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**Regional Inspector General for Audit  
Dakar**

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**AUDIT OF LOCAL EXPENDITURES MANAGED BY  
THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM  
UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218)  
FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992**

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**Audit Report No. 7-688-93-06-N  
April 1, 1993**



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

UNITED STATES ADDRESS  
RIG/DAKAR  
AGENCY FOR INTERNATIONAL  
DEVELOPMENT  
WASHINGTON, D.C. 20523

INTERNATIONAL ADDRESS  
RIG/DAKAR  
C/o AMERICAN EMBASSY  
B.P. 49 DAKAR SENEGAL  
WEST AFRICA

April 1, 1993

**MEMORANDUM**

To: Charles Johnson, Director, USAID/Mali  
From: *Thomas B. Anklewich*  
Thomas B. Anklewich, RIG/A/Dakar  
Subject: Audit of Local Expenditures Managed by the Management Development and Support Team under the Mali Livestock Sector II Project (No. 688-0218) for the Period April 1, 1989 to April 30, 1992

The attached report, prepared by the non-Federal audit firm KPMG Peat Marwick of Banjul, presents the results of a financial audit of the Management Development and Support Team's (MDST) operating costs charged to USAID/Mali's Livestock Sector II Project.

On August 31, 1982, A.I.D. and the Government of Mali signed a bilateral agreement to implement the Mali Livestock Sector II Project with the goal of sustaining improvements in the incomes and well-being of producers and others dependent on Mali's livestock sector. Under this program, MDST--a team created to provide project management and management development to the Government of Mali--disbursed \$2,760,682 in A.I.D.-provided funds during the period April 1, 1989 to April 30, 1992 for expenditures related to its project implementation activities. The project which ended in August 1992 will be followed by another A.I.D.-financed livestock sector project.

KPMG was engaged to perform a financial audit of the \$2,760,682 disbursed by MDST in accordance with U.S. Government Auditing Standards as set forth by the Comptroller General of the United States. However, KPMG was unable to obtain sufficient competent evidential matter required by such standards because of the scope limitations described in the following paragraph and sections 3.2.6 and 4.2.1 of the audit report. The objectives of the audit had been to determine whether the fund accountability statement for the period April 1, 1989 to April 30, 1992 was presented fairly and whether MDST complied with laws and regulations for transactions that may have a material effect on the fund accountability statement. In carrying out this financial audit,

the non-Federal auditors obtained an understanding of MDST's internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed.

KPMG was unable to form an opinion as to whether the fund accountability statement presented fairly MDST's receipts and disbursements for the period audited due to the following reasons: (1) USAID/Mali was unable to verify MDST's reported advances and reimbursements received from USAID/Mali and (2) MDST incurred and was reimbursed by USAID/Mali for ineligible and unsupported expenditures totalling CFA 20,422,565 (\$70,423). In obtaining an understanding of the internal control structure, KPMG noted certain reportable conditions. One of these conditions, the lack of reconciliation of USAID/Mali and MDST records of advances and reimbursements, was reported to be a material weakness. Finally, KPMG reported the following three instances of MDST material non-compliance with applicable laws and agreement terms: (1) payment for ineligible expenditures; (2) absence of competitive bidding procedures resulting in the payment of unreasonable prices for fuel purchases; and (3) lack of withholding of Malian income tax from salaries of MDST contract employees.

USAID/Mali agreed with the majority of the findings and recommendations made in the audit report and stated that it would ensure that the follow-on project had systems in place to avoid the internal control weaknesses and compliance issues identified in this audit report. USAID/Mali did not however agree with \$2,401 of the \$70,423 in reported questioned costs. A final determination as to whether these questioned costs are sustained or not will be made by USAID/Mali in resolving recommendation no. 1 below.

The following recommendations are to be included in the Office of the Inspector General's recommendation follow-up system.

**Recommendation No. 1: We recommend that USAID/Mali resolve the questioned costs of \$70,423 (\$47,058 unsupported) and recover those costs determined to be unallowable or unsupported.**

Recommendation No. 1 is considered unresolved until we are advised of USAID/Mali's determination regarding the unallowable and unsupported questioned costs. This recommendation can be resolved when we receive USAID/Mali's determination of the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are reimbursed.

**Recommendation No. 2: We recommend that USAID/Mali:**

- 2.1 reconcile its records to those submitted by MDST as of the project completion date of August 10, 1992 to ensure that all advances and reimbursements have been properly accounted for, and**

- 2.2** revise its Mission Order on project-funded advances to include procedures for USAID/Mali to periodically reconcile financial reports received from recipients to the financial records of advances and reimbursements kept by USAID/Mali to ensure that advances and expenditures reported by recipients are complete and accurate.

Recommendation No. 2 is considered resolved as USAID/Mali stated that it was in the process of reconciling its advance records with those of MDST and that it would add language to its project-funded advances Mission Order regarding the requirement to periodically reconcile its advance and reimbursement records with those of recipients. This recommendation can be closed upon receipt of evidence that the records of advances and reimbursements were reconciled and that the Mission Order was revised.

Please advise RIG/A/Dakar within 30 days of receipt of this report of any actions planned or taken to close the recommendations.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT, MALI  
(USAID/MALI)

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT  
DEVELOPMENT AND SUPPORT TEAM (MDST)  
UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218)  
FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

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 Peat Marwick

Banjul, The Gambia  
Chartered Accountants and Business Consultants

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT , MALI

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

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Chartered Accountants and Business Consultants

P O Box 431  
2nd Floor  
Wellington Offices  
34 Wellington Street  
Banjul  
The Gambia

Telephone 28140  
or 26173  
Telex 2232 gv  
Telefax 28140/28558

Our Ref :

Your Ref :

March 18, 1993

Mr. Tom Anklewich,  
Regional Inspector General for Audit,  
United States Agency for International Development,  
Dakar,  
Senegal.

Sir,

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT, MALI (USAID/MALI)

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND  
SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218)  
FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

In accordance with your instructions dated July 17, 1992 (IQC no.624-999-I-00-2024-00 Delivery Order No. 1) this report presents the results of our financial audit of the local currency expenditures managed by the Management Development and Support Team (MDST) under USAID/Mali's Livestock Sector II Project (No. 688-0218). The audit covered disbursements totalling FCFA 800,597,866 (\$ 2,760,682) for the period April 1, 1989 to April 30, 1992.

## 1. SUMMARY

### 1.1 Background

On August 31, 1982 the United States Agency for International Development (AID) and the Government of the Republic of Mali (GRM) signed a bilateral agreement for the Mali Livestock Sector II Project (MLSP II) to bring about sustained improvements in the incomes and well-being of producers and others dependent on the livestock sector. The Project, which ended on August 10, 1992, had the following purposes:

*Non-resident partners :*  
R. M. Davies (Managing Partner)  
D. O. Carraw  
P. J. Butler  
T. W. Allen  
F. C. Marks



Member firm of  
Klynveld Peat Marwick Goerdeler

Resident Manager :  
Paul M. Bird

- expand activities that increase livestock production;
- test activities that show potential for increasing livestock production;
- identify, through systematic research, improved technical packages for on-farm testing; and
- develop, within Mali's public and private sectors, the institutional capability to identify, plan, implement and evaluate viable livestock investments.

USAID/Mali and the GRM established a Joint Management Committee (JMC) to provide high level policy and program guidance and overall Project coordination and a Management Development and Support Team (MDST) to implement the Project.

The MDST was responsible for Project implementation activities such as budget preparation, financial management, local contracts, training, vehicle maintenance and control, fuel control, inventory systems, clearances of annual work plans, preparation of JMC documents and minutes and quarterly progress reports. To carry out its financial management responsibilities, MDST managed the local currency account, into which advances from USAID/Mali were deposited and, from which disbursements for local currency expenditures were made.

The other institutions involved in the project, known as sub-volets, received advances from AID Project funds advanced to MDST, as shown in Section 2.2 of this report. Details of the sub-volets are as follows:

- DNE: The National Livestock Directorate responsible for the delivery of inputs to maintain the health and productivity of the national livestock herd, including vaccinations, treatment and extension services.
- LCV: The National Veterinary Laboratory which performs diagnoses and animal health research.
- INRZFH/CRZ: The National Institute for Zoologic, Forest and Hydrobiologic Research/Center for Livestock Research, the Malian entity responsible for the research of physical constraints to animal productivity. This organization serves as the source of extension information for the DNE.

