

Regional Inspector General for Audit  
Tegucigalpa, Honduras

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**Audit of USAID/Haiti's  
Development Finance Project  
Managed by the Haitian  
Development Society of Finance  
March 29, 1983 to March 31, 1992**

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**Audit Report No. 1-521-93-19-N  
May 10, 1993**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**AMERICAN EMBASSY**  
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May 10, 1993

**MEMORANDUM**

TO: D/USAID/Haiti, David A. Cohen

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

SUBJECT: Audit of USAID/Haiti's Development Finance Project, Managed by the Haitian Development Society of Finance, March 29, 1983 to March 31, 1992

This report presents the results of a financial audit of the Development Finance Project, USAID/Haiti Project No. 521-0154 (Project), managed by the Haitian Development Society of Finance (Society) for the period March 29, 1983 to March 31, 1992. The audit firm of KPMG-Mérové-Pierre, the Klynveld Peat Marwick Goerdeler affiliate in Haiti, prepared the report dated February 26, 1993.

The purpose of the Project was to provide capital as well as technical and financial services to clients involved in new and expanded industrial projects and to stimulate industrial growth in both the manufacturing and agricultural sectors of Haiti. The Project was completed March 31, 1992. During the period audited the Society disbursed A.I.D. funds of \$9.7 million under the Project.

The objectives of the audit were to determine whether: (1) the Society's fund accountability statement presents fairly, in all material respects, the financial position of the Project for the period audited, (2) the Society's internal control structure was adequate to manage the Project, and (3) the Society had complied with agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Society's activities and transactions to the extent considered necessary to issue a report thereon for the audit period.

KPMG-Mérové-Pierre concluded that, except for questionable costs of \$18,888 and the effects of such adjustments, if any, which might result had the auditors been able to perform a detailed reconciliation between

1

USAID/Haiti and the Society's records<sup>1</sup>, the Society's fund accountability statement presents fairly, in all material respects, the Project's receipts and expenditures for the period audited. The \$18,888 of questionable costs includes, however, \$14,803 in undocumented training costs which already had been disallowed by USAID/Haiti but which were still included in the Society's fund accountability statement. The remaining \$4,085<sup>2</sup> represents proceeds from the disposal of a vehicle procured under the Project. The Society disposed of the Project vehicle without prior clearance from USAID/Haiti.

The auditors also reported that the Project had a fund balance of \$155,333 at the completion of the Project March 31, 1992 and that on June 25, 1992, the Society remitted \$73,684 of the fund balance to USAID/Haiti. The remaining \$81,649 pending reimbursement to USAID/Haiti represents interest earned under the Project.

Regarding the Society's internal control structure, the auditors identified three material weaknesses. Specifically, the auditors reported that the Society did not: (1) maintain an accounting system capable of recording transactions by fund source, (2) reconcile its records to those of USAID/Haiti on a regular basis, and (3) ensure that third party costs included in their reimbursement requests to USAID/Haiti were adequately documented.

Regarding the Society's compliance with agreement terms and applicable laws and regulations, the auditors identified two material instances of noncompliance with the standard provisions of the Project Agreement. The auditors found the Society did not obtain: (1) prior clearance from USAID/Haiti to dispose of a vehicle procured with Project funds and (2) quotations for certain procurement actions in excess of \$250.

Since the Project ended March 31, 1992 and, according to USAID/Haiti officials, no new agreements have been signed with the Society, we have not recommended any action to correct the procedural deficiencies identified by the auditors with respect to the Society's internal control structure and compliance with Project Agreement terms. However, we suggest that USAID/Haiti obtain assurance that these procedural problems have been corrected prior to awarding any future A.I.D. assistance to the Society.

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<sup>1</sup> The Society's records reflect \$10,708 more in Project expenditures than are reflected in USAID/Haiti's records. The auditors were unable to perform a detailed reconciliation explaining the difference because USAID/Haiti records prior to 1988 were no longer available.

<sup>2</sup> The Society used \$2,000 of the net proceeds to purchase two other vehicles. The balance of \$2,045 was deposited into the Society's bank account.

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

**Recommendation No. 1**

**We recommend that USAID/Haiti resolve the questionable costs of \$4,085 (questioned) identified in the KPMG-Mérové Pierre report dated February 26, 1993, and recover from the Haitian Development Society of Finance the amounts determined to be unallowable.**

**Recommendation No.2**

**We recommend that USAID/Haiti recover from the Haitian Development Society of Finance interest earned under the Development Finance Project identified as \$81,649 in the KPMG-Mérové Pierre report dated February 26, 1993.**

Recommendation Nos. 1 and 2 will be considered resolved upon the Mission's determination of the amount of recovery and will be considered closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection.

