

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

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**Audit of USAID/Jamaica's
Commodities Monitoring System**

**Audit Report No. 1-532-93-009
March 18, 1993**



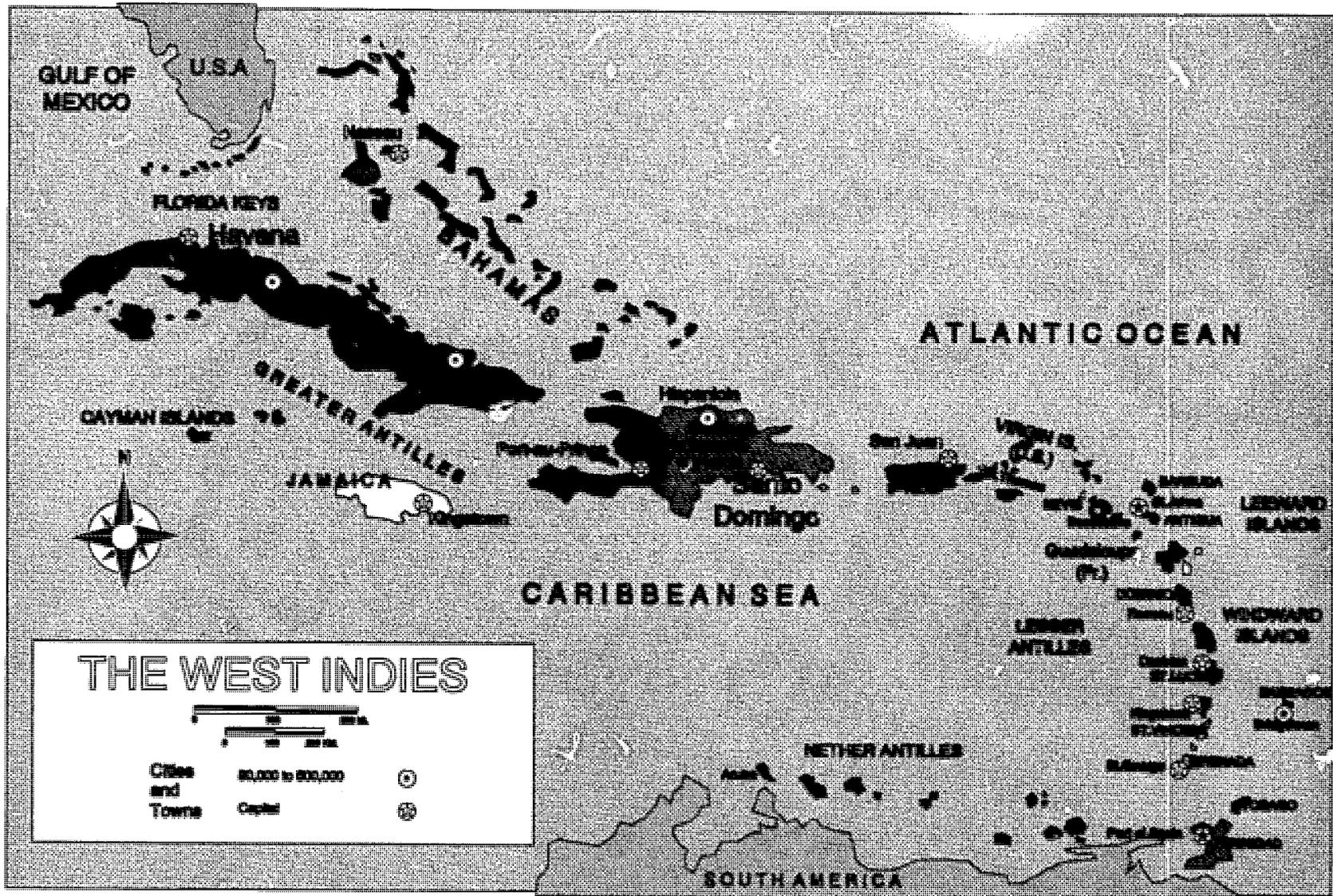
**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

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Commodities Monitoring System**

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AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO, MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
FAX No. (504) 31-4465

March 18, 1993

MEMORANDUM

TO: USAID/Jamaica Director, Robert S. Queener

FROM: RIG/A/T, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/Jamaica's Commodities Monitoring System

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the commodities monitoring system at USAID/Jamaica. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your written comments on the draft report. A summation of those comments has been included after each appropriate audit finding. Your comments are presented in their entirety in Appendix II.

Based upon your written comments, we consider Recommendation Nos. 1.1, 1.2, and 2.4 to be resolved and Recommendation Nos. 2.1 and 2.2 closed upon issuance of this report. Please respond to this report within 30 days indicating any actions taken to implement the open recommendations.

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

Background

The Federal Manager's Financial Integrity Act of 1982 requires A.I.D. to establish internal controls over its programs, including commodities. These internal controls for commodities are basically contained in the A.I.D.

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Handbooks. The management of USAID/Jamaica is responsible for monitoring commodities in accordance with these Handbook provisions.

At the time of our of our review, June 30, 1990 through March 31, 1992, the USAID/Jamaica portfolio included 22 projects with purchased commodities¹. These projects had an estimated \$22.5 million in commodity expenditures.

USAID/Jamaica has recently refocused its strategic objectives to increasing foreign exchange earnings and employment, improving environmental management and protection, and promoting healthy, smaller families. To achieve these goals the Mission plans to scale back its project portfolio. Also, with this refocusing the Mission does not anticipate large commodities procurement in the near future.