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

**1.2 Audit objectives and scope**

This financial audit of the local expenditures managed by the Management Development and Support Team (MDST) under the Mali Livestock Sector II Project (no. 688-0218) covered the period April 1, 1989 to April 30, 1992.

The objectives of the audit are to:

- i) determine the reasonableness, propriety and allowability of local expenditures totalling FCFA 800,597,866 (\$ 2,760,682) made from the local currency account from April 1, 1989 to April 30, 1992 and then express an opinion on whether the Fund Accountability Statement is fairly presented, in all material respects, in conformity with generally accepted accounting principles;
- ii) obtain a sufficient understanding of MDST's internal control structure and review and evaluate this structure to determine the nature, timing and extent of tests to be performed in order to form an opinion on the Fund Accountability Statement and report on the internal control and weaknesses; the reportable conditions, and the reportable conditions considered to be material weaknesses; and
- iii) perform tests of MDST's compliance with applicable laws, regulations, binding policies and procedures, the Project Grant Agreement, and Project Implementation Letters as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement and report on the results of compliance testing. These tests were also performed to determine whether MDST complied, in all material respects, with agreement terms, laws, binding policies, and regulations and express positive assurance on those items tested and negative assurance on those items not tested.

In order to achieve these objectives, we carried out audit procedures which included, but were not limited to, the following:

- Review of the grant agreement, project paper, Project Implementation Letters and other related project documents;
- Understanding, documentation and evaluation of MDST's accounting records and procedures contained in the Manual of Financial Management;
- Review and testing of local currency expenditures for goods and services procured by MDST to determine whether they were allowable, reasonable, relevant to project activities and supported by adequate documentary evidence;
- Reconciliation of the movement in funds for the period under review including reconciliation of MDST recorded revenues, expenditures and balances with bank records;
- Determining whether advances and reimbursements were made in accordance with agreement terms and reconciling advances and reimbursements per USAID/Mali's accounting system with those amounts reported by MDST as receipts from USAID/Mali;
- Understanding, documentation and review of MDST's internal control systems and performing of tests to determine the extent to which established procedures and controls are functioning as intended. This includes the determination, evaluation and testing of control risks;
- Evaluation of MDST's physical and accounting controls over A.I.D. financed commodities provided under MLSP II and determination of their proper use, maintenance and custody;
- Determining whether MDST was in compliance with applicable U.S. and GRM laws, regulations and agreements by evaluating the MDST internal control system and substantive testing of recorded revenues and expenditures for the period under review;

- Planning of the audit so as to devise steps to identify instances or indications of fraud, abuse or illegal acts and reporting any such instances or indications to RIG/A/D.

We were engaged to conduct the audit in accordance with U.S. Government Auditing Standards as set forth by the Comptroller General of the United States. However, we were unable to obtain sufficient competent evidential matter required by such standards because of the scope limitations described in Section 1.3.1 below.

Our audit work was carried out on site in Bamako, Mali and included field visits to the various sub-volets. At the beginning and end of the field work, respectively, an entrance and exit conference were held to formally advise Project management of the audit objectives and scope and results and to obtain their comments on the proposed findings and recommendations. At the exit conference, Mission and MDST personnel were provided discussion copies of the findings and recommendations.

### **1.3 Summary of results**

#### **1.3.1 Fund accountability statement**

We are unable to form an opinion as to whether the Fund Accountability Statement on Page 13 presents fairly, in all material respects, MDST advances and expenditures incurred and reimbursed for the period from April 1, 1989 to April 30, 1992, in accordance with the cash basis of accounting for the following reasons:

- i) We were unable to satisfy ourselves as to the completeness and accuracy of advances and reimbursements totalling FCFA 749,960,373 (\$ 2,606,883) recorded by MDST as having been received from USAID/Mali, as this amount could not be verified to USAID/Mali records.
- ii) We observed that MDST incurred and was reimbursed by USAID for ineligible expenditures totalling FCFA 20,422,565 (\$70,423) of which FCFA 13,646,751 (\$47,058) was unsupported, as detailed in Appendix C.

### 1.3.2 Internal control structure

We noted the following weaknesses in internal controls:

- i) Purchase orders were authorized without purchase requisitions (Finding 3.2.1);
- ii) Purchase orders were prepared and authorized after the goods had been received and paid for (Finding 3.2.2);
- iii) Lack of control over advances to sub-volets and MDST/GRM officials (Finding 3.2.3);
- iv) Lack of budgetary control (Finding 3.2.4);
- v) Lack of control over vehicle usage and fuel consumption (Finding 3.2.5); and
- vi) Lack of reconciliation of USAID/Mali and MDST records of advances and reimbursements (Finding 3.2.6).

We consider finding vi) above to be a material weakness, that is, the design or operation of the specific internal controls in relation to these weaknesses does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

### 1.3.3 Compliance with applicable laws and regulations

MDST failed to comply with applicable laws in the following areas:

- i) Incurrence of ineligible costs totalling FCFA 20,422,565 (\$70,423) as detailed in Finding 4.2.1 and Appendix C;
- ii) Absence of competitive bidding procedures and payment of unreasonable prices in respect of fuel purchases (Finding 4.2.2);
- iii) Non-deduction of income tax from MDST contract employees' salaries in accordance with the GRM tax code (Finding 4.2.3).

### 1.4 Synopsis of Management comments

Management comments are listed under each finding in Sections 3.2 and 4.2.

The complete text of the Management comments is given in Appendix A to this report.

We would like to thank USAID/Mali and MDST management and staff for their cooperation and assistance during the audit.

Sincerely yours,

*Kamg Peab Manwile*

2. FINANCIAL SECTION

2.1 Independent auditors' report on Fund Accountability Statement

We were engaged to audit the Fund Accountability Statement (Page 10) of the MDST under the Mali Livestock Sector II Project (No. 688 -0218) for the period April 1, 1989 to April 30, 1992. The Fund Accountability Statement is the responsibility of MDST's management.

- i) We were unable to satisfy ourselves as to the completeness and accuracy of advances and reimbursements recorded by MDST as having been received from USAID/Mali, as the amounts could not be verified from USAID/Mali records.
- ii) MDST incurred and was reimbursed by USAID for ineligible expenditures totalling FCFA 20,422,565 (\$70,423) of which FCFA 13,646,751 (\$47,058) was unsupported.

In view of the significance of the matters referred to in i) and ii) above, we are unable to form an opinion as to whether the Fund Accountability Statement on Page 10 is presented fairly, in all material respects.

*Kama Peat Manick*  
.....

Firm's signature

Chartered Accountants,  
Banjul, The Gambia.

March 18, 1993

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT , MALI

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

**2.2 Fund Accountability Statement**

	Notes	FCFA	\$
Balances as of April 1, 1989:			
BCEAO		40,049,950	127,143
BMCD		2,994,700	9,507
BDM		264,681	840
Petty cash		750,000	2,381
		<hr/>	<hr/>
		44,059,331	139,871
Advances & reimbursements received from USAID		749,960,373	2,606,883
Reimbursements from sub-volets		59,788,038	206,165
		<hr/>	<hr/>
		853,807,742	2,952,919
Advances to MDST and sub-volets:			
MDST		434,724,009	1,499,048
DNE		179,039,730	617,378
LCV		122,495,733	422,399
INRZFH		100,844,009	347,738
		<hr/>	<hr/>
	3	837,103,481	2,886,563
		<hr/>	<hr/>
Balance as of April 30, 1992		16,704,261	66,356
		<hr/>	<hr/>
Represented by:			
BCEAO		0	0
BMCD		15,940,686	57,548
BDM		13,575	49
Petty cash		750,000	2,707
Exchange difference			6,052
		<hr/>	<hr/>
		16,704,261	66,356
		<hr/>	<hr/>

## 2.2 Fund accountability Statement (continued)

### Notes to the Fund Accountability Statement

<u>Note</u>	<u>Description</u>
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1	<u>Basis of accounting</u>
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The MDST Fund Accountability Statement has been prepared on the basis of cash accounting whereby revenue is recorded on receipt of funds and expenditure recorded when the related disbursement is made.

