

AID handbook 13, section on "accounting, audit and records" stipulates that the grantee's financial management system shall provide inter-alia for:-

(i) "records that identify adequately the source and application for AID - sponsored activities ...".

(ii) "accounting records that are supported by documentation that at a minimum will identify, segregate, accumulate and record all costs incurred under a grant ..."

In order to be able to comply with the above directives, we maintain that separate bank accounts should be kept to provide more effective control of funds from different sources.

4.(ii) The filing system should be reviewed to facilitate retrieval of documents at any time. Where possible, less subsidiary files should be opened and more use made of one main file. For example, for a transaction in the purchase system the following documents should be filed together rather than separately, in check request order:

(a) request for quotation

(b) purchase order

(c) delivery note

(d) invoice

(e) check request form

CARE COMOROS COMMENTS

CARE comments that subsequent to this Agency Contracted audit and a procurement audit by CARE New York, a new system was put into effect whereby the history of a purchase could be followed up in a single file.

III.3 MANAGEMENT OF FIXED ASSETS

OBSERVATIONS

(i) The master list manually maintained to control furnitures and equipment at both offices of CARE, Comoros and the expatriate's houses did not indicate:-

(a) location of assets

(b) Quantity and cost

(c) Date of purchase or transfer/sale

A file was also maintained on diskette and updated from the master list. An inventory listed by office and location was then prepared on a quarterly basis and each time a change occurred.

(ii) No master list of assets held was kept at the Anjouan office.

(iii) Physical inspection of assets was not evidenced when carried out.

(iv) Records of vehicles owned by the project are kept per vehicle and run on many pages with the same information repeated for each vehicle. The records fail to indicate:

(a) Number of vehicles operated by project

(b) Type of vehicle

(c) User department and responsible official

(v) No assets other than vehicles are insured by the project.

RECOMMENDATION NO. 5

5.(i) The master list recording furniture and equipment should be redesigned to include:

(a) date of purchase, quantity and cost

(b) location of assets - office or expatriate house

(c) eventual transfer or disposal and date

The list would then be more useful as a Control List for management to monitor and follow up assets after a physical inspection. An inventory printout would also no longer be required whenever there would be a change.

III.3 Management of Fixed Assets

CARE COMOROS COMMENTS

CARE comments that there was an inventory list which indicated the location of assets, quantity and cost. A list of assets in existence at Anjouan could not be located by the administrator during the auditors' visit.

AUDITOR RESPONSE

Our observation related to the master control list and not the inventory list, prepared quarterly, which listed office and location.

5.(ii) Physical inspection of assets should be evidenced and documented by the officer either dating and signing the list or preferably preparing a report to indicate:

(a) Preparer and date

(b) Problems found

(c) Explanations

5.(iii) One master control list of vehicles with the details below, should be kept to improve and facilitate follow up of vehicles.

(a) Date of acquisition

(b) Description and model

(c) Type

(d) Registration number

(e) Cost

(f) Location/department

(g) Responsible officer

(h) Disposal and date

(i) Amount

(j) Remarks e.g sale by hire

III.3 Management of Fixed Assets

The other details which were kept about the vehicles could also be included, although they are not considered essential information.

- Serial number
- Power HP
- Engine number
- Energy source - petrol or diesel
- Seating capacity

A separate but similar list in respect of vehicles operated in Anjouan should be maintained by the Anjouan administrator.

CARE COMOROS COMMENTS

CARE Comoros comments that a master list of mission's vehicles is submitted to CARE New York every year. All recommendations are being implemented with slight modification.

III.4 PROCUREMENT

OBSERVATIONS

(i) In respect of local purchases in Moroni and Anjouan, no purchase order was prepared and submitted to the supplier. Instead a proforma invoice was directly obtained once the decision to purchase was taken by management.

(ii) In most cases, acknowledgement of goods was not evidenced in any way. As explained to us, it would appear that receipt of goods was verbally indicated to the accountant.

These shortcomings could lead to errors and invalid transactions being processed.

(iii) Goods ordered from the Moroni office but not received by the Anjouan office were recorded only on the purchase order copy rather than separately. Follow up was thus not consistently made.

RECOMMENDATION NO. 6

6.(i) To improve and strengthen control over procurement we recommend that once the decision to purchase has been taken, a purchase order be prepared for approval and authorization by the director before dispatch to the suppliers.

6.(ii) Upon receipt or collection of goods the person receiving the goods should agree the quantity received to the quantity ordered per the purchase order and evidence the control by signing on the supplier's delivery note/invoice. The signed copy of the delivery note/invoice should then be submitted to the Accountant as evidence that a valid transaction did take place.