Audit Objective

As a part of its annual audit plan the Office of the Regional Inspector General for Audit/Tegucigalpa audited USAID/Jamaica's systems for monitoring project commodities to answer the following objective:

- Did USAID/Jamaica monitor procured commodities to ensure their receipt, storage, and utilization in accordance with A.I.D. policies and procedures?

In answering the audit objective we tested whether USAID/Jamaica (1) followed applicable internal control procedures, and (2) complied with certain provisions of laws, regulations, and agreements. Such tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objective. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Jamaica followed Agency procedures and complied with legal and regulatory requirements. Therefore, we limited our conclusions concerning positive findings to the items actually tested. When we found problem areas, we performed additional work to (1) determine that USAID/Jamaica was not following a procedure, (2) identify the cause and effect of the problem noted, and (3) make recommendations to correct the condition and cause of the problem.

Appendix I contains a discussion of the scope and methodology for this audit. The report on internal controls is presented in Appendix III and the report on compliance in Appendix IV.

¹ A.I.D. Regulation 1 defines commodity as any material, article, supply, goods or equipment.

Audit Findings

Did USAID/Jamaica monitor procured commodities to ensure their receipt, storage, and utilization in accordance with A.I.D. policies and procedures?

For the projects tested, USAID/Jamaica was generally monitoring the receipt, storage, and utilization of commodities in accordance with A.I.D. policies and procedures except that it did not review and approve the host country recipients' commodity arrival and disposition system or perform systematic end use reviews of project commodities.

USAID/Jamaica developed a computerized commodity tracking system that documents the arrival of project commodities purchased directly by A.I.D. This system consists of a series of receiving reports which are sent to the recipient along with pertinent shipping documents. When commodities clear customs, the recipient verifies receipt by completing the receiving report and forwarding it to USAID/Jamaica for input into the tracking system. Three of the seven projects in our audit sample involved A.I.D.-direct purchases which should have been recorded in the tracking system. We found that with one exception the tracking system operated effectively. The exception involved a receiving report for computer equipment which was not prepared and USAID/Jamaica had not followed up on the matter. Also, it had recently revised two mission orders to provide guidance on (1) assessing capabilities of the Government of Jamaica (GOJ) to clear goods through customs and account for and safeguard commodities and (2) project officer monitoring and reporting on use of commodities.

USAID/Jamaica's tracking system is not designed to track commodities purchased under host country contracts nor does it follow distribution to projects after arrival. Project officers generally rely on GOJ systems to record the receipt and dispositions of commodities and to report any problems. However, these systems have not been evaluated and approved by USAID/Jamaica as required by A.I.D. Handbooks 1 and 15. Also, while most project officers regularly visited project sites, reviews of commodities were not performed and/or documented as required by A.I.D. Handbooks. The opportunities to improve internal controls in these areas are discussed in the following two report sections.

USAID/Jamaica Needs To Review and Approve Recipient Commodity Arrival and Disposition Systems

USAID/Jamaica's commodity tracking system is not designed to track the arrival of commodities purchased under host country contract nor does it

follow the distribution to projects after arrival. Project officers generally rely on host country systems to record the receipt and disposition of commodities purchased for projects and to report detected problems. However, USAID/Jamaica did not evaluate and approve the recipient systems as required by A.I.D. Handbooks 1 and 15, because management believed such requirements only applied to A.I.D.'s nonproject assistance. The review and approval of recipient capabilities to properly clear, record, and distribute purchased commodities is the basis for sound commodity management. Such basis could have prevented substantial dollar losses in one project when invoiced commodities could not be verified as arrived and/or disposed of, purchased commodities were undelivered, and insurance claims were not made or were filed too late for reimbursement.

Recommendation No.1: We recommend that USAID/Jamaica:

- 1.1 implement procedures to review and approve recipient systems for recording the arrival and disposition of project-funded commodities; and**
- 1.2 report this weakness in its next internal control assessment, if it is not fully resolved.**

USAID/Jamaica developed a computerized commodity tracking system that can effectively track the receipt of commodities it had directly purchased for projects. However, the system does not track A.I.D.-financed commodities procured by the recipient nor does it monitor the distribution of commodities to projects after their arrival in-country. Project officials generally rely on the recipients' systems to document the arrival and disposition of A.I.D.-funded commodities and to inform them of any problems. These recipient systems, however, have not been evaluated by USAID/Jamaica as required.

A.I.D. Handbook 1, Supplement B (Procurement Policies) Chapter 24, Section A1 requires missions to periodically evaluate the system maintained by the borrower/grantee to verify the arrival, disposition, and utilization of commodities. A.I.D. Handbook 15 (A.I.D.-Financed Commodities), Chapter 10(E) titled Description of Procedures states that the mission should maintain a current description of the recipient's commodity arrival and disposition system, the mission evaluation of the system, and the monitoring procedures established.

USAID/Jamaica did not establish procedures for reviewing and approving recipient commodity management systems because it believed that Chapter 10E of Handbook 15 only applied to nonproject assistance. However, the controller corrected the misunderstanding on May 22, 1992, by revising Mission Order No. 809 to require a review of the host country implementing

agency's capability to clear commodities through customs and to account for and safeguard commodities received. USAID/Jamaica's new evaluation requirement can provide added assurances that commodities are received and are properly safeguarded. However, this requirement should be expanded to include all recipients that receive A.I.D.-funded commodities with system approval made by the controller.