2	<u>Translation into US \$</u>
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The following exchange rates have been applied:

Opening balances, FCFA 315 to \$1

Advances/reimbursements, actual rate at date of transaction

Disbursements, average rate over the period of FCFA 290 to \$1

Closing balances, FCFA 277 to \$1

### 3 Local currency expenditures

Included in advances to MDST and sub-volets are local currency expenditures, including questioned costs (see Appendix C), as follows:

	In FCFA'000					Questioned costs	
	<u>MDST</u>	<u>DNE</u>	<u>LCV</u>	<u>CRZ</u>	<u>Total</u>	<u>Ineligible</u>	<u>Unsupported</u>
Local salaries	92,111	0	21,384	12,684	126,179	565	637
Bonuses & allowances	10,983	20,135	13,782	10,907	55,807		
Travel	4,526	2,708	9,184	8,397	24,815		108
Lubricants	23,904	49,601	24,068	16,578	114,151	6,079	
Vehicle rep. & main.	20,014	30,317	6,240	11,922	68,493		230
Building rep. & main.	2,723	12,617	11,517	2,436	29,293		76
Servicing supplies	1,768	1,255	4,731	200	7,954		
Equip. rep. & main.	9,386	18,338	18,277	4,904	50,905		
Bank charges	359	291	331	310	1,291	132	
Office supplies	12,841	21,474	5,230	6,512	46,057		915
Insurance	441	0	607	624	1,672		
External services	2,619	2,462	0	11,489	16,570		
Labor	21	0	0	2,581	2,602		
Uniforms	794	23	960	309	2,301		
Lab assistants	0	0	0	3,586	3,586		
Seeds	0	1,400	0	283	1,683		
Fertilizers	0	0	0	1,486	1,486		
Lab analyses	0	0	0	463	463		
Cattle feed	0	287	7,281	2,359	9,927		
Lab animals	0	175	1,092	3,485	4,752		
House rental	0	0	0	1,644	1,644		
Veterinary products	0	416	2,763	997	4,176		
Research products	0	0	655	0	655		
Institutional support	0	0	0	3,290	3,290		
Field supplies	0	0	0	4,760	4,760		
Lab products	0	0	418	0	418		
Chemical products	0	81	2,782	0	2,863		
International travelling	1,234	0	0	0	1,234		
Fuel for freezer	0	22,392	0	0	22,392		
Motorbicycle fuel	0	19,881	0	0	19,881		
Sundries	1,938	452	2,964	824	6,178		66
Unjustified advances not yet categorized	0	0	0	0	0		11,614
	185,662	204,520	134,266	113,030	637,478	6,776	13,646
Disbursements made under specific PILs	163,120				163,120		
	348,782	204,520	134,266	113,030	800,598	6,776	13,646

### 3. INTERNAL CONTROL STRUCTURE

#### 3.1 Independent auditors' report on internal controls

We were engaged to audit the Fund Accountability Statement of MDST (Page 10) under the Mali Livestock Sector II Project (No. 688 - 0218) for the period April 1, 1989 to April 30, 1992 and have issued our report thereon dated March 18, 1993.

In planning and performing our audit of MDST we considered its 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 MDST is responsible for establishing and maintaining an internal control structure for the Project. In fulfilling this responsibility, estimates and judgments by Project management are required to assess the expected benefits and related costs of the internal control structure, policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with Project management's authorization and recorded properly to permit the preparation of the Fund Accountability Statement in accordance with the cash basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Procurement cycle
- Disbursement cycle
- Inventory and fixed assets control cycle
- Recording and reporting cycle.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the MDST's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement.

In summary, the reportable conditions are as follows:

- i) Purchase orders were authorized without purchase requisitions (Finding 3.2.1);
- ii) Purchase orders were prepared and authorized after the goods had been received and paid for (Finding 3.2.2);
- iii) Lack of control over advances to sub-volets and MDST/GRM officials (Finding 3.2.3);
- iv) Lack of budgetary control (Finding 3.2.4);
- v) Lack of control over vehicle usage and fuel consumption (Finding 3.2.5); and
- vi) Lack of reconciliation of USAID/Mali and Project records of advances and reimbursements (Finding 3.2.6).

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 Fund Accountability Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider item vi) above to be a material weakness.

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.

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

*KPMG Peat Marwick*

.....  
Firm's signature

Chartered Accountants,  
Banjul, The Gambia.

March 18, 1993

## **3.2 Findings**

### **3.2.1 Procurement cycle: Purchase orders prepared without purchase requisitions**

#### Condition

From our review of commodities and equipment acquired by MDST between April 1, 1989 and April 30, 1992, 22 purchase orders, with a value totalling FCFA 4.4 million (\$15,172), had been prepared for which there was no corresponding purchase requisition from the originating department/section.

#### Criteria

MDST's Manual of Financial Management and AID procurement policies contained in AID Handbook 11 require a purchase requisition to be prepared by the appropriate section prior to making out a purchase order. The purchase requisition is evidence of the Project's need for the commodities or equipment requested, and facilitates comparison with budget to ensure that such commodities are allowable under the Grant.

#### Cause

MDST failed to comply with procurement procedures outlined in the Manual of Financial Management and AID procurement policies.

### Effect

Procurement of commodities and equipment without an approved purchase requisition creates risk of ineligible and unauthorized expenditures being incurred from project funds..

### Recommendation

We recommend that AID procurement policies are incorporated in the financial and administrative procedures adopted by the follow-on project and that compliance is periodically checked by USAID/Mali.

### Management comments

Mission accepts the auditors' recommendation that aid procurement policies be incorporated in the procedures adopted by the follow-on project and that compliance be periodically checked by USAID Mali. Mission had brought this potential weakness to the attention of the project staff at several points during the life of the project. During the follow-on project, Mission will take further steps to ensure compliance.

### **3.2.2 Procurement cycle: Purchase orders raised after goods have been received**

#### **Condition**

We noted several instances where purchase orders were prepared after the related commodities or equipment had been received and paid for.

#### **Criteria**

MDST Financial Management manual and AID procurement policies contained in AID Handbook 11 require that purchase orders are compared to budget and approved before goods and services are ordered and payment is made.

#### **Cause**

MDST did not comply with procurement procedures. Project Management explained that, on occasion, urgent purchases are made before a formal Purchase Order is raised.

#### **Effect**

This increases the risk of unauthorized, unbudgeted or non-allowable expenditures being made out of Project funds.

#### **Recommendation**

We recommend that in the future, procurement policies established by AID are fully complied with. Where circumstances make it necessary to dispense with an internal control procedure, this should be justified by a Memorandum to Files, signed by the authorizing official.

#### **Management comments**

Mission accepts the auditors' recommendation that AID procurement policies be fully complied with, and that any exceptions resulting from emergencies be documented by memoranda to the files signed by authorizing officials.

### **3.2.3 Disbursement cycle: Lack of control over advances to sub-volet: MDST/GRM officials**

#### Condition

MDST makes advances to the three sub-volets in order to enable them meet certain operating costs. It also makes advances to authorized officials for missions, or for organizing seminars and other project activities. The persons to whom these advances are made are required to submit justifications and either reimburse MDST with any unutilized funds or request reimbursement from MDST, as the case may be. We observed that these advances are not adequately recorded or controlled because reimbursements/justifications received by MDST are not matched with the original advances, and, outstanding advances are not confirmed with the sub-volets to ensure follow up of outstanding advances.

#### Criteria

Article B.5 (a) of Annex 2 to the Grant agreement requires that the grantee maintain its books and records in accordance with generally accepted accounting principles and practices. Such practices require that a record of advances is maintained, and controls are in place to ensure timely liquidation or justification of advances. In addition, the record of advances is specifically required by PIL No. 3.

#### Cause

MDST did not maintain its records in a manner which would detect aged advances and ensure adequate monitoring.

#### Effect

Advances totalling FCFA 11,614,833 (\$40,051) disbursed during the period from April 1, 1989 to April 30, 1992 and detailed in Appendix C had not been justified as of July 31, 1992.

### Recommendation

We recommend that USAID/Mali require MDST to provide justification for advances totalling FCFA 11,614,833 (\$40,051). Any unjustified advances should be claimed from GRM in accordance with Article D, Section D.2 in Annex 2 of the Grant Agreement which states that USAID/Mali may require GRM to refund the amount of any disbursement not made in accordance with the provisions of the Grant Agreement.