The report was discussed with representatives from the Society who generally agreed with the findings and recommendations included in the report. The Society's comments are included as an Annex to the KPMG-Mérové Pierre report.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

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

**Audit of USAID/Haiti's  
Development Finance Project  
Managed by the Haitian  
Development Society of Finance  
March 29, 1983 to March 31, 1992**

**Audit Report No. 1-521-93-19-N  
May 10, 1993**

Audit of

DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by

THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)

For the Period March 29, 1983 to March 31, 1992

(With independent auditors' reports thereon)

**Audit of  
DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)**

**For the Period March 29, 1983 to March 31, 1992**

**Table of contents**

|   | <b>Page</b> |
|---|-------------|
| <b>TRANSMITTAL LETTER AND SUMMARY</b>   |             |
| Background  | 1           |
| Audit objectives and scope  | 1- 3        |
| Results of audit  | 3- 5        |
| Management comments   | 5           |
| <br>  |             |
| <b>FUND ACCOUNTABILITY STATEMENT</b>  |             |
| Independent Auditors' Report  | 6- 7        |
| Fund accountability statement   | 8           |
| Notes to the fund accountability statement                                      | 9-13        |
| <br>  |             |
| <b>INTERNAL CONTROL STRUCTURE:</b>  |             |
| Independent Auditors' Report  | 14-15       |
| Findings  | 16-19       |
| <br>  |             |
| <b>COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE<br/>LAWS AND REGULATIONS:</b> |             |
| Independent Auditors' Report  | 20-21       |
| Findings  | 22-23       |
| <br>  |             |
| <b>LIST OF REPORT RECOMMENDATIONS</b>   | 24          |
| <br>  |             |
| <b>MANAGEMENT RESPONSE</b>  | Annex       |

# **KPMG** Mérové-Pierre — Cabinet d'Experts-Comptables

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February 26, 1993

Mr. Lou Mundy  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C.A.

Dear Mr. Mundy:

This report presents the results of our close-out financial audit of the Development Finance Project, USAID/Haiti Project no. 521-0154, managed by the Haitian Development Society of Finance (SOFIHDES) for the period March 29, 1983 to March 31, 1992. We have issued our report thereon dated September 25, 1992.

## BACKGROUND

On March 29, 1983, the U.S. Agency for International Development Mission to Haiti (USAID/Haiti), approved the Development Finance Project, USAID/Haiti Project no. 521-0154, which provided U.S. \$10,000,000 in grant and loan funds to the Haitian Development Society of Finance (Société Financière Haïtienne de Développement, S.A. - SOFIHDES) for the purpose of providing capital as well as technical and financial services to clients involved in new and expanded industrial projects and of stimulating substantial industrial growth in both the manufacturing and agricultural sectors of Haiti, to result in increased levels of employment and income.

The Project was completed on March 31, 1992.

## AUDIT OBJECTIVES AND SCOPE

The objective was to conduct a financial audit of the fund accountability statement of USAID/Haiti Project no. 521-0154, managed by SOFIHDES for the period March 29, 1983 to March 31, 1992.

Except for not participating in an external quality control review program by an unaffiliated audit organization, as described further in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 revision) and, accordingly, included such tests of the accounting records, internal control structure and such other auditing procedures as we considered necessary in the circumstances.

The specific objectives were to:

- 1) Express an opinion on whether the fund accountability statements of USAID/Haiti Project no. 521-0154 managed by SOFIHDES, presents fairly in all material respects the Project's funding provided and expenditures incurred for the period March 29, 1983 to March 31, 1992 in accordance with generally accepted accounting principles and with the terms of the agreement, identifying unsupported costs or those costs not considered allocable or allowable under the agreement.
- 2) Evaluate and obtain a sufficient understanding of the internal control structure of the organization, assess control risk, and identify reportable conditions, including material internal control weaknesses.
- 3) Perform tests to determine whether the organization complied, in all material respects, with agreement terms and applicable laws and regulations, express positive assurance on those items tested and negative assurance on those items not tested, and identify all material instances of noncompliance and all indications of illegal acts, if any.

The major audit procedures performed during our work in order to meet the audit objectives were as follows:

Receipts

Confirm directly with USAID/Haiti, the funding provided to SOFIHDES under Project no. 521-0154, for the period under audit.