The need to review and approve recipients' capabilities to receive and safeguard commodities was demonstrated by the problems encountered in the Agricultural Education Project. Although this Project began in 1984, most procurement was not initiated until 1988. It was not until November 1989, when concerns were raised by a newly assigned project officer over whether USAID/Jamaica had enough information on the receiving and inventory systems of the entities receiving commodities to determine whether procurement deficiencies existed under this project. The project officer found that the Project had no mechanism to ensure that commodities requested were delivered to and received by the recipient, although, at this point about 20 percent of the planned \$1.4 million in commodity purchases had arrived. Subsequently, due to continued problems within the Ministry of Education and the receiving educational institution on clearing and accounting for items bought for the project, USAID/Jamaica stopped procurement in mid-1991.

An evaluation of this project drafted in October 1991 concluded that the Ministry of Education lacked the capability to adequately determine the receipt of commodities at either the port of clearance or the destination. The evaluation also reported a \$171,000 shortage (for items valued over \$500) between commodities purchased per the shipping documents and the items which could be physically located. Some of these items have since been located and the shortage has been reduced to \$25,000, less than 2 percent of the total procurement under the project.

The lack of a sound recipient system can also effect filing insurance claims when commodities are lost, stolen, or damaged. For example, in the Agricultural Education Project, at least \$3,017 of equipment was reported as not received. However, because receiving reports were not completed in a timely manner, insurance claims for these losses were either not filed or were not accepted by the insurer because the deadline for claiming reimbursement had expired.

In summary, recipient commodity arrival and disposition systems should be reviewed and approved by USAID/Jamaica to provide a basis for sound project commodity management and better overall monitoring of commodity utilization.

Management Comments and Our Evaluation

USAID/Jamaica responded to our recommendation by expanding independent audit reviews of implementing organizations to include assessments of their accounting systems for the receipt and disposition of commodities. Also, USAID/Jamaica issued a mission order that establishes specific responsibilities for the Mission's commodities management. Accordingly, Recommendation No. 1 is resolved and can be closed when USAID/Jamaica identifies the responsible Mission entity that will approve the recipient systems.

USAID/Jamaica Needs To Improve Its Monitoring Of Project-Funded Commodities

USAID/Jamaica has not systematically performed follow-up and end-use reviews of project commodities. While most project officers regularly performed site inspection visits, they either did not systematically review the receipt, disposition, and utilization of project commodities or such reviews were not documented as required by A.I.D. Handbooks. This occurred because project officers were not aware of specific review requirements, questioned the need for such monitoring, and stated that they lacked the time to perform the reviews. As a result, USAID/Jamaica does not have assurance that all project commodities procured (universe valued at \$22.5 million) were received in good condition, distributed as planned, and utilized for the purposes intended.

Recommendation No. 2: We recommend that USAID/Jamaica:

- 2.1 expand Mission Order No. 620 to include detailed guidance for project officers to systematically monitor project commodity arrival, disposition, and utilization;**
- 2.2 establish an internal control procedure to ensure that project officers fulfill requirements to properly monitor project commodities for which they are responsible;**
- 2.3 take remedial action to resolve the commodity utilization problems identified in this report; and**
- 2.4 report this weakness in its next internal control assessment if not fully resolved.**

While USAID/Jamaica review and approval of recipient commodity arrival and disposition systems can improve its ability to verify the receipt and distribution of project commodities, systematic follow-up and utilization reviews by project officers are necessary to ensure that commodities are

used as intended. A.I.D. Handbooks 3 and 15 contain several references directing project officers to verify the arrival, customs clearance, and proper utilization of commodities during site visits and through periodic reviews of shipping documents.

Handbook 3, Chapter 11E2b emphasizes the importance of site visits as an essential monitoring tool and provides general guidelines and a format for reporting site inspection visits. These guidelines, which are elaborated in Handbook 3, Appendix 11C-1, include various references for monitoring commodities including the need to review the status of the procurement of goods and services and to confirm the installation and effective utilization of major pieces of equipment. Handbook 15, Chapter 10D4 suggests the performance of end-use checks on a sample of arrivals/releases with selective follow-up to the point of utilization in order to evaluate the continued effectiveness of recipient import systems.