In the future a proper advances register should be maintained clearly showing:

- date of advance,
- name of sub-volet/person to whom advance is given, including signature of recipient,
- amount,
- purpose,
- date and amount of justification received, and
- treatment of any unutilized amounts

### Management comments

Mission accepts the auditors' recommendation that USAID Mali require justification or reimbursement of the unjustified advances by MDST to its subvolets and to MDST and GRM officials, totalling DOLS 40,051. (CFA 11,614,833), and that in the future a proper register for advances be maintained. (These unjustified advances are included in the unsupported costs of DOLS 47,058 discussed in recommendation No.1 to be included in the Inspector General's follow-up system). MDST is in the process of gathering documentation to provide these justifications, and a requirement for an advance register of the type described by the auditors has been included in the manual of procedures for the follow-on projects.

### 3.2.4 Disbursement cycle: Lack of budgetary control

#### Condition

MDST did not exercise effective budgetary control because of the following weaknesses in the implementation of established controls and procedures:

- we noted no evidence that reference was made to the budget before expenditures were authorized, and
- although variances between actual and budgeted expenditures were included in the financial reports, an explanation of significant variances was not provided.

#### Criteria

In order to effectively monitor and control project expenditures, actual results should be compared to budgeted costs, variances should be determined, and significant variances should be explained.

Reference should be made to the funds available under a budget line item before expenditures are authorized. Any amendments to the budget must be approved by a PIL (Grant Agreement Section 2.1).

#### Cause

USAID/Mali did not require MDST to provide explanations for significant variations between actual and budgeted expenditures. Significant variations were not questioned before reimbursements were authorized.

#### Effect

Significant unexplained variations as detailed in Appendix B were noted between actual and budgeted expenditures in respect of MDST and the sub-volets.

### Recommendation

We recommend that USAID/Mali ensures that MDST provides adequate explanations for significant variances of actual expenditures to budgeted expenditures for the period under review.

### Management comments

Mission accepts the auditors' finding that the project should provide explanations for significant variances of actual to budgeted expenditures. Mission is currently preparing a memorandum to the follow-on project describing procedures to be used by the project to report on budget variances.

### 3.2.5 Inventory and fixed assets control cycle: Lack of control over usage and fuel consumption

#### Condition

We noted the following weaknesses in controls established over vehicle usage and fuel consumption;

- We noted no evidence of documentation of authorization of vehicle usage.
- We noted no evidence of daily vehicle usage reports to record distance, journeys and fuel usage.
- We noted that the sub-volets did not record receipt and issue of fuel coupons.
- We noted that monthly vehicle control reports were prepared. However, we noted no evidence of review or action taken with respect to these reports.

#### Criteria

Chapter 13 of the MDST Manual of Financial Management sets out the procedures to be adopted to control the use of vehicles and monitoring of fuel consumption. These include maintaining strict controls over the issue of fuel coupons, maintaining vehicle usage logs and monitoring fuel and maintenance costs of project vehicles. Mission Order No 308 effective February 1, 1992, also sets out regulations on vehicle registration and use for vehicles procured through USAID funding.

#### Cause

MDST failed to institute the controls specified in the Criteria section above.

### Effect

These weaknesses in internal controls over project vehicles and fuel consumption create the risks of unauthorized use of project vehicles, undetected non-project use of project vehicles and undetected misappropriation.

### Recommendation

We recommend that for the follow on project, USAID/Mali ensures that written procedures established to control vehicle usage and fuel consumption are strictly adhered to. The vehicle control reports together with any actions taken should be included in the project's financial reports.

### Management comments

USAID Mali issued project implementation letter no. 44 on February 28, 1992, which was based on mission order no.308, noted by the auditor as setting forth strict procedures regarding this matter. This was applied by MDST in the final phase of the project. Mission is working with the follow-on project to ensure that this compliance is continued.

### 3.2.6 Recording and reporting cycle: Non-reconciliation of Mission ; Project records of advances/reimbursements

#### Condition

In our examination we found that USAID/Mali does not reconcile information from the monthly reports submitted by MDST in respect of advances made by USAID/Mali, and subsequent liquidations of the advances, under the MLSP II Project.

In addition, we were unable to verify advances and reimbursements totalling FCFA 749,960,373 (\$ 2,606,883) for the period under review, recorded by MDST as having been received from USAID/Mali, to USAID/Mali records. Further, USAID/Mali was unable to confirm to us this amount of advances and reimbursements for the period under review as reported by MDST.

#### Criteria

AID Handbook 19, Chapter 3, which incorporates as policy Title 31, Section 82c of the United States Code, holds the certifying officer responsible for "the existence and correctness of the facts recited in the certificate or otherwise stated on the voucher or its supporting papers and for the legality of the proposed payment under the appropriation or fund involved". To discharge this responsibility USAID/Mali is required to established adequate internal controls to ensure that accurate vouchers are submitted for payment and/or liquidation against an advance. These controls should include a comparison by the certifying officer of USAID/Mali records and reports submitted by MDST.

#### Cause

The lack of reconciliation by USAID/Mali of its records to those maintained by MDST is due, in part, to the fact that MDST records are maintained in local currency (FCFA) while those of USAID/Mali are maintained in US\$, and the financial reporting formats of MDST and USAID/Mali differ such that reported expenditures by category cannot be reconciled.

### Effect

USAID/Mali is unable to determine whether the advances and reimbursements reported by MDST are complete and accurate .

In addition, USAID/Mali was unable to confirm advances and reimbursements totalling FCFA 749,960,373 (\$ 2,606,883) for the period under review, as recorded by MDST.

### Recommendation

We recommend that USAID/Mali reconcile its records to those submitted by MDST as of the project completion date of August 10, 1992 to ensure that all advances and reimbursements have been properly accounted for.

### Management comments

This finding concerns the same condition that has been noted in recommendation no.3 to be included in the Office of the Inspector General's follow-up system, discussed earlier in this cable. Mission wishes to note in connection with this that all advances made to MDST and its subvolets were recorded on a manual worksheet in both US Dollars and CFA amounts. They were also recorded in the MACS system, though only in US Dollar amounts. Because of the length of the period under audit and the complexity of the problem, (there were many reimbursements as well as advances and liquidations, and these various payments were made to several subvolets as well as to MDST), Mission was unable to agree with the auditor on an exact amount of funding provided to the organization over the audit period. However we are far from being "completely in the dark" about the amounts of money that were transmitted. Our differences with the auditors involve only a few transactions that need to be verified. We are now in the process of making a thorough review of all vouchers, entries in the MACS system, and deposits to MDST bank accounts in order to reconcile our records to the total given by the auditors.

Management comments (continued)

It should also be noted that the MACS system was in evolution during the period under audit, and in fact is still is. It now has capacities which permit us to track the local currency amounts of advances and produce special reports to summarize all disbursements to projects, but it did not have these capacities at the beginning of the audit period. The system as it operates at present still requires further refinement to permit it to produce a straightforward accounting of all disbursements of cash to projects that are under the advance-liquidation mechanism, where these also receive reimbursement under certain circumstances.

#### **4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS**

##### **4.1 Independent auditors' report on compliance of the MDST with applicable laws and regulations.**

We were engaged to audit the Fund Accountability Statement (Page 10) of the MDST under the Mali Livestock Sector II Project (No. 688-0218) for the period April 1, 1989 to April 30, 1992 and have issued our report thereon dated March 18, 1993.

Compliance with Project agreement terms and laws and regulations applicable to the Project is the responsibility of MDST management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of MDST's compliance with the Grant Agreement, Project Implementation Letters, AID and GRM procurement policies and GRM tax and social security code. However, our objective was not to provide an opinion on overall compliance with such provisions.

We noted the following instances of non-compliance:

- i) Incurrence of ineligible and unsupported costs (Finding 4.2.1);
- ii) Absence of competitive bidding and payment of unreasonable prices in respect of fuel purchases (Finding 4.2.2); and
- iii) Non-deduction of income tax from MDST contract employees salaries in accordance with the GRM tax code.

Except as discussed above, the results of our tests of compliance indicated that, with respect to the items tested, MDST complied in all material respects with the provisions referred to in the second paragraph of this report. For items not tested, nothing came to our attention that caused us to believe that MDST had not complied in all material respects with those provisions.

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

*Kpmg Peat Marwick*

.....

Firm's signature

Chartered Accountants,  
Banjul, The Gambia.