6.(iii) Goods ordered but not received from Moroni should be recorded separately in a missing order book with the following details:-

Date	Description	P.O Ref	Qty	Date Reorder	P.O Ref	Remarks

The register would facilitate and ensure follow up and help to avoid duplicate orders.

CARE COMOROS COMMENTS

The above recommendations are being implemented.

III.5 STOCKS

OBSERVATIONS

(i) Purchases and issues of all types of stocks were referenced to date only, when recorded on the stockcards. Vouchers to support stock movements were never used for control and recording.

Inadequate reference may render detection of errors time consuming.

(ii) Issues from stocks were verbally authorized by the responsible officer. In some instances, approval was obtained after the issues had been effected. As a result invalid issues may be made from stocks and not be detected.

(iii) The stockcards were very rarely signed by the director as evidence of control carried out.

(iv) In Anjouan, users of project's equipment such as camera etc did not sign when taking the equipment from stock. Although the user's name was mentioned in the stock book, there was no evidence that the equipment was in his or her possession. Thus in the case of theft or damage, responsibility therefore might be questioned and not be easily established.

(v) Certain assignments were carried out by the same person, eliminating the internal check element of the control system.

As an example, in Moroni, the control of stocks other than office requisites was carried out by the same person responsible for purchases and receipt of goods. The same person was also responsible for recording entries on the stockcards. Similarly, office requisites was under the control of the person responsible for purchases and receipt of the goods and also for maintaining the stock records.

In Anjouan, the administrator was responsible for the following tasks:-

(a) Write up of the stock records except for office requisites on a few occasions only.

(b) Control over all stocks.

(c) Purchase and receipt of goods.

(d) Authorise expenses up to CF 10,000.

(e) Order, receipt of and control over fuel and diesel.

III.5 Stocks

RECOMMENDATION NO. 7

7.(i) To facilitate and improve stock control, stock movements should be recorded on the stockcards in the following manner:

(a) Purchases to be recorded by reference to purchase orders.

(b) Issues from stocks to be recorded by reference to issue vouchers which should be prenumbered and in two copies. The issue voucher should be signed by the persons approving and authorizing the issue and one copy should be kept by the user. Issues should no longer be made unless properly supported by one issue voucher. Such direct referencing should save time and help to detect errors.

7.(ii) The director should sign the stockcards whenever he carries out spot checks, to evidence the control exercised.

7.(iii) For proper control, users of the project's equipment should be requested to sign for the equipment taken.

7.(iv) CARE's systems and controls require segregation of duties for sound inventory control. Different persons must be responsible for the following tasks:-

(a) Purchases

(b) Maintaining records

(c) Receipt

(d) Spot checks

Management has commented about the size of the organization not being suitable for appropriate segregation of duties. However we recommend that, as far is practical, duties be divided between the limited number of staff to ensure a minimum function of internal check.

In particular, the duties of the administrator at Anjouan need to be reviewed in order that certain duties are passed on to other members of the staff such as the accountant. This would certainly help to reduce the project's dependency on one staff member and reduce overall disruption to the administrative and office work, should the staff member be on leave.

III.5 Stocks

7.(v) We suggest that the stockcards used by the project's offices in Moroni and Anjouan be revised per the specimens designed below.

Office Requisites

Stockcard

Date	Reference	Entrée	Sortie Moroni	Anjouan	Solde	Signature

Other

Date	Reference	Fournisseur	Prix	Entrée	Sortie	Solde	Contrôle	Remarque

CARE COMOROS COMMENTS

CARE Comoros is implementing the recommendations made.

III.6 WAGES/SALARIES

OBSERVATIONS

(i) Overtime sheets maintained for each employee who was authorized to work overtime did not contain the necessary details to help monitor total overtime worked, payable and paid.

(ii) In Anjouan, the staff leave cards for each employee was not kept on the respective employee's personal file. The cards, also used in the Moroni office, served to record annual leave, sick leave, personal leave and leave in respect of sanctions. However, authority for the granting of leave and the aggregate of each type of leave other than annual leave were not recorded on the cards, thereby limiting their usefulness to management.

(iii) A fraud was committed between May 1987 to September 1987 by the then accountant Mrs L. Rasolofotsara, who changed the total gross and net figures in the payable summary through manipulation of the computer program and the 'whiting out' of the computer generated totals. The fraud highlighted the following:-

(a) Downcast of payroll summary was not carried out.

(b) Comparison with previous months payroll for reasonableness was not apparently done.

(c) Payroll and check preparation by same person who also allocated and distributed the wages.

(d) Compensatory controls not officially recommended to CARE Comoros by head office.

(e) Receipt of cash following encashment of salary check, for payroll allocation and distribution, was not signed for. This was still the case when we verified the system. Thus it could not be ascertained whether the cash was checked and counted.