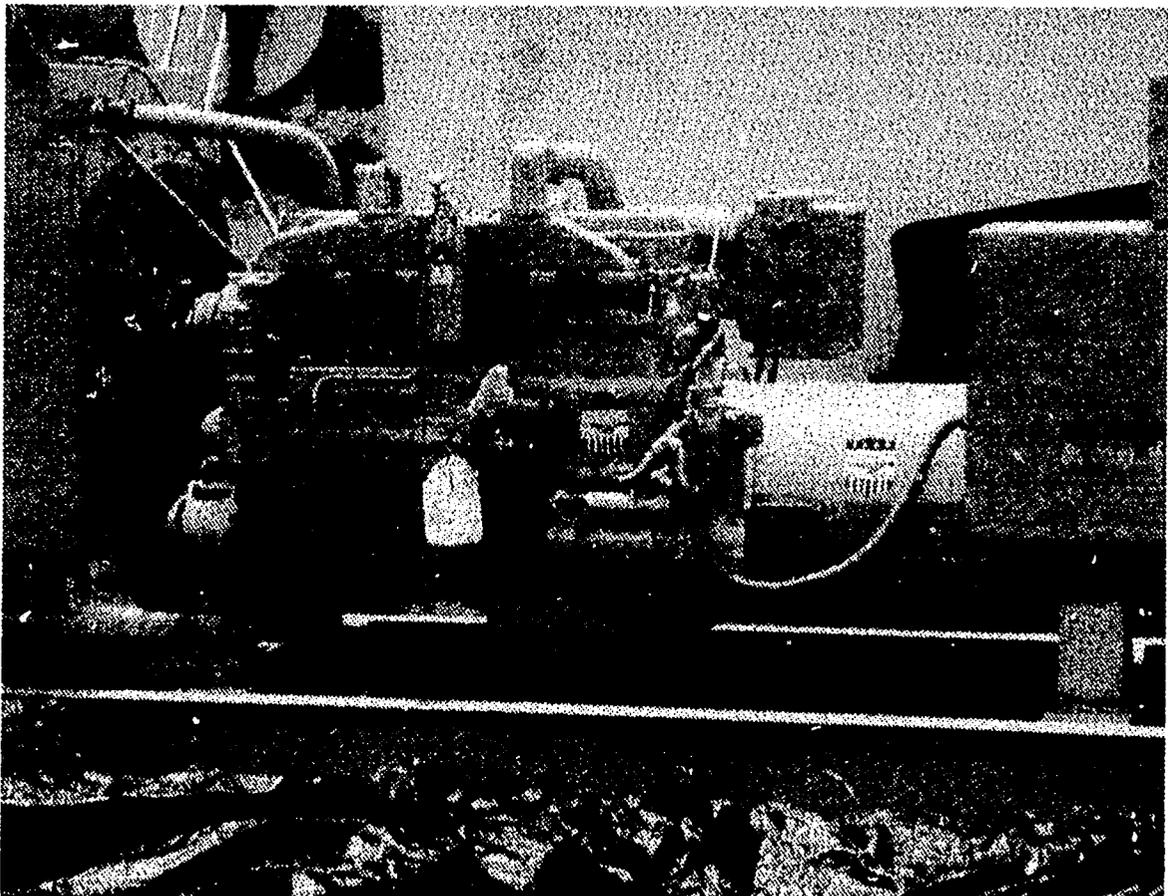
Most USAID/Jamaica project officers conducted site inspections or periodic field visits. However, project officers for six of the seven projects in our review did not verify the actual arrival of commodities through systematic site inspection reviews and/or did not perform or document end-use reviews to show whether commodities were properly accounted for, stored, and utilized. The project officers stated that they did not perform systematic monitoring of project commodities because they were unaware of the specific monitoring and end-use review requirements, did not think that systematic reviews were necessary or lacked the time to perform such reviews.

USAID/Jamaica management, recognizing that reviews of A.I.D.-funded commodities are needed, recently revised a mission order to specifically address this situation. Mission Order No. 620, dated May 22, 1992, states that project officers should monitor the use of commodities and include a discussion of utilization in site visit reports. When there is extensive commodity procurement, a formal utilization review is suggested to determine if commodities are properly used, appropriately maintained and safeguarded, and not excess to project needs.

Although this mission order demonstrates USAID/Jamaica's concern with this problem, it lacks specificity on the type of review and how the project officer should perform the review to comply with Handbook requirements. Accordingly, we believe USAID/Jamaica needs to further emphasize the importance of proper commodity management, including obtaining assurance that project commodities are used as intended by including specific steps in the mission order which will ensure compliance with A.I.D. Handbook policies and procedures.

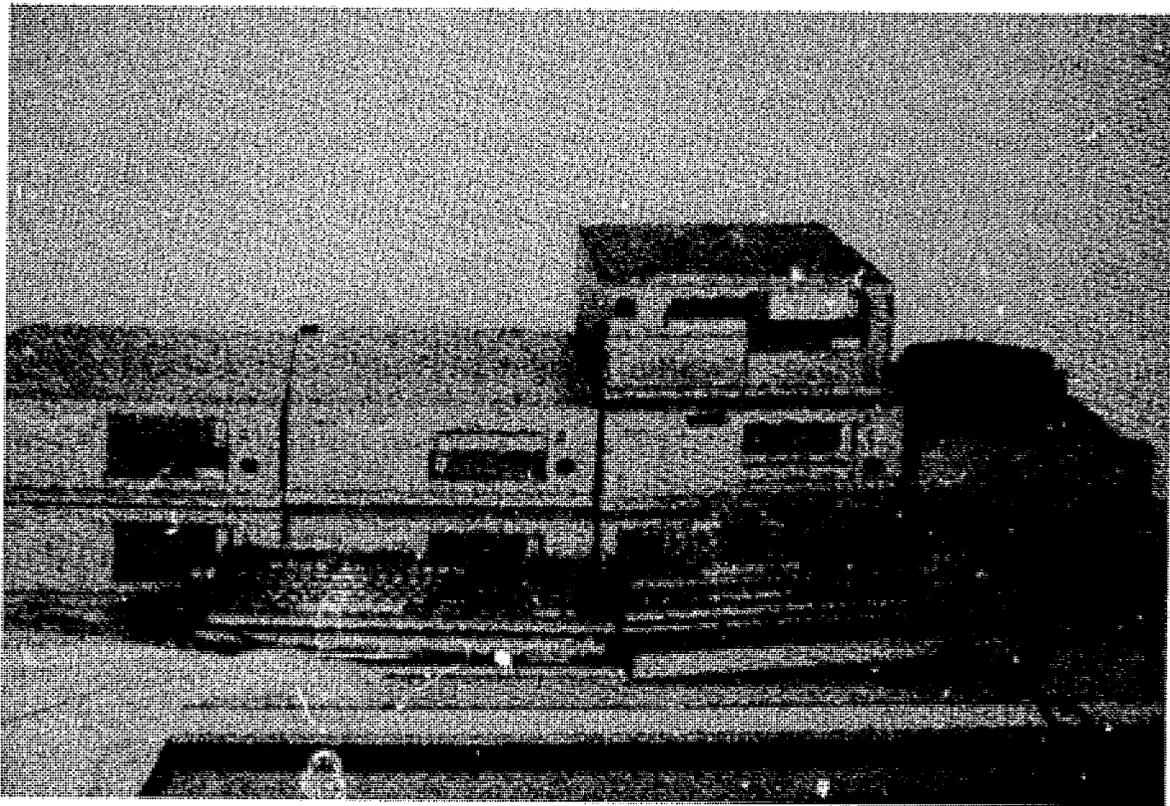
The need for systematic commodity management and end-use reviews is demonstrated by the following problems we observed during our audit fieldwork:

- The Jamaican College of Agriculture, the primary recipient of commodities procured under the Agricultural Education Project, recently established an inventory control system. Receiving reports filed at USAID/Jamaica showed that three battery recorders valued at \$1,170 were signed as received. However, our review found that the College had no inventory record of the recorders or knowledge that the recorders were sent to it.
- A \$24,000 power generator for the Agricultural Education Project (see photograph below) was received in September 1990, but had not been installed. At the time of our review, almost two years later, the generator was located out-of-doors awaiting power-hookup and proper shelter.



Power generator for the Agricultural Education Project received in September 1990, but not installed. Photograph taken in August 1992.

- Seven computer processing units and keyboards, delivered in January 1990, were located in a classroom/laboratory building at the College of Agriculture (see photograph below) apparently awaiting the replacement of an air conditioning unit for the building. The College storekeeper was not aware that the equipment was A.I.D.-funded and the items were only marked with College stickers. Although USAID/Jamaica records showed that ten A.I.D.-funded computers and ancillary equipment totaling \$18,000 were procured and delivered under the Agricultural Education Project, the College inventory accounted for only seven computer processing units, eight monitors, and seven keyboards.



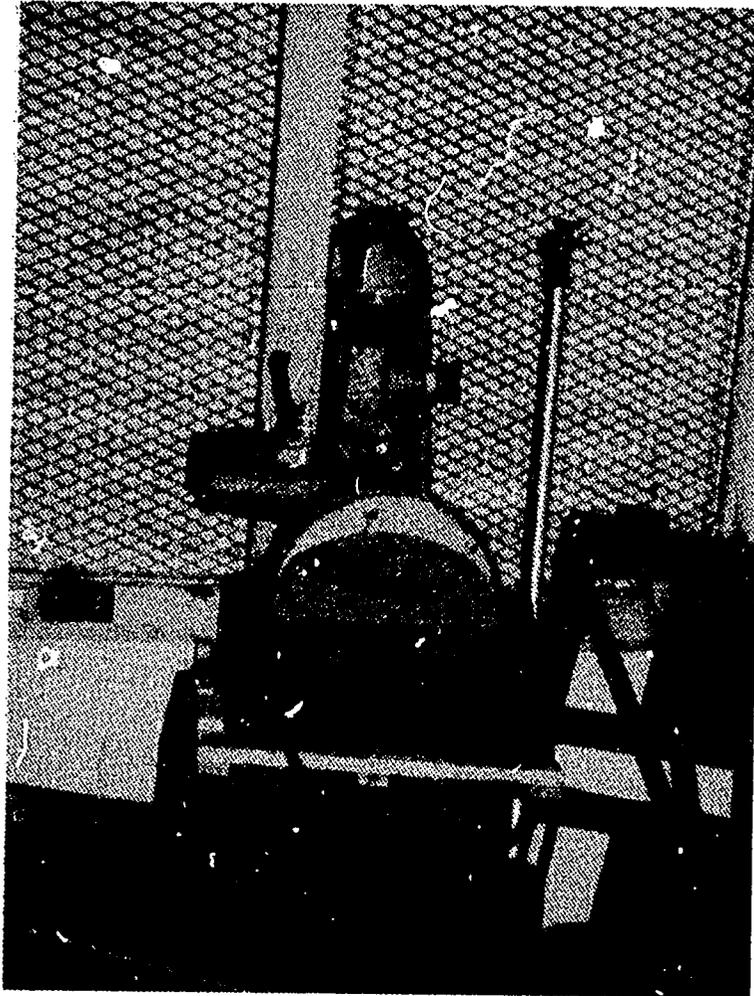
Unutilized computer systems funded through the Agricultural Education Project. Photograph taken in August 1992.

- Computer data management software costing approximately \$30,000 was delivered to the Ministry of Finance for the Technical Consultation and Technical Grant Project in November 1990. The software equipment was duplicative to software already provided and

the vender failed to deliver an advance feature software package. In September 1991, the Procurement Services Agent informed USAID/Jamaica that if the Ministry returned the software to the vendor an outstanding letter of credit balance would be remitted to the Project. As of our review the software had not been returned and the Mission had not followed up to ensure that the software was returned to the vender and funds were remitted to A.I.D.