March 18, 1993

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

## 4.2 Findings

### 4.2.1 Ineligible and unsupported costs

#### Condition

We noted ineligible costs totalling FCFA 20,422,565 (\$70,423), of which FCFA 13,646,751 (\$47,058) was unsupported. These are detailed in Appendix C.

#### Criteria

Article D, Section D.2 in Annex 2 of the Grant Agreement requires disbursements to be supported by valid documentation. The basis of determining the ineligibility of questioned costs is included in Appendix C.

#### Cause

MDST failed to comply with the relevant sections of the grant agreement, PILs and AID and GRM procurement policies.

#### Effect

Ineligible costs totalling FCFA 20,422,565 (\$70,423) has been incurred by MDST under the Project and subsequently reimbursed by USAID/Mali.

#### Recommendation

We recommend that USAID/Mali recover ineligible costs totalling FCFA 20,422,565 (\$70,423) from GRM under Article D, section D.2 of Annex 2 of the Grant Agreement.

### Management comments

- Unsupported costs of DOLS 47,058. - These costs were identified by the auditors as eligible under the grant agreement but undocumented. MDST is in the process of searching its records for the required documentation. Any such documentation that comes to light will be copied and sent to RIG/A/Dakar. Those costs that remain undocumented after a thorough search will be billed to the Malian Ministry of Agriculture, Livestock and Environment by USAID Mali.
  
- Ineligible costs of DOLS 23,265 - This consists of several items for which management can offer explanations at this time as follows:
  - DOLS 454.13, (CFA 131,697), bank charges paid on bank account that had no activity and which auditor maintains should have been closed - management maintains that these charges were made on its account at the Banque du Developpement du Mali at a time when the account was frozen by order of the Government of Mali due to the fact that the bank, which at the time was fully owned by the Government of Mali, was going through a period of restructuring. During the period of freezing the accounts the bank was permitted to continue making service charges. MDST continued its activity during this period by opening an account at another bank.
  
  - DOLS 818.67, (CFA 237,414), payment in lieu of leave made to GRM employee - AID policy holds in general that aid projects may pay government employees who are assigned to them up to the amount that these employees would have been paid by their own government for the type of work being done. It is customary for Malian Government agencies to make payments in lieu of leave to its employees. Thus it would seem that this type of payment should also be permissible for the project. Accordingly, Mission requests that this amount be removed from the final audit report as a questioned cost.

Management comments (continued)

- DOLS 1,128.53 (CFA 327,273), employees' contribution of 3.4 per cent of total INPS cost was paid by the project, rather than being borne by the employees - MDST maintains that the payments in question relate to severance pay made to employees who were released, and that Malian labor law requires that INPS payments related to severance must be covered in full by the employer. Accordingly, Mission requests that this amount be removed from the final audit report as a questioned cost.
  
- DOLS 20,963.55, (CFA 6,079,430), Government of Mali taxes included in amounts paid for fuel in contravention of article B. Section 4 of the grant agreement - MDST maintains that at the time the payments in question took place, the second quarter of calendar year 1989, the Government of Mali had suspended its practice of granting exoneration of taxes on fuel purchases by aid donors. Subsequently, these exonerations were resumed. USAID Mali will investigate ways to obtain rebate from the government of Mali of the taxes that had been paid in contravention of the grant agreement.

#### 4.2.2 Absence of competitive bidding and payment of unreasonable fuel purchases

##### Condition

We observed that virtually all procurement of fuel (petrol and diesel coupons) was made through a single supplier, Shell Mali, in Bamako. Shell's prices varied from FCFA 221.37/liter (FCFA 154.34/litre for diesel) in January 1989 to FCFA 159.89/litre (FCFA 111.34/liter for diesel) in January 1992.

We also observed that a proforma invoice was obtained from Ets Daharat, another fuel supplier in December 1990 quoting a price of FCFA 207/liter of petrol. However the Purchase Order was issued to Shell which had quoted FCFA 221.37/liter.

Accordingly, we noted no competitive bidding procedures for fuel purchases or evidence of the decision to select the supplier.

##### Criteria

Chapter 12 of the MDST Manual of Financial Management and AID Handbook 11 Chapter 1 requires competitive bidding through comparison of at least three proforma invoices from suppliers of goods and services. Grant Agreement Annex 2, Article C, Section C.4 requires that a reasonable prices should be paid for commodities financed under the Grant.

##### Cause

MDST did not institute competitive bidding procedures for procurement of fuel and in December 1990, selected a supplier which had quoted a higher price. MDST officials explained that Shell was the only supplier that owned service stations throughout the country and was chosen for this reason.

### Effect

The project may be incurring higher expenditures for fuel purchases than might have been the case, had competitive bidding been applied. Specifically in December 1990, MDST procured fuel from Shell at a cost of FCFA 12,086,802 (\$41,679) which was FCFA 784,602 (\$2,705) higher than the price quoted by Ets Daharat.

### Recommendation

We recommend that competitive bidding procedures be applied with respect to fuel purchases. The justification for procuring fuel from a supplier quoting a higher price should be documented on the files. If the supplier quoting the lower price cannot provide fuel outside Bamako, then a split of the Purchase Order should be considered to take advantage of the lower price within the Bamako area.

### Management comments

In this finding, the auditor cites the particular case of the purchase by MDST of gasoline from Shell Mali rather than Ets Daharat, even though the price offered by the latter was lower, because Shell was able to provide gasoline over the entire region covered by the project, and Daharat could provide it only in Bamako. The auditor suggests that the purchase order should have been split to permit purchase of gasoline from Daharat within Bamako and from Shell in other localities. MDST wishes to point out that for a period in January 1990, it did make purchases within Bamako from Daharat, and found that Daharat suffered frequent shortages of gasoline which prevented the project from obtaining all that it required. MDST admits, however, that this condition was not noted in all memorandum to the file as it should have been. The follow-on project will take note of the possibility of occurrences of this kind in the future.

#### 4.2.3 Non-deduction of income taxes from MDST contract employees in accordance with GRM tax code

##### Condition

We observed that Malian income tax was not deducted from the salaries of MDST contract employees and paid over to the tax authorities in accordance with Malian law.

##### Criteria

Article 31 of "L'impôt general sur le revenu" (the Malian tax code) specifies the remuneration chargeable to income tax and Article 5 expressly states those persons exempted. Article 32 requires all employers to deduct income tax at source and pay it over to the Treasury for every month that a salary is paid.

##### Cause

MDST did not review the Malian tax code or obtain exemption from deducting income tax at source from the appropriate authority.

##### Effect

MDST paid salaries and allowances to its contract employees without deducting income tax at source and paying it over to the Treasury in accordance with Malian law.

##### Recommendation

We recommend that for future projects, USAID/Mali review the GRM laws relating to deduction of income tax at source and ensure that the project is in compliance, or obtain the necessary exemption.

### Management comments

MDST states with regard to this matter that its agreements with the contractors in question provided that MDST would be responsible for withholding only INPS taxes from the contractors, and that the declaration and payment of income taxes would be the responsibility of the contractors themselves. MDST maintains that since these contracts were approved by the Malian labor inspection board, they may be considered to be legal contracts. In any case, under the follow-on project, a clause has been included in each contract of this type requiring the implementing agency to withhold income taxes as well as INPS taxes. Accordingly, Mission requests that this item be removed as a recommendation from the final audit report.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT , MALI

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

**APPENDIX A**

**Management comments**

ACTION: AID INFO: EXEC RIG

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RR RUEHDK  
DE RUTABM #1185/01 0491108  
ZNR UUUUU 2ZH  
R 181104Z FEB 93  
FM AMEMBASSY BAMAKO  
TO AMEMBASSY DAKAR 0810  
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UNCLAS SECTION 01 OF 04 BAMAKO 01185

LOC: 092 70  
18 FEB 93 1416  
CN: 43804  
CHRG: AID  
DIST: AIDA

ADM AID

FOR RIG/A/DAKAR ATTN: T.ANKLEWICH

E.O. 12356: N/A  
SUBJECT: MISSION COMMENTS ON DRAFT AUDIT REPORT OF  
LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT  
AND SUPPORT TEAM UNDER THE MALI LIVESTOCK SECTOR II  
PROJECT (688-0218.00)

REF: ANKLEWICH/GETSON MEMO DATED DECEMBER 22\ 1992

PART I.: RESPONSE TO THE RECOMMENDATIONS INCLUDED IN  
THE OFFICE OF THE INSPECTOR GENERAL'S RECOMMENDATION  
FOLLOW-UP SYSTEM, AS NOTED IN THE REF MEMO.