(f) Some payroll sheets concerning the period of the fraud were missing.

(iv) In Anjouan our tests showed:

(a) Employee fact sheets were not completed and obtained for all employees. The sheets record the basic relevant information about an employee.

III.6 Wages/Salaries

(b) The increase in salary sheet which was signed and approved by the coordinator was no longer used. The increase in salary granted was henceforth recorded on the Employee Evaluation Sheet and without mention of the date from which effective. No mention was also made of effective date annual bonus was payable and of the amount of cash in lieu of leave and when payable.

(v) No attendance book was maintained in both offices. It would appear that the presence of the field workers was not recorded and acknowledged, although field work appeared to be controlled by means of a planner which set out the programme of work and the relevant field worker and period. This may result in invalid payment for wages remaining undetected.

(vi) Staff were allowed an advance on salary as well as a loan. It would appear that similar procedures were not followed in both offices. Advances on salary were no longer granted in Moroni except to those who did not have a loan whereas in Anjouan the practice was not restricted.

The loan/advance control cards kept did not show totals due by each employee. A new control card was introduced as from November. Loans granted were not referenced to check records and repayments were not properly referenced to salary deductions.

RECOMMENDATION NO. 8

8.(i) The overtime sheet used should be redesigned to include:-

(a) Overtime rate in force.

(b) Total overtime payable.

(c) Date paid.

Management has already been advised to incorporate the additional details. The amended sheet would be more helpful to assist management monitor overtime.

8.(ii) We recommend the adoption of a new staff leave card. Authority for leave should henceforth be evidenced on the card. The cards will be under the responsibility of the officer in charge of personnel records.

III.6 Wages/Salaries

8.(iii) With regards to the shortcomings highlighted by the fraud we suggest the following approach:-

(a) Each column head on the payroll summary should be footed and crossfooted. This check must be clearly indicated on the summary by the officer who carries out the check.

(b) Recomputation and reasonableness check must be carried out by comparing previous months figures and adjusting for movements in employees, rates, deductions and pay.

(c) The employee in charge of payroll preparation should not be concerned with the allocation and distribution of wages. Such segregation of duties would serve as a check and reduce risk of irregularity.

(d) It is important that guidelines be sought from head office in order to assist local management deal with similar situations in the future. Guidelines should also be obtained concerning compensatory controls such as batch controls sheets compared to outputs, investigation into cost variance and budgets overruns and the safekeeping of documents and evidence.

(e) Receipt of cash for payroll allocation and distribution must be acknowledged after being checked and counted in the presence of all parties concerned.

CARE COMOROS COMMENTS

CARE Comoros comments that the above recommendations are being implemented.

8.(iv) (a) We recommend that employee fact sheets which contain the relevant employee information to help management determine the salary and payroll deductions should be obtained and completed for all employees.

(b) The increase in salary sheet should be reintroduced in Anjouan, in line with the procedure followed at the Moroni office. The relevant amounts and the date the increase is effective must be clearly indicated to ensure errors are not committed when calculating wages resulting in incorrect payments.

CARE COMOROS COMMENTS

Fact sheets are not used. However the "increase in salary" sheet has been reintroduced in Anjouan.

III.6 Wages/Salaries

8.(v) Whilst we agree that for office staff, in view of the size of the organization, the physical presence of the few employees can be easily observed, for fieldworkers, we suggest that steps be taken to record their physical presence. An attendance book or a daily attendance sheet can be introduced either to be signed by all fieldworkers and approved by the officer in charge or completed and signed by the officer in charge who will record all workers present. This attendance record should ensure that wages are valid and paid to employees for work done.

CARE COMOROS COMMENTS

According to CARE, the recommendation is difficult to put into practice but agrees that a system to ensure the physical presence of the extension agents is useful. However, CARE feels that, since the agents live in remote villages they cannot be asked to clock in and clock out.

AUDITOR RESPONSE

We made alternative suggestions which included one whereby the officer in charge would record all workers present.

8.(vi) Management should adopt standard procedures for both offices. Advances and loans to staff should be reviewed at regular intervals to avoid unreasonable use of funds and should be made out only from CARE's unrestricted funds.

CARE COMOROS COMMENTS

Standardization has significantly improved.

III.7 VEHICLE OPERATION

OBSERVATIONS

(i) Although distribution of fuel vouchers purchased for project's consumption was recorded, the actual units purchased and stock in hand at any time were not recorded with the result that control over coupons was not apparent.

(ii) Different type of log books were used by the project in Moroni and Anjouan to record per vehicle, monthly fuel consumption and cost and monthly repairs and cost. In Anjouan fuel and repairs were separately recorded whereas these were recorded on one sheet in Moroni.