- USAID/Jamaica performed inadequate follow up on the utilization by the Ministry of Finance of computer equipment, valued at \$670,000, procured under the Technical Consultation and Technical Grant Project, possibly because the Project was terminated shortly after delivery of the equipment. We noted that much A.I.D.-funded computer equipment was idle during our site visits. According to a Ministry representative, the equipment was not in maximum use because the Computer Center recently completed the Government of Jamaica's budget for the year and personnel were on vacation. However, with such a large investment, we believe USAID/Jamaica should have performed detailed end-use reviews to determine actual utilization of the equipment.
- The National Irrigation Commission managed 23 vehicles funded under the Crop Diversification/Irrigation Project. These vehicles were primarily assigned to officials located at the Commission's home office or various field offices. Vehicle usage reports indicated that several officials routinely used their assigned vehicles for nonofficial purposes. While the Commission has a reimbursement policy for unofficial use of vehicles, it was not enforced. This issue surfaced in a 1988 RIG/A/T audit² of the Project and corrective action was recommended. However, the USAID/Jamaica project officer apparently did not follow up to determine if the recommendation was effectively implemented.
- A small warehouse at the College of Agriculture was full of unused A.I.D.-donated parts and equipment procured under the Agricultural Education Project. It was inadequate for storage as the warehouse had an apparent leakage problem. The equipment was exposed to weather and in some cases had rusted (see photograph on page 11).

² Audit Report No. 1-532-88-06-N, dated May 26, 1988.



Unused grinder/sander funded through the Agriculture Education Project was improperly stored in a Jamaica College of Agriculture facility where it was rusting. Photograph taken in August 1992.

In summary, we believe the above examples indicate that USAID/Jamaica needs to focus more attention on the monitoring of commodities. Its internal controls can be strengthened by improving guidance to project officers for the systematic monitoring of project commodities and developing specific control mechanisms to ensure that A.I.D.-funded commodities are properly received, distributed, and utilized.

Management Comments and Our Evaluation

USAID/Jamaica responded to Recommendation Nos. 2.1 and 2.2 by supplementing a mission order with a project officer check list for monitoring commodity utilization and by the issuance of another mission

order to ensure proper monitoring by project officers. Therefore, Recommendation Nos. 2.1, 2.2 and 2.4 are closed upon report issuance.

For Recommendation No. 2.3, USAID/Jamaica has taken and/or plans remedial action and has provided explanations for various reported deficiencies in the utilization of project commodities. Accordingly, Recommendation No. 2.3 is resolved and can be closed when the issues concerning vehicle usage and duplicative software are rectified by the Mission.

**SCOPE AND
METHODOLOGY**

Scope

We audited the systems for monitoring project commodities at USAID/Jamaica in accordance with generally accepted government auditing standards. We conducted our audit from May 12, 1992 to August 21, 1992, and did our field work at the office of USAID/Jamaica in Kingston, Jamaica and several implementing entity locations in Jamaica. The audit entailed interviewing USAID/Jamaica and Government of Jamaica officers, reviewing Mission project files and records, and reviewing those policies and procedures necessary to determine how commodities were monitored for receipt, storage, and utilization.

From the 22 projects involving commodities as of June 30, 1990 through March 31, 1992, we judgmentally selected seven projects. The 22 projects in the audit universe had expenditures of \$22.5 for commodities. The seven projects in our sample had expenditures of \$9.6 million for commodities.

The following table shows the projects in our sample, the type of commodities purchased, and the locations the auditors visited in the performance of the audit fieldwork. Because our audit focused on USAID/Jamaica's monitoring systems, we did not specifically audit these amounts.

PROJECT	TYPES OF COMMODITY	LOCATION VISITED BY AUDITOR
Population and Family Planning	Contraceptives	National Family Planning Board Warehouse Kingston, Jamaica
Agricultural Education	School Equipment Vehicles	College of Agriculture Port Antonio, Jamaica
Technical Consultation and Technical Grant	Computer Equipment	Ministry of Finance Kingston, Jamaica

Caribbean Justice Improvement	Furniture Computer Equipment	Supreme Court of Jamaica Kingston, Jamaica
Crop-Diversification/Irrigation	Irrigation Equipment Vehicles	Various Rural Locations
Basic Skills Training	School Equipment	Vere Technical School Clarendon, Jamaica
UWI Management Education	Computer Equipment Furniture	University of the West Indies Kingston, Jamaica

Methodology

The audit was made in accordance with generally accepted government audit standards. In order to accomplish our objective, we reviewed criteria contained in A.I.D. Handbooks 1, 3 and 15 and compared these requirements to the USAID/Jamaica Mission Operations Manual. We obtained and reviewed our Federal and Non-Federal audit reports on Mission projects. We also interviewed Mission officials and reviewed available project records and reports for each project selected for review. We visited offices and work sites for the seven projects selected in our sample to determine how the implementing entity accounted for and managed A.I.D.-funded commodities.

From USAID/Jamaica procurement records, we judgmentally selected various commodities that were purchased for the projects reviewed and made site observations to test the recipient commodity systems controls and to determine if commodities were received, distributed, and utilized as required.

MANAGEMENT COMMENTS



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
KINGSTON, JAMAICA

6B OXFORD ROAD
KINGSTON 5, JAMAICA
TEL: (809) 926-3645 thru 9
FAX: (809) 929-3750 or 2

KINGSTON (ID)
DEPARTMENT OF STATE
WASHINGTON, D.C. 20521-3210

February 5, 1993

Mr. Lou Mundy
Regional Inspector General
Agency for International Development
American Embassy
Tegucigalpa, Honduras

Dear Mr. Mundy:

I have received your draft report on the Audit of USAID/Jamaica's Commodities Monitoring System and discussed its contents with the Mission staff. In response, I have identified actions taken and in process to improve our controls. I have also provided explanatory comments on some of the examples provided in the report.