I.A. RECOMMENDATION NO. 1: THAT ALL OF THE DOLS  
2,760,682 IN COSTS INCURRED BY MDST, (MANAGEMENT  
DEVELOPMENT AND SUPPORT TEAM)\ BE QUESTIONED.

THE REF MEMO EXPLAINS THAT THIS RECOMMENDATION IS A  
RESPONSE TO MDST'S FAILURE TO PROVIDE A REPRESENTATION  
LETTER TO THE AUDIT TEAM. THESE LETTERS HAVE NOW BEEN  
DRAWN UP AND SIGNED BY THE RESPONSIBLE PARTIES, AND WE  
EXPECT THAT THEY WILL SATISFY THE AUDITORS'  
REQUIREMENTS. THE REF MEMO ALSO STATES THAT HAD THESE  
LETTERS BEEN PROVIDED THE QUESTIONED COSTS IN THE  
RECOMMENDATION WOULD HAVE BEEN DOLS 70,423, THE TOTAL OF  
INELIGIBLE AND UNSUPPORTED COSTS IDENTIFIED BY THE  
AUDITORS. USAID MALI'S RESPONSE WILL THEREFORE ADDRESS  
THESE INELIGIBLE AND UNSUPPORTED COSTS.

- UNSUPPORTED COSTS OF DOLS 47,058. -- THESE COSTS WERE  
IDENTIFIED BY THE AUDITORS AS ELIGIBLE UNDER THE GRANT  
AGREEMENT BUT UNDOCUMENTED. MDST IS IN THE PROCESS OF  
SEARCHING ITS RECORDS FOR THE REQUIRED DOCUMENTATION.  
ANY SUCH DOCUMENTATION THAT COMES TO LIGHT WILL BE  
COPIED AND SENT TO RIG/A/DAKAR. THOSE COSTS THAT REMAIN  
UNDOCUMENTED AFTER A THOROUGH SEARCH WILL BE BILLED TO  
THE MALIAN MINISTRY OF AGRICULTURE, LIVESTOCK AND  
ENVIRONMENT BY USAID MALI.

- INELIGIBLE COSTS OF DOLS 23,365. - THIS CONSISTS OF  
SEVERAL ITEMS FOR WHICH MANAGEMENT CAN OFFER  
EXPLANATIONS AT THIS TIME\ AS FOLLOWS:

-- DOLS 454.13, (CFA 131,697), BANK PAID ON BANK ACCOUNT THAT HAD NO ACTIVITY AND WHICH AUDITOR MAINTAINS SHOULD HAVE BEEN CLOSED - MANAGEMENT MAINTAINS THAT THESE CHARGES WERE MADE ON ITS ACCOUNT AT THE BANQUE DU DEVELOPPEMENT DU MALI AT A TIME WHEN THE ACCOUNT WAS FROZEN BY ORDER OF THE GOVERNMENT OF MALI DUE TO THE FACT THAT THE BANK, WHICH AT THE TIME WAS FULLY OWNED BY THE GOVERNMENT OF MALI, WAS GOING THROUGH A PERIOD OF RESTRUCTURING. DURING THE PERIOD OF FREEZING THE ACCOUNTS THE BANK WAS PERMITTED TO CONTINUE MAKING SERVICE CHARGES. MDST CONTINUED ITS ACTIVITY DURING THIS PERIOD BY OPENING AN ACCOUNT AT ANOTHER BANK.

-- DOLS 918.67, (CFA 239,414), PAYMENT IN LIEU OF LEAVE MADE TO GRM EMPLOYEE - AID POLICY HOLDS IN GENERAL THAT AID PROJECTS MAY PAY GOVERNMENT EMPLOYEES WHO ARE ASSIGNED TO THEM UP TO THE AMOUNT THAT THESE EMPLOYEES WOULD HAVE BEEN PAID BY THEIR OWN GOVERNMENT FOR THE TYPE OF WORK BEING DONE. IT IS CUSTOMARY FOR MALIAN GOVERNMENT AGENCIES TO MAKE PAYMENTS IN LIEU OF LEAVE TO ITS EMPLOYEES. THUS IT WOULD SEEM THAT THIS TYPE OF PAYMENT SHOULD ALSO BE PERMISSIBLE FOR THE PROJECT. ACCORDINGLY, MISSION REQUESTS THAT THIS AMOUNT BE REMOVED FROM THE FINAL AUDIT REPORT AS A QUESTIONED COST.

-- DOLS 1,128.53, (CFA 327,273), EMPLOYEES' CONTRIBUTION OF 3.4 PER CENT OF TOTAL INPS COST WAS PAID BY THE PROJECT, RATHER THAN BEING BORNE BY THE EMPLOYEES - MDST MAINTAINS THAT THE PAYMENTS IN QUESTION RELATE TO SEVERANCE PAY MADE TO EMPLOYEES WHO WERE RELEASED, AND THAT MALIAN LABOR LAW REQUIRES THAT INPS PAYMENTS RELATED TO SEVERANCE MUST BE COVERED IN FULL BY THE EMPLOYER. ACCORDINGLY, MISSION REQUESTS THAT THIS AMOUNT BE REMOVED FROM THE FINAL AUDIT REPORT AS A QUESTIONED COST.

-- DOLS 20,963.55, (CFA 6,079,430), GOVERNMENT OF MALI TAXES INCLUDED IN AMOUNTS PAID FOR FUEL IN CONTRAVENTION OF ARTICLE B, SECTION 4 OF THE GRANT AGREEMENT - MDST MAINTAINS THAT AT THE TIME THE PAYMENTS IN QUESTION TOOK PLACE, THE SECOND QUARTER OF CALENDAR YEAR 1989, THE GOVERNMENT OF MALI HAD SUSPENDED ITS PRACTICE OF GRANTING EXONERATION OF TAXES ON FUEL PURCHASES BY AID

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DONORS. SUBSEQUENTLY, THESE EXONERATIONS WERE RESUMED. USAID MALI WILL INVESTIGATE WAYS TO OBTAIN REBATE FROM THE GOVERNMENT OF MALI OF THE TAXES THAT HAD BEEN PAID IN CONTRAVENTION OF THE GRANT AGREEMENT.

I.B. RECOMMENDATION NO. 2: THAT USAID MALI ESTABLISH MISSION-WIDE PROCEDURES FOR ENSURING IMPLEMENTATION OF GENERAL ACCOUNTING OFFICE (GAO), AND AID GUIDELINES CONCERNING WRITTEN REPRESENTATIONS TO BE MADE BY AUDITEES.

MDST HAS PROVIDED THE REPRESENTATION LETTERS REQUESTED BY THE AUDITORS IN CONNECTION WITH THIS AUDIT. ACCORDINGLY, MISSION REQUESTS THAT THIS ITEM BE REMOVED FROM THE FINAL AUDIT REPORT AS A RECOMMENDATION.

I.C. RECOMMENDATION NO. 3 INCLUDES TWO PARTS:

3.1 - THAT USAID MALI RECONCILE ITS RECORDS TO THOSE SUBMITTED BY MDST AS OF THE PROJECT COMPLETION DATE OF AUGUST 10, 1992 TO ENSURE THAT ALL ADVANCES AND REIMBURSEMENTS HAVE BEEN PROPERLY ACCOUNTED FOR.

USAID MALI IS PERFORMING SUCH A RECONCILIATION, AND WILL POUCH DOCUMENTATION OF THIS TO RIG/A/DAKAR WHEN IT IS COMPLETED.

3.2 - THAT USAID MALI REVISE ITS MISSION ORDER ON PROJECT-FUNDED ADVANCES TO INCLUDE PROCEDURES FOR USAID MALI TO PERIODICALLY RECONCILE FINANCIAL REPORTS RECEIVED FROM RECIPIENTS TO THE FINANCIAL RECORDS OF ADVANCES AND REIMBURSEMENTS KEPT BY USAID MALI TO ENSURE THAT ADVANCES AND EXPENDITURES REPORTED BY RECIPIENTS ARE COMPLETE AND ACCURATE.