RECOMMENDATION NO. 9

9.(i) We recommend the introduction of the records described below for the offices in Moroni and Anjouan, to improve control over fuel purchase and consumption. The records should show serial numbers per booklet, number of litres, stock in hand, consumption analysis and for Anjouan budget allocation to allow comparison and control over consumption. Different layouts are suggested for each office since there are only three vehicles in Moroni and all the other project's field vehicles are in Anjouan where control can be expected to be more detailed.

(a) Moroni

A fuel book or alternatively control sheets should be maintained. Whenever a physical verification of stock in hand is carried out, the director or other officer needs to sign and date the book/control sheet.

(b) Anjouan

The layout of the monthly fuel control sheet should be revised as suggested to management. The officer carrying out a physical verification should sign and date the sheet at the time of the check.

9.(ii) To facilitate monitoring by management, standard forms should be used by both offices. We suggest the project adopts the revised log book suggested during our mission to record and control fuel and repairs. The suggested format should replace the existing log sheet in Moroni and the two sheets used in Anjouan.

CARE COMOROS COMMENTS

A new fuel book has been introduced following our recommendations. The format suggested for the log sheet has not been retained.

III.8 BANK SYSTEM

OBSERVATIONS

We noted that, in practice, normally only one check signatory signed checks in Moroni and Anjouan. The check signatories were:

(a) The director in Moroni and in his absence the project's coordinator.

(b) The Project's coordinator in Anjouan and the officer in charge of Forestry department as an alternate.

This is not in line with basic internal control procedure to reduce risk of misappropriation and manipulation of funds. Management has argued that in view of the size and style of the organization together with the low technical level of local staff and management own integrity, this practice of a single check signatory has had to be adopted.

RECOMMENDATION NO. 10

The arguments put forward by management have been considered with the local context in mind. However, whilst we do not question management's integrity, we recommend that measures be taken in order that two check signatories are required to operate any bank account of the project.

CARE COMOROS COMMENTS

CARE Comoros comments that only duly authorized international staff have the authority to sign checks, following a resolution by CARE's Board of Directors.

AUDITOR RESPONSE

We recognize the practical difficulties that exist due to the local context. Our recommendation is designed to protect CARE funds as well as those of USAID.

III.9 CASH SYSTEM

OBSERVATIONS

(i) In Anjouan, unlike in Moroni, the petty cash vouchers were not used to support petty cash transactions. Although the petty cash expenses were checked by the coordinator on replenishment, the risk of invalid transaction existed.

(ii) Petty cash vouchers in Moroni were used to record both expenses and receipts such as repayments of salary advance. However, the format of the voucher used could be revised to improve its usefulness by reducing handwritten details and highlighting the amount in question.

RECOMMENDATION NO. 11

A revised petty cash voucher preferably prenumbered, should be used in Moroni and Anjouan. Cash received and included in petty cash can also be recorded on the voucher.

CARE COMOROS COMMENTS

CARE agrees with our recommendation.

III.10 INTERNAL AUDIT

OBSERVATIONS

(i) From our inquiry and examination, we have found that an internal audit department exist in CARE. The department was reorganized and reinforced in 1990.

(ii) CARE Comoros was the subject of an internal audit which was conducted from February 10, 1989 to February 16, 1989. A report dated 2/16/89 was submitted to Mr D. Stephens, the then assistant country director of CARE Comoros.

The report commented about the project's implementation and set out the shortcomings relating to

(a) ineffective stock system

(b) inadequate pricing policy

(c) lack of new clients

(d) collectibility of receivables not on time

(iii) The report mentioned the decision taken to liquidate the garage following the visit of a USAID team of consultants in September 1988.

(iv) Specific and general recommendations were made about bookkeeping and procedures, which, according to the report, were accepted and translated as regulations to the staff, by Mr D. Stephens who, as stressed in the report, had taken over his job only a few months prior to the audit. The recommendations were implemented. The report made no mention about the salary fraud which occurred in 1987.

RECOMMENDATION NO. 12

The suggestions and comments we have made should be taken up by management with the internal audit department to ensure compliance with overall CARE's systems and procedures. To assist in the improvement of the system in general, these recommendations should be translated as regulations to the staff in the Moroni and Anjouan offices.

CARE COMOROS COMMENTS

CARE Comoros has issued a revised Procurement Manual which is in line with CARE policies and procedures. Measures have been taken to ensure that the procedures are being followed at both Moroni and Anjouan offices.