Lending Capital

- o Determine that lending capital was disbursed according to agreement terms.
- o Agree records of disbursements of lending capital to evidences of receipts by borrowers.
- o Reconcile lending capital disbursement vouchers to USAID/Haiti confirmation.
- o Verify interest paid and interest payable on the disbursed and undisbursed portions of lending capital in accordance with the agreement.

Procurement

Examine procurement procedures and documentation for the acquisition of equipment, material and services to ascertain that control procedures and A.I.D standard provisions were properly applied.

8

Technical Assistance

- o Review controls and supporting documents for consultants' fees and support personnel's salaries charged to the grants in relation to individual contracts and overall grant agreement.
- o Reconcile technical assistance disbursement vouchers to USAID/Haiti confirmation.

Training

- o Verify supporting documents for training courses in order to determine the allowability and reasonableness of training expenses charged to the grant.
- o Examine travel and transportation costs charged to the grant in order to determine whether standard provisions for per diem and travel were met.

RESULTS OF THE AUDIT

Fund Accountability Statement

Project costs confirmed by USAID/Haiti for the life of the Project, as adjusted, total U.S. \$ 9,699,829. This amount is U.S. \$10,708 lower than total costs of U.S. \$9,710,537 presented in SOFIHDES' records. Differences by budget line items between USAID/Haiti's confirmation and SOFIHDES' records are as follows:

|                      | <u>USAID/Haiti's</u><br><u>Confirmation</u> | <u>SOFIHDES'</u><br><u>Records</u> | <u>Differences</u> |
|----------------------|---|------------------------------------|--------------------|
| Lending capital      | \$ 7,976,316                                | 7,976,316                          | -                  |
| Technical assistance | 1,519,159                                   | 1,559,608                          | (40,449)           |
| Training             | <u>204,354</u>                              | <u>174,613</u>                     | <u>29,741</u>      |
| Total expenditures   | \$ <u>9,699,829</u>                         | <u>9,710,537</u>                   | <u>(10,708)</u>    |

We could not determine the cause of the above differences because a detailed reconciliation could not be made for vouchers processed before 1988. USAID/Haiti's detailed records on the Project prior to that year were no longer available and costs accumulated before that year could only be confirmed by line items in total.

SOFIHDES carries on its books \$ 14,803 of accounts receivable from USAID/Haiti for training costs incurred by SOFIHDES under the grant and included on the fund accountability statement but not reimbursed by USAID/Haiti because they lacked adequate supporting documentation.

SOFIHDES did not obtain prior clearance from USAID/Haiti as required by USAID standard provisions, for selling at a net price of \$4,085 a vehicle that was originally purchased with Project funds.

9

USAID/Haiti will make the final determination as to whether the questionable costs described in the preceding paragraphs and discussed in the "findings and recommendations" section of this report are allowable under the terms of the agreement.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to perform a detailed reconciliation between USAID/Haiti's confirmation and SOFIHDES' records for the Project, and except for the questionable costs described above, the fund accountability statement of USAID/Haiti Project no. 521-0154 presents fairly, in all material respects, the Project's funding and costs for the period March 29, 1983 to March 31, 1992, in accordance with generally accepted accounting principles and with the terms of the agreement with USAID/Haiti.

#### Internal Control Structure

We studied and evaluated SOFIHDES's internal control structure and control risks in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement of the Project and not to provide assurance on SOFIHDES's internal control structure. We noted the following findings that we consider reportable conditions under generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision):

1. SOFIHDES accounting system did not record transactions by sources of funds.
2. Records of SOFIHDES' cumulative project costs were not regularly reconciled with USAID/Haiti's records.
3. SOFIHDES did not follow a systematic procedure to ensure that all third party costs rebilled to USAID/Haiti were adequately documented

#### Compliance with Agreement Terms and Applicable Laws and Regulations

The results of our tests indicate that for certain items tested SOFIHDES did not comply with agreement terms and applicable regulations. The cases of noncompliance which are explained in more detail in the corresponding section of the report were the following:

1. SOFIHDES did not obtain prior clearance from USAID/Haiti for disposing of a vehicle purchased with Project funds.
2. SOFIHDES did not obtain all required quotations for some procurements

With respect to items not tested, nothing came to our attention that caused us to believe that SOFIHDES had not complied, in all material respects, with those provisions.

Management Comments

The draft report was discussed at the exit conference held on January 25, 1993, which was attended by representatives of USAID/Haiti and SOFIHDES. In this meeting and their formal reply to our report included in annex, SOFIHDES management expressed their general agreement with the report's comments.