USAID MALI WILL ADD WORDING TO ITS MISSION ORDER ON PROJECT-FUNDED ADVANCES TO EMPHASIZE THE NEED FOR THE RECONCILIATIONS DESCRIBED IN THE RECOMMENDATION, AND SPECIFICALLY TO ADDRESS THE NEED TO RECONCILE THE DIFFERENT CURRENCIES USED BY AID AND THE PROJECTS.

PART II.: MANAGEMENT COMMENTS ON AUDITORS' FINDINGS ON INTERNAL CONTROL.

II.A. FINDING 3.2.1. - PROCUREMENT CYCLE: PURCHASE ORDERS PREPARED WITHOUT PURCHASE REQUISITIONS.

MISSION ACCEPTS THE AUDITORS' RECOMMENDATION THAT AID PROCUREMENT POLICIES BE INCORPORATED IN THE PROCEDURES ADOPTED BY THE FOLLOW-ON PROJECT AND THAT COMPLIANCE BE PERIODICALLY CHECKED BY USAID MALI. MISSION HAD BROUGHT THIS POTENTIAL WEAKNESS TO THE ATTENTION OF THE PROJECT STAFF AT SEVERAL POINTS DURING THE LIFE OF THE PROJECT. DURING THE FOLLOW-ON PROJECT, MISSION WILL TAKE FURTHER STEPS TO ENSURE COMPLIANCE.

II.B. FINDING 3.2.2. - PROCUREMENT CYCLE: PURCHASE ORDERS RAISED AFTER GOODS HAVE BEEN RECEIVED.

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MISSION ACCEPTS THE AUDITORS' RECOMMENDATION THAT AID PROCUREMENT POLICIES BE FULLY COMPLIED WITH, AND THAT ANY EXCEPTIONS RESULTING FROM EMERGENCIES BE DOCUMENTED BY MEMORANDA TO THE FILES SIGNED BY AUTHORIZING OFFICIALS.

II.C. FINDING 3.2.3. - DISBURSEMENT CYCLE: LACK OF CONTROL OVER ADVANCES TO SUBVOLETS AND MDST/GRM OFFICIALS.

MISSION ACCEPTS THE AUDITORS' RECOMMENDATION THAT USAID MALI REQUIRE JUSTIFICATION OR REIMBURSEMENT OF THE UNJUSTIFIED ADVANCES BY MDST TO ITS SUBVOLETS AND TO MDST AND GRM OFFICIALS, TOTALLING DOLS 40,051, (CFA 11,614,833), AND THAT IN THE FUTURE A PROPER REGISTER FOR ADVANCES BE MAINTAINED. (THESE UNJUSTIFIED ADVANCES ARE INCLUDED IN THE UNSUPPORTED COSTS OF DOLS 47,058 DISCUSSED IN RECOMMENDATION NO. L TO BE INCLUDED IN THE INSPECTOR GENERAL'S FOLLOW-UP SYSTEM). MDST IS IN THE PROCESS OF GATHERING DOCUMENTATION TO PROVIDE THESE JUSTIFICATIONS, AND A REQUIREMENT FOR AN ADVANCE REGISTER OF THE TYPE DESCRIBED BY THE AUDITORS HAS BEEN INCLUDED IN THE MANUAL OF PROCEDURES FOR THE FOLLOW-ON PROJECT.

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II.D. FINDING 3.2.4. - DISBURSEMENT CYCLE: LACK OF BUDGETARY CONTROL.

MISSION ACCEPTS THE AUDITORS' FINDING THAT THE PROJECT SHOULD PROVIDE EXPLANATIONS FOR SIGNIFICANT VARIANCES OF ACTUAL TO BUDGETED EXPENDITURES. MISSION IS CURRENTLY PREPARING A MEMORANDUM TO THE FOLLOW-ON PROJECT DESCRIBING PROCEDURES TO BE USED BY THE PROJECT TO REPORT ON BUDGET VARIANCES.

II.E. FINDING 3.2.5. - INVENTORY AND FIXED ASSETS CYCLE: LACK OF CONTROL OVER VEHICLE USAGE AND FUEL CONSUMPTION.

USAID MALI ISSUED PROJECT IMPLEMENTATION LETTER NO. 44 ON FEBRUARY 28, 1992, WHICH WAS BASED ON MISSION ORDER NO. 308, NOTED BY THE AUDITOR AS SETTING FORTH STRICT PROCEDURES REGARDING THIS MATTER. THIS WAS APPLIED BY MDST IN THE FINAL PHASE OF THE PROJECT. MISSION IS WORKING WITH THE FOLLOW-ON PROJECT TO ENSURE THAT THIS COMPLIANCE IS CONTINUED.

II.F. FINDING 3.2.6. - RECORDING AND REPORTING CYCLE: NON-RECONCILIATION OF MISSION AND PROJECT RECORDS OF ADVANCES/REIMBURSEMENTS.

THIS FINDING CONCERNS THE SAME CONDITION THAT HAS BEEN NOTED IN RECOMMENDATION NO. 3, TO BE INCLUDED IN THE OFFICE OF THE INSPECTOR GENERAL'S FOLLOW-UP SYSTEM, DISCUSSED EARLIER IN THIS CABLE. MISSION WISHES TO NOTE IN CONNECTION WITH THIS THAT ALL ADVANCES MADE TO MDST AND ITS SUBVOLETS WERE RECORDED ON A MANUAL WORKSHEET IN BOTH US DOLLAR AND CFA AMOUNTS. THEY WERE ALSO RECORDED IN THE MACS SYSTEM, THOUGH ONLY IN US DOLLAR AMOUNTS. BECAUSE OF THE LENGTH OF THE PERIOD UNDER AUDIT AND THE COMPLEXITY OF THE PROBLEM, (THERE WERE MANY REIMBURSEMENTS AS WELL AS ADVANCES AND LIQUIDATIONS, AND THESE VARIOUS PAYMENTS WERE MADE TO SEVERAL SUBVOLETS AS WELL AS TO MDST), MISSION WAS UNABLE TO AGREE WITH THE AUDITOR ON AN EXACT AMOUNT OF FUNDING PROVIDED TO THE ORGANIZATION OVER THE AUDIT PERIOD. HOWEVER WE ARE FAR FROM BEING "COMPLETELY IN THE DARK" ABOUT THE AMOUNTS OF MONEY THAT WERE TRANSMITTED. OUR DIFFERENCES WITH THE AUDITORS INVOLVE ONLY A FEW TRANSACTIONS THAT NEED TO BE VERIFIED. WE ARE NOW IN THE PROCESS OF MAKING A THOROUGH REVIEW OF ALL VOUCHERS, ENTRIES IN THE MACS SYSTEM, AND DEPOSITS TO MDST BANK ACCOUNTS IN ORDER TO RECONCILE OUR RECORDS TO THE TOTAL GIVEN BY THE AUDITORS. IT SHOULD ALSO BE NOTED THAT THE MACS SYSTEM WAS IN EVOLUTION DURING THE PERIOD UNDER AUDIT, AND IN FACT IT STILL IS. IT NOW HAS CAPACITIES WHICH PERMIT US TO TRACK THE LOCAL CURRENCY AMOUNTS OF ADVANCES AND PRODUCE SPECIAL REPORTS TO SUMMARIZE ALL DISBURSEMENTS TO PROJECTS, BUT IT DID NOT HAVE THESE CAPACITIES AT THE BEGINNING OF THE AUDIT PERIOD. THE SYSTEM AS IT OPERATES AT PRESENT STILL REQUIRES FURTHER REFINEMENT TO PERMIT IT TO PRODUCE A STRAIGHTFORWARD ACCOUNTING OF ALL DISBURSEMENTS OF CASH TO PROJECTS THAT ARE UNDER THE ADVANCE -LIQUIDATION MECHANISM, WHERE THESE ALSO RECEIVE

REIMBURSEMENT UNDER CERTAIN CIRCUMSTANCES.?

PART III. MANAGEMENT COMMENTS ON AUDITORS' FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS.

III.A. FINDING 4.2.1. - INELIGIBLE AND UNSUPPORTED COSTS.

THIS FINDING CONCERNS THE SAME CONDITION NOTED IN RECOMMENDATION NO. 1, TO BE INCLUDED IN THE OFFICE OF THE INSPECTOR GENERAL'S FOLLOW-UP SYSTEM, DISCUSSED EARLIER IN THIS CABLE. PLEASE REFER BACK TO SECTION IA OF THIS CABLE FOR A THOROUGH DISCUSSION OF THE QUESTION.