Kemp Chatteris
Deloitte &
Touche

Chartered Accountants
3rd Floor, Cerné House
La Chaussée
Port Louis, Mauritius
P.O. Box 322

Telephone: (230) 212-0223/4
(230) 212-5351/2
Facsimile: (230) 208 8002

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

IV. INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND GRANT AGREEMENTS

We have audited the Fund Accountability Statement of CARE, Comoros under Operational Program Grants - Project Nos. 602-0001 and 602-0002 for the period from May 28, 1984 to February 25, 1991 and have issued our report thereon dated December 2, 1992.

We conducted our audit in accordance with Generally Accepted Auditing Standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

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

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the material instances of noncompliance as follows:-

(i) USAID funds have been aggregated with other sources of funds.

(ii) Employees have been granted loans and advances from the bank account of CARE Comoros which includes USAID restricted funds.

We considered these material instances of noncompliance in forming our opinion on whether the Fund Accountability Statement is presented fairly, in all material respects, and this report does not affect our report dated December 2, 1992 on this financial statement.

Our testing of transactions and records disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the findings and questioned costs.

Deloitte Touche
Tohmatsu
International

Partners A Bonieux C Gujadhur R Konfortion
G Loumeau Y Pat Fong O Rawat

Kemp Chatteris
Deloitte &
Touche

IV. Independent Auditor's Report on compliance with Laws, Regulations and Grant Agreements

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

Financial 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. This report is intended for the information of CARE Comoros and the Agency for International Development but this is not intended to limit the distribution of the report if a matter of public record.

Kemp Chatteris Deloitte & Touche

CHARTERED ACCOUNTANTS

Date: 2 December 1992.

IV.1 COMPLIANCE WITH LAWS, REGULATIONS AND GRANT AGREEMENTS

WORK DONE

1. Review project grant agreements and related regulations to identify those provisions and regulations which could have a material effect on the financial statements.

2. Evaluate CARE's compliance with these provisions and regulations.

RESULTS

1. Procurement

   In general, commodities purchased had their source and origin from countries as specified by USAID geographical code. In certain instances where procurement of a number of motor vehicles had to be made from other sources, the source/origin waiver had been obtained from USAID. Waiver was also obtained from USAID for the Government of Comoros to contribute less than 25% of the project cost.

2. Pesticides

   There was no indication that pesticides have been purchased by the projects nor personnel supported with USAID funds have used pesticides in connection with their duties.

3. Loans and Advances

   Personal loans and advances were made to employees from the bank account of CARE Comoros which includes USAID restricted funds.

RECOMMENDATION NO. 13

Loans and Advances

Loans and advances to employees are not allowed to be made from USAID funds. We recommend that CARE Comoros keep separate bank accounts for each source of fund and thereafter may grant loans and advances from CARE's own unrestricted funds which exclude USAID funds.

CARE COMOROS COMMENTS

CARE comments that loans and advances were always made from CARE unrestricted funds.

AUDITOR RESPONSE

AS CARE Comoros maintains only one Bank Account which includes USAID funds, it is not clear that loans and advances were always made from CARE unrestricted funds.

Kemp Chatteris
Deloitte & Touche

EXHIBIT I

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANTS TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

PROJECT NO. 602-0001
ACTUAL EXPENDITURE

Category	FINANCIAL YEAR ENDED 30 JUNE 1985 US$	1986 US$	1987 US$	1988 US$	1989 US$	1990 US$	1991 US$	Total US$	Total CF
International Personnel	70,523	142,936	202,671	158,810	164,792	7,862	-	747,594	252,235,272
National Personnel	11,846	67,814	106,752	63,610	66,142	10,655	-	326,819	107,689,956
International Travel	26,259	27,806	62,666	55,365	26,436	7,711	-	206,243	69,519,924
In-Country Travel	17,695	27,087	26,452	13,773	9,468	1,181	-	95,656	34,397,459
Vehicle Operation	4,772	17,091	43,097	35,032	75,726	202,324	(25,050)	352,992	109,883,743
Material and Equipment	152,949	207,981	357,778	212,296	49,243	7,180	-	987,427	344,175,215
Training	-	-	-	-	16,986	896	-	17,882	5,600,260
Other Direct Costs	57,128	94,947	120,355	75,456	111,774	14,842	(788)	473,714	162,548,172
Total	US$ 341,172	585,662	919,771	614,342	520,567	252,651	(25,838)	3,208,327	CF 1,086,050,001