*KPMG-Mérové-Pierre Cabinet d'experts Comptables*

# **KPMG** Mérové-Pierre — Cabinet d'Experts-Comptables

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Page 6  
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## **Audit of**

**DEVELOPMENT FINANCE PROJECT**  
USAID/Haiti - Project no. 521-0154  
**Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE**  
**(SOFIHDES)**

## **Fund Accountability Statement**

### Independent Auditors' Report

We have audited the accompanying fund accountability statement of the Development Finance Project, USAID/Haiti Project no. 521-0154, managed by the Haitian Development Society of Finance (SOFIHDES) for the period March 29, 1983 to March 31, 1992. The fund accountability statement is the responsibility of SOFIHDES' management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following four paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not participate in an external quality control review program by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Haiti. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Klynveld Peat Marwick Goerdeler (KPMG) worldwide internal quality control program which requires the KPMG-Haiti office to be subjected, every three years, to an extensive quality control review by partners and managers from other KPMG offices.



- 12 -

Project costs confirmed by USAID/Haiti for the life of the Project, as adjusted, total U.S. \$ 9,699,829. This amount is U.S. \$10,708 lower than total costs of U.S. \$9,710,537 presented in SOFIHDES' records. Differences by budget line items between USAID/Haiti's confirmation and SOFIHDES' records are as follows:

|                      | <u>USAID/Haiti's</u><br><u>Confirmation</u> | <u>SOFIHDES'</u><br><u>Records</u> | <u>Differences</u> |
|----------------------|---|------------------------------------|--------------------|
| Lending capital      | \$ 7,976,316                                | 7,976,316                          | -                  |
| Technical assistance | 1,519,159                                   | 1,559,608                          | (40,449)           |
| Training             | <u>204,354</u>                              | <u>174,613</u>                     | <u>29,741</u>      |
| Total expenditures   | \$ <u>9,699,829</u>                         | <u>9,710,537</u>                   | <u>(10,708)</u>    |

We could not determine the cause of the above differences because a detailed reconciliation could not be made for vouchers processed before 1988. USAID/Haiti's detailed records on the Project prior to that year were no longer available and costs accumulated before that year could only be confirmed by line items in total.

As described in note 6, the accompanying fund accountability statement includes \$18,888 of expenditures considered as questionable costs. Those costs are described in the "findings and recommendations" section of this report. USAID/Haiti will make the final determination as to whether those costs are allowable under the terms of the agreement.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to perform a detailed reconciliation between USAID/Haiti's confirmation and SOFIHDES' records for the Project, and except for the questionable costs described above, the fund accountability statement of USAID/Haiti Project no. 521-0154 presents fairly, in all material respects, the Project's funding and costs for the period March 29, 1983 to March 31, 1992, in accordance with generally accepted accounting principles and with the terms of the agreement with USAID/Haiti.

This report is intended solely for the use of the U.S. Agency for International Development and SOFIHDES. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*KPMG-Mérové-Pierre Cabinet d'Experts-Comptables*

September 25, 1992

DEVELOPMENT FINANCE PROJECT  
USAID/HAITI PROJECT NO. 521-0154  
Managed by

THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)

Fund Accountability Statement

For the period March 29, 1983 to March 31, 1992

(Expressed in U.S. dollars - Note 1(b))

|                                       | Budget                | Loan             | Actual<br>Grant    | Total            | Budget<br>balance | <u>Questionable costs (note 6)</u> |                    |
|---------------------------------------|-----------------------|------------------|--------------------|------------------|-------------------|------------------------------------|--------------------|
|                                       |                       |                  |                    |                  |                   | <u>Questioned</u>                  | <u>Unsupported</u> |
| Funding provided:                     |                       |                  |                    |                  |                   |                                    |                    |
| Contributions                         | \$ 10,000,000         | 8,050,000        | 1,734,221          | 9,784,221        | 215,779           | -                                  | -                  |
| Interest earned (note 4)              | <u>          -</u>    | <u>  119,532</u> | <u>          -</u> | <u>  119,532</u> | <u>(119,532)</u>  | <u>          -</u>                 | <u>          -</u> |
|                                       | <u>10,000,000</u>     | <u>8,169,532</u> | <u>1,734,221</u>   | <u>9,903,753</u> | <u>  96,247</u>   | <u>          -</u>                 | <u>          -</u> |
| Expenditures:                