III.B. FINDING 4.2.2. - ABSENCE OF COMPETITIVE BIDDING AND PAYMENT OF UNREASONABLE PRICES FOR FUEL PURCHASES.

IN THIS FINDING, THE AUDITOR CITES THE PARTICULAR CASE OF THE PURCHASE BY MDST OF GASOLINE FROM SHELL MALI RATHER THAN ETS DAHARAT, EVEN THOUGH THE PRICE OFFERED BY THE LATTER WAS LOWER, BECAUSE SHELL WAS ABLE TO PROVIDE GASOLINE OVER THE ENTIRE REGION COVERED BY THE PROJECT, AND DAHARAT COULD PROVIDE IT ONLY IN BAMAKO. THE AUDITOR SUGGESTS THAT THE PURCHASE ORDER SHOULD HAVE

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BEEN SPLIT TO PERMIT PURCHASE OF GASOLINE FROM DAHARAT WITHIN BAMAKO AND FROM SHELL IN OTHER LOCALITIES. MDST WISHES TO POINT OUT THAT FOR A PERIOD IN JANUARY 1992, IT DID MAKE PURCHASES WITHIN BAMAKO FROM DAHARAT, AND FOUND THAT DAHARAT SUFFERED FREQUENT SHORTAGES OF GASOLINE WHICH PREVENTED THE PROJECT FROM OBTAINING ALL THAT IT REQUIRED. MDST ADMITS, HOWEVER, THAT THIS CONDITION WAS NOT NOTED IN A MEMORANDUM TO THE FILE AS IT SHOULD HAVE BEEN. THE FOLLOW-ON PROJECT WILL TAKE NOTE OF THE POSSIBILITY OF OCCURRENCES OF THIS KIND IN THE FUTURE.

III.C. FINDING 4.2.3. - NON-DEDUCTION OF INCOME TAXES FROM MDST CONTRACT EMPLOYEES' SALARIES IN ACCORDANCE WITH THE GOVERNMENT OF MALI'S TAX CODE.

MDST STATES WITH REGARD TO THIS MATTER THAT ITS AGREEMENTS WITH THE CONTRACTORS IN QUESTION PROVIDED THAT MDST WOULD BE RESPONSIBLE FOR WITHHOLDING ONLY INPS TAXES FROM THE CONTRACTORS, AND THAT THE DECLARATION AND PAYMENT OF INCOME TAXES WOULD BE THE RESPONSIBILITY OF THE CONTRACTORS THEMSELVES. MDST MAINTAINS THAT SINCE THESE CONTRACTS WERE APPROVED BY THE MALIAN LABOR INSPECTION BOARD, THEY MAY BE CONSIDERED TO BE LEGAL CONTRACTS. IN ANY CASE, UNDER THE FOLLOW-ON PROJECT, A CLAUSE HAS BEEN INCLUDED IN EACH CONTRACT OF THIS TYPE REQUIRING THE IMPLEMENTING AGENCY TO WITHHOLD INCOME TAXES AS WELL AS INPS TAXES. ACCORDINGLY, MISSION REQUESTS THAT THIS ITEM BE REMOVED AS A RECOMMENDATION FROM THE FINAL AUDIT REPORT.

V. MISSION WOULD LIKE TO THANK THE FIRM OF KPMG PEAT MARWICK FOR ITS CONDUCT OF THIS AUDIT. WE EXPECT THAT THE IMPLEMENTATION OF THESE RECOMMENDATIONS WILL IMPROVE OUR MANAGEMENT OF THE FOLLOW-ON PROJECT.  
GELBER

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT , MALI

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

APPENDIX B

Schedule of significant budgeted to actual expenditures variances for the period April 1, 1989 to April 30, 1992

	<u>Budget</u> FCFA'000	<u>Actual</u> FCFA'000	<u>Variance</u> FCFA'000	<u>%</u>
<b>MDST</b>				
Vehicle repairs and maintenance	8,744	20,014	(11,270)	(129)
<b>DNE</b>				
Building repairs and maintenance	7,560	12,617	(5,057)	(67)
General supplies	379	1,254	(875)	(231)
Equipment repairs and maintenance	9,104	18,338	(9,234)	(101)
Office supplies	11,731	21,474	(9,743)	(83)
<b>LCV</b>				
General supplies	676	4,731	(4,055)	(600)
Office supplies	3,012	5,229	(2,217)	(74)
Lab animals	651	1,092	(441)	(68)
Lab products	-	2,984	2,984	-
<b>INRZFH</b>				
Local salaries	7,860	12,684	(4,824)	(61)
Allowances	6,476	10,907	(4,431)	(68)
Petrol	11,067	16,578	(5,511)	(49)
External Services	8,094	11,489	(3,395)	(42)
Field supplies	2,501	3,290	(789)	(32)

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT , MALI

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

APPENDIX C

Summary of questioned costs

<u>Ref.</u>	<u>Details</u>	<u>Unsupported</u> FCFA	<u>Ineligible</u> FCFA	<u>Basis for questioned costs</u>
Various	Ledger fees paid on BDM bank account		131,697	Bank charges were paid even though there was no activity on the account. Account should have been closed.
2285308	Mobylettes	229,600		
2285332	Training expenses	50,000		
2285333	Mission fuel	48,000		
2285458	Conference at kayes - per diems	60,000		
2319101	Salaries	637,128		Pay slips not signed.
1940415	Sadia Diallo		237,414	GRM employee - payment in lieu of leave. Only 'primes' should be paid by project to GRM 'fonctionnaires' (Ref: PIL No. 8)
1940539	Assinfab-B-Bar cartes graphique and labour	915,000		
2692806	Various (FCFA 240,750 less FCFA 225,000 justified)	15,750		
1606755	Alterego - maintenance	76,440		
2767511 & cash(18/4/92)	Employees social security contribution		327,273	Employees contribution of 3.4% which should be borne by the respective employee was paid by MDST
	C/fwd	<u>2,031,918</u>	<u>696,384</u>	

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APPENDIX C (continued)

	B/fwd	2,031,918	696,384	
15154)	Shell Bamako			GRM taxes included in the amount paid for fuel in contravention of Article B, Section 4 of the Grant Agreement.
15216)			6,079,430	
15221)				
15227)				
15232)				
	Unjustified advances			
2579546	Advance for animal feed	588,000		
1606750/51	Mission advance	1,437,800		
1606767	OMBEVI advance	742,945		
2296547	Advance	465,020		
2319119	OMBEVI advance	670,812		
2319126	Advance ECIBEV	277,875		
2319191	OMBEVI advance	875,000		
1940420	Advance Dr. Timbo	263,349		
2739265	Advance to LCV	655,500		
2739270	Travel advance	384,082		
2739271	Travel advance (FCFA 494,040 less 307,200 justified)	161,180		
2739273	Travel advance	703,500		
2739289	Mission advance	592,480		
2739296	Mission advance	1,973,886		
2767505	CRZ (FCFA 1,732,940 less 562,000 justified)	1,170,940		
2767515	Conference in Rome (FCFA 1,078,564 less 426,100 justified)	652,464		
		<u>11,614,833</u>		
		<u>13,646,751</u>	<u>6,775,814</u>	

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT , MALI

AUDIT OF LOCAL EXPENDITURES MANAGED BY THE MANAGEMENT DEVELOPMENT AND SUPPORT TEAM (MDST) UNDER THE MALI LIVESTOCK SECTOR II PROJECT (NO. 688-0218) FOR THE PERIOD APRIL 1, 1989 TO APRIL 30, 1992

APPENDIX D

Acronyms

GRM	Government of the Republic of Mali
USAID	United States Agency for International Development
USAID/Mali	United States Agency for International Development for Mali (also known as the Mission)
RIG/A/D	Office of the Regional Inspector General of Audit, Dakar
MLSP II	Mali Livestock Sector II Project (Project No. 688-0218)
MDST	Management Development and Support Team
JMC	Joint Management Committee
DNE	The National Livestock Directorate
LCV	The National Veterinary Laboratory
INRZFH/CRZ	The National Institute for Zoologic, Forestic and Hydrobiologic Research/Center for Livestock Production
PIL	Project Implementation Letter

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