PROJECT NO. 602-0002 - ACTUAL EXPENDITURE (EXHIBIT III) US$ 934,369 CF 259,693,228

FUND ACCOUNTABILITY STATEMENT - PROJECT NOS. 602-0001 AND 602-0002 (PAGE 10) US$ 4,142,716 CF 1,345,743,229

Deloitte Touche Tohmatsu International

Kemp Chatteris
Deloitte & Touche

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EXHIBIT II

AGENCY-CONTRACTED AUDIT OF OPERATIONAL PROGRAM GRANT TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

OPERATIONAL PROGRAM GRANT NO. 602-0001
ACTUAL AND BUDGETED EXPENDITURE

Category	Exhibit I Actual Expenditure US$	Actual Expenditure CF	Budgeted Expenditure US$	Budgeted Expenditure CF	Over/(Under) Budget US$	Over/(Under) Budget CF
International Personnel	747,594	252,235,272	1,200,000	404,875,277	(452,406)	(152,640,005)
National Personnel	326,819	107,689,956	330,000	108,738,125	(3,181)	(1,048,169)
International Travel	206,243	69,519,924	55,000	18,539,276	151,243	50,980,648
In-Country Travel	95,656	34,397,459	90,000	32,363,587	5,656	2,033,872
Vehicle Operation	352,992	109,883,743	421,214	131,120,737	(68,222)	(21,236,994)
Material and Equipment	987,427	344,175,215	1,164,000	405,721,080	(176,573)	(61,545,865)
Training	17,882	5,600,260	41,000	12,840,323	(23,118)	(7,240,063)
Other Direct Costs	473,714	162,546,172	111,010	38,091,491	362,704	124,456,681
	US$ 3,208,327	CF 1,086,050,001	US$ 3,412,224	CF 1,152,289,896	US$ (203,897)	CF (66,239,895)

NOTE: The funding of expenditure in respect of motor vehicles operation was partly made from the sale proceeds of garage assets disposed of for US$ 49,200 and the balance of Garage Revolving Fund of US$ 1,864 in accordance with amendment letter No. 11 to OPG No. 602-0001.

Kemp Chatteris
Deloitte &
Touche

EXHIBIT III

AGENCY-CONTRACTED AUDIT OF THE OPERATIONAL PROGRAM GRANT TO CARE INTERNATIONAL, COMOROS UNDER REDSO/ESA PROJECT NOS. 602-0001 AND 602-0002

PROJECT NO. 602-0002
ACTUAL EXPENDITURE

Category	- FINANCIAL YEAR - 1990 US$	1991 US$	Total US$	Total CF
International Personnel	112,432	104,574	217,006	60,370,323
National Personnel	116,470	113,356	229,826	63,838,055
International Travel	39,644	30,277	69,921	19,581,375
In-Country Travel	17,566	16,443	34,009	9,459,130
Vehicle Operation	43,785	45,248	89,033	24,679,809
Material and Equipment	33,959	39,040	72,999	20,161,617
Training	10,684	30,361	41,045	11,017,322
Other Direct Costs	102,964	77,586	180,550	50,585,597
Total	US$ 477,504	456,885	934,389	CF 259,693,228

EXHIBIT I

Deloitte Touche
Tohmatsu
International

APPENDIX I

CARE COMOROS' COMMENTS

CARE-COMORES
12/92

COMMENTS TO THE FINAL AUDIT REPORT

INTRODUCTION

* Most of the questioned costs are only partially unsupported. It indicates problems with record retention and filing systems.

  But while reading this report, one should always remember that when a cost is rejected for lack of "request for quotation" (for example), it means that all the other documents are available (pro-forma, purchase order, invoice, delivery note, approval for payment).

* 92% of the questioned costs are related to OPG-1

* Most of the questioned costs are from 1984-85-86. It attests a steady improvement in the management of CARE-Comoros.

* The management of CARE-Comoros has taken the necessary steps to refine the systems and procedures of the mission, immediately after the visit of the auditors.

I INELIGIBLE COSTS

A) International personnel

* USD 3,143

In a difficult working environment like Anjouan, one has to make (sometimes) arguable decision to ensure the smooth implementation of a project.

Given the chronic housing problem in Anjouan, it was decided to keep the house after the Training officer moved to another residence. This house was kept for the Monitoring and Evaluation officer who was due to arrive "soon". All potential candidates were either rejected or refused the position.

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II UNSUPPORTED COSTS

A) International personnel

* USD 1,557

The rent agreement is the only missing documentation.

B) International travel

No comments

C) In-country travel

* USD 320

Ms. GAVITT had just arrived in the Comoros, and she made a verbal agreement with a UN/WFP officer to occupy his house during his home leave, for a flat rate of 150,000 FC (included electricity and water).

This is much cheaper than a hotel room. It is unfortunate that she forgot to write a formal rental agreement.

D) Vehicle Operations

No comments, beside the following :special levies amounted to $ 497 and not $ 8,497.

E) Material and Equipment

* USD 8,201

I would like to mention that we found a copy of the invoice (which also states the reference of the delivery note). Being only of photocopy, the auditor rejected this documentation.