Actions Taken on Recommendation No.1: Since 1991, new implementing organizations or organizations signing new agreements with USAID/Jamaica have had their accounting and internal control systems reviewed by the Jamaica office of Coopers & Lybrand. The scope of work for these reviews specifically mentions the necessity to verify that:

- The borrower/grantee has the capacity to maintain or has maintained adequate accounting and property records, including separate project records and controls.
- The borrower/grantee has an adequate system of control over the distribution and use of property.

We have expanded the statement of work for these reviews to require:

- A written description and assessment of the organization's system for accounting for receipt and disposition of the commodities.

In September 1992, the Mission issued Mission Operations Manual (MOM), Sub-chapter 876 on Project Commodity Management. This MOM, which is attached, specifies the responsibility to document and approve the recipient organization's commodity management system.

In January 1993, the Mission completed the award to Coopers & Lybrand of a new IQC for systems reviews. The first work orders to be issued under this IQC will be to provide descriptions and assessments of the commodity management systems at University of the West Indies and the Project Management Units at the Planning Institute of Jamaica (PIO/J). Other organizations will be reviewed as we plan to or have procured significant commodities for their use. For organizations provided less than \$50,000 in commodities, we believe that the project officer's monitoring of commodity arrival and use should be adequate.

Actions Taken on Recommendation No. 2: Mission Order No. 876 has been supplemented with a project officer check list. The Mission has prepared an additional MOM, No. 627, that details the specific reporting required during the SAR process to document adequate project officer oversight of commodities. We believe these steps have satisfied recommendations 2.1 and 2.2. Please close these recommendations as well as 2.4.

Recommendation 2.3 requires remedial action on the commodity utilization problems identified in the report. We believe that many of these problems are not utilization problems but appeared to be so because of the timing of the audit during the summer break at the College of Agriculture. During this period, classrooms were not in use, and regular staff was not always available. For example:

The "three battery recorders" identified as having no inventory record, are recorded in the inventory and are at the College. A copy of the inventory page and pictures of the "recorders" is attached to this letter. We believe the misunderstanding arose because the "recorders" are actually battery operated time clocks used to document the time at which an action occurred.

The generator identified as out of doors in the audit report has subsequently been installed in its permanent location. Construction delays at the College of Agriculture resulted in equipment arriving before the facilities were ready. We wish to note that although the generator was stored outside, it was adequately protected and did not suffer any damage. Please refer to picture.

Computers identified as unutilized were secured in a locked room during the period of the audit because school was not in session. The computers are in use at the College (pictures attached.) It should be noted that two of the computers are used for administrative purposes and are located in the offices rather than the classrooms. Pictures of these are also attached. New AID emblems have been ordered and will be affixed when received.

The Mission believes it is appropriate to order spare parts and equipment as part of a procurement. The storeroom leakage problem identified in the audit report has been fixed, and the parts and equipment are being used as required.

The sander/grinder that was unused at the time of the auditor's visit, is currently in use at the Engineering Department. There is rust on the flat metal plate, but it does not affect the use of the machine.

In addition, the timing of the auditor's visit to the Ministry of Finance Computer Center was immediately after completion of the GOJ budget. Most of the staff take leave at this time. The Computer equipment provided to the Ministry of Finance is highly utilized. The Ministry is in process of purchasing additional core memory needed to perform additional tasks. Mission staff is working with the Ministry on the development of an MIS for local currency which will interface with this system. We do not believe a detailed end use check is necessary after the project ends and we have knowledge of the use of the equipment.

The Mission is looking into appropriate actions to resolve the issue regarding vehicle usage at the National Irrigation Commission and the duplicative software delivered to the Ministry of Finance.

I would like to bring to your attention what we believe to be a factual error in the report. In the section of the report dealing with the Agricultural Education Project, it is stated that, "The evaluation also reported a \$171,000 shortage...". In fact, the evaluation report identified the shortage as \$27,823 on page 16 of the evaluation.

In addition to the very specific corrective actions described above, the Mission is presenting the Project Implementation course to all project officers and managers who have not attended it. This is being done February 8-19. The Commodity Management Officer (CMO) in Guatemala has assisted us by providing guidance and information on training relating to commodity management. We are negotiating with the CMO in Panama to provide specific training to our staff in March or April of this year.

The audit representation letter which you requested is enclosed. In accordance with Agency guidance, I have signed the letter. My senior staff has cleared the letter and assured me as to its accuracy.

In closing, I would like to add that we found your staff helpful and forthcoming in providing explanations of the various findings so that we could respond more fully. We believe that the actions recommended will improve the management of commodities procured under USAID-funded projects.

Sincerely yours,



Robert S. Queener
Mission Director

/attachments

RIG/A/T Response: The \$171,000 shortfall figure was reported by independent auditors in the draft report issued in October 1991. A final ~~evaluation~~ report had not been issued at the completion of our audit in August 1992. However, this shortfall figure was also evidenced through Mission correspondence, and by an official of the public accounting firm that conducted the evaluation.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
KINGSTON, JAMAICA

6B OXFORD ROAD
KINGSTON 5, JAMAICA
TEL: (809) 926-3645 thru 9
FAX: (809) 929-3750 or 2

KINGSTON (ID)
DEPARTMENT OF STATE
WASHINGTON, D.C. 20521-32

February 5, 1993

Mr. Lou Mundy
RIG/A/T
Agency for International Development
Office of the Regional Inspector General
American Embassy
Tegucigalpa
Honduras

Dear Mr. Mundy:

In connection with your audit of the commodities monitoring systems at USAID/Jamaica covering procedures in place from June 30, 1990 to May 13, 1992 and for the period of your audit (May 11 - August 21, 1992), I confirm the following representations made to you during your audit:

1. For the functions under audit, I am responsible for:
 - the internal control system,
 - compliance with applicable laws and regulations, and
 - the fairness and accuracy of the accounting and management information.