* USD 3,072

As our counterpart, CEFADER was given priority for materials they had on hand (plastic bags, bicycles).

F) Training

No comments

G) Other Direct Costs

No comments

III OTHER MATTERS

With regard to the garage at Anjouan, CARE is contacting the Ministry of Production to see the possibility to lease the garage to a private operator. We suggested that the Ministry makes contacts with an ILO/UNDP project that has just started its operations and that is promoting the private sector through credit and technical training/assistance.

IV INTERNAL CONTROL STRUCTURE

A) General

I think you are somehow unfair with the garage management. It was a very complex operation, involving large amount of stocks, and given the skills of human resources available in the Comoros, they did not do a bad job, even if it could have been better.

B) Accounting records

* Funds Follow-up

AID handbook 13, Page 4C-2, section 2-a-7, does not say anything about maintaining a separate bank account. It states that the accounting records must be supported by documentation that will identify, segregate, accumulate and record all costs incurred under a grant. It goes on to say that the records should provide sufficient information about the disposition of proceeds, total costs of the project, the amount of the project which is funded by other sources, and any other records required to facilitate an audit.

CARE's fund accounting system provides the above information through the monthly mission reports generated by CARE Manila, specifically the Expenditures Analysis Reports, and the GR-12 and GR-11.

With regards to the SF 269 form submitted quarterly by CARE to USAID-Washington, please contact the following person :

Mr. Gene Westlake
Letter of Credit Section
Agency for International Development
Office of Financial Management
PFM FM/CMPD 7 th floor Sa-2 Room 700
Washington, D.C. - 20523 - 0209

* Filing system

Following this audit, and a procurement audit by CNY, a new system was put into effect in January 1992 : all the information related to the history of a purchase is filed together, and copies of any relevant documents are Kept in appropriate locations. By doing so, an auditor should be able to locate with ease the chronological progression of each order's evolution.

The files with the correspondence related to a specific order have been reconstituted since the start of OPG-II. According to CARE NY, the only documents required for inclusion for Check Request are the vendor's invoice, the missions's purchase order and any receiving documentation which may exist. All remaining supporting documents, such as Requests For Quotations, analyses, vendor correspondence, etc.. are placed in the appropriate (and numbered) procurement file.

* Management of fixed assets

(i) Our inventory list indicated the location of assets (e.g., "Main Office Moroni", "Forester's house', etc..). the quantity, and the cost.

(ii) There was a list of assets at the level, sub-office, but our administrator was not able to locate it while the auditors were in Anjouan.

(iv) We have also a master list of mission's vehicles, submitted to CARE-NY every year.

(v) CARE NY is also paying the following insurances for CARE-Comoros : Umbrella insurance, property insurance and Fidelity/Workmen's compensation.

We have taken actions for all the recommendations with slight modifications.

*Procurement

Following the auditors visit, we are strictly enforcing the proposed procedures.

With regard to the point (i), a purchase order was prepared in general, but sometimes omitted.

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* Stocks

(i)&(v) The format of the stock cards was changed following the auditors visit. They are now referenced to the Check Request number.

We are working on an issue voucher system.

(ii) Signatures are much more frequent

(iii) Not done yet

(iv) A new procurement manual was issued in March 1992, and it clearly states who is in charge of what . We have also reassigned the administrator's duties in Anjouan.

* Wages and salaries

(i) As of February 26, 1992, a new overtime sheet was put into effect.

(ii) Following the auditors visit, a new leave cards was created and put into effect.

(iii)A thorough payroll control has been put into effect as of December 1991.
The checks on the payroll sheet are supported by the calculator paper roll.
The employee in charge of the payroll calculation (the accountant) is different from the employee distributing the wages (the secretary).
Receipt of cash is acknowledged in every instance now.

(iv) Fact sheets are not used.
The "increase in salary" sheet was reintroduced in Anjouan.

(v) It would be nice to have a system to ensure the physical presence of the extension agents.
Unfortunately they live in remote villages, and we can't ask them to clock in and clock out.

(vi) Standardization has significantly improved. Advances are, and were, always made out only from CARE's unrestricted funds.

* Vehicles operations

(i) A new fuelbook was introduced on December 3, 1991.

(ii) We have not adopted the format proposed by the auditors.

* Bank system

Only duly authorized international staff have the authority to sign check, following a resolution signed by the CARE Board of Directors.

The only international staff in Moroni is the Country Director. It is unrealistic, and inefficient, to bring in someone from the Anjouan international staff to sign checks.

CARE New-York will decide on this issue.

* Cash system

New petty cash vouchers are in use since February 26, 1991, in Moroni as well as in Anjouan.

* Internal audit

CARE-Comores issued a revised Procurement Manual in March 1992. It is completely in line with CARE policies and procedures, and it applies to Moroni and Anjouan.
The Anjouan accountant spent 1 week in April in Moroni to be further trained, and to make sure that the same regulations and forms are used in the 2 offices.

V COMPLIANCE WITH LAWS

Loans and advances were always made with CARE unrestricted funds. See above for comments on the segregation of funds.

CARE
AIDE AU DEVELOPPEMENT

CARE INTERNATIONAL AUX COMORES
B.P. 1183, MORONI, REPUBLIQUE FEDERALE ISLAMIQUE DES COMORES
● TEL : 73.13.57 ● TELEX : 264 CARECOM KO

Moroni, December 25, 1992
CARE/92/363

FAX : (230) 208 8002
MAURITIUS

TO : Jean-Noel WONG
Kemp Chatteris-Mauritius

FROM : J.D. BODARD
CARE-Comoros

SUBJ : ADDITIONAL COMMENTS TO YOUR REPORT

Dear Mr. Wong,

In addition to the comments I sent to you on December 17, please find below a few additional remarks that I would like you to include in the Management Response Section.

* page 5 - I.4 - Restrictions on audit scope

· Aggregation of funds :

It is our understanding that the grant agreement does not have a provision about this.
Again, by looking at the balance in the 2204 account at any given time, one can determine what the related cash position is (i.e., whether we are in a receivable or payable position with the donor).
You should be able to reconcile the total cash and bank balances for the mission as a whole and not by individual donor. A statement of cash flows should be prepared if one wishes to see how the funds were used and reconcile this to an ending cash balance.

· You could get some sort of representation from the former Directors, similar to what I did for my tenure.

· Did the scope of the auditors work include an audit of the NY and Manila charges? If not then this comment should be removed. If you need to audit this, CARE experience in the past has been that auditors hire their local firm to audit in NY and Manila.

RECEIVED 28 DEC 1992

* page 28 - III - 2 . Accounting records

Expenses incurred in order to implement the grant are reimbursed to CARE via monthly drawdowns on the Federal Reserve Letter of Credit (FRLC). Our Overseas Financial Operations Unit, based in Manila, Philippines files the Federal Cash Transactions Report (SF 272 and SF 272A) and the Financial Status Report (SF 269) with the Office of Financial Management-Letter of Credit Section of USAID Washington each month. CARE, as an organization, is always in a receivable (negative cash) position from USAID when requesting reimbursement under the FRLC arrangement, i.e. we have not been using advanced funds.

It is our understanding that the circumstances outlined above comply with USAID Standard Provisions and the provisions of the grant. This understanding has been confirmed by the Letter of Credit Section of the Office of Financial Management of USAID Washington.

* page 44

The 2 situations you described are not material instances of noncompliance.

I am looking forward to receiving your final report.

Sincerely,

J.D. BODARD

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- TRISH SHANNON - Internal Auditor - CNY
- DOSSIER AUDIT

APPENDIX II

REDSO/ESA'S COMMENTS

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE
FOR EAST AND SOUTHERN AFRICA (REDSO/ESA)

United States Postal Address
U.S.A.I.D./REDSO/ESA
UNIT 64102
APO AE 09831-4102

International Postal Address
POST OFFICE BOX 30261
NAIROBI, KENYA

January 29, 1993

Kemp Chatteris
P.O. Box 322
Port Louis, Mauritius

Subject: Draft Audit Report - Grant Nos. 602-0001-G-00-4001-00 and 602-0002-G-SS-9043-00

Dear Sirs:

REDSO has reviewed the draft audit report dated December 4, 1992 of the subject Grants with CARE/Comoros.

After reviewing the Grant and its provisions, REDSO takes exception ''to the auditor's comment at section II.2.1 "International Personnel" on page 12 of the draft audit report at paragraph (b) (ii) and your conclusion wherein Kemp Chatteris' states that US$3,143 (CF 900,000) are ineligible project costs.

Based upon on the REDSO review of the Grant and applicable regulations, REDSO found no support documentation for the auditor's contention that the US$3,143 is an ineligible cost, because from September 1989 to June 1990 the project manager rented a house which remained unoccupied for a period of six months. REDSO is satisfied with the Grantee's explanation of the difficult housing situation in the Comoros and without any specific Grant provision to the contrary, we see no justification for the auditor's declaration of this as an ineligible project cost.

REDSO, therefore, asks that the auditors REMOVE this recommendation from the final audit report, or provide a copy of any binding rule or regulation that supports Kemp Chatteris's position.

REDSO concurs with the balance of the audit report as providing a fair assessment of CARE/Comoros activities.

Sincerely,

Richard Womack

Richard Womack
Grant Officer

cc: RIG/A John Burns

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ATTACHMENT II

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