2. For the functions under audit, I directed that all staff cooperate with the auditors and make available all records in our possession for the purpose of the audit. To the best of my actual knowledge and belief, all records that you or your auditors asked for were made available to you. Based on the representations made to me by staff members, I believe that those records are accurate and complete and that they give a fair representation as to the status of the methods that our Mission has had in place for monitoring commodity procurement. To the best of my actual knowledge and belief, no specific information has been withheld from you.

3. For the functions under audit, to the best of my actual knowledge and belief, there have been no:
 - irregularities involving management or employees who have roles in the internal control structure; or
 - irregularities involving any other organizations that could affect the functions.

- Communications from any other organizations concerning non-compliance with or deficiencies in the commodities management systems, except for:
 - weaknesses found in audit of the Agricultural Education project;
 - our own procurement reviews;
 - an anonymous allegation (forwarded to RIG/I) regarding a procurement services agent, and,
 - laundry and catering equipment ordered and received by the Ministry of Health which has not been put in operation because construction of facilities is not complete. Equipment is securely stored, under inventory control, and has been verified by USAID project staff.
 - a shipment of radios and related equipment, financed under the Hurricane Reconstruction project, for the Jamaica Public Service (JPS) Company which arrived in Kingston on August 6, 1990 minus the radios. Insurance coverage was not claimed for the missing radios valued at approximately \$7,000.00. The JPS has subsequently ordered replacements for the radios using its own revenues.
- 4. For the functions under audit, to the best of my actual knowledge and belief, I am aware of no material instances where financial or management information have not been properly and accurately recorded and reported.
- 5. For the functions under audit:
 - (1) I note RIG/A/T assertions in the draft audit report that USAID/Jamaica is not in compliance with selected A.I.D. policies and procedures. I reserve judgement on these RIG/A/T assertions until I have had an opportunity to fully review and comment on the final audit report;
 - (2) With the exception of these possible instances of non-compliance, and to the best of my actual knowledge and belief, I am aware of no other instances of material non-compliance with A.I.D. policies and procedures, or any violations or possible violations of laws or regulations.
- 6. I have no actual knowledge of any non-compliance with contractual agreements that would materially affect the functions under audit.

7. For the functions under audit, to the best of my actual knowledge and belief, I am not aware of any events that have occurred subsequent to the period under audit that would affect the above representations.

I request that this Representation Letter be considered a part of the official Mission comments on the draft report, and be published along therewith as an annex to the report.

Sincerely,



Robert S. Queener
Director

/attached

**REPORT ON
INTERNAL CONTROLS**

This section is a summary of our assessment of internal controls for the audit objective.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards, which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objective and (2) report on the controls assessed, the scope of our work, and any significant weakness found during the audit. We limited our assessment of internal controls to those controls applicable to the audit objective, and not to provide assurance on the auditee's overall internal control structure.

We classified significant internal controls applicable to the audit objective by categories. For each category, we identified the relevant policies and procedures and determined whether they have been placed in operation--and we assessed control risk. We have reported these categories as well as any significant weaknesses under the section for the conclusions for the audit objective.

General Background on Internal Controls

Under the Federal Manager's Financial Integrity Act of 1982 and the Office of Management and Budget's implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls and procedures for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, policies, and agreement terms; resources are safeguarded against waste, loss, and

misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusion for the Audit Objective

Our objective concerns USAID/Jamaica's monitoring of commodity receipt, storage, and utilization. In performing this objective, we considered applicable policies and procedures regarding arrival, disposition, and utilization of project commodities as detailed in A.I.D. Handbooks 1, 3, and 15. We classified the relevant policies and procedures into a category called the commodity monitoring process.

Our review showed that USAID/Jamaica's internal controls were logically designed and consistently applied except that it did not formally review and approve the recipients' commodity arrival and disposition systems or perform systematic end-use reviews of project commodities.

USAID/Jamaica's 1991 assessment of its internal control structure did not identify these two weaknesses. USAID/Jamaica should report them in its next internal control assessment if not fully resolved prior to its submission to A.I.D./Washington.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Jamaica's compliance with applicable laws, regulations, and binding policies.

Scope of Our Compliance Assessment

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

- assess compliance with applicable requirements of laws, regulations, and binding policies, when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives), and
- report all significant instances of noncompliance and abuse, and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Jamaica's compliance with A.I.D. Handbook 1, Supplement B, Procurement Policies, Chapter 24, Section A1 which requires missions to periodically evaluate the system maintained by the borrower/grantee to verify the arrival, disposition, and utilization of commodities. However, our objective was not to provide an opinion on USAID/Jamaica's overall compliance with such provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants, binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow

requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with binding policies is the overall responsibility of USAID/Jamaica's management.

Conclusions on Compliance

The results of our tests indicate that USAID/Jamaica did not materially comply with the provisions of A.I.D. Handbook I, Supplement B, Chapter 24, Section A1b(2)(c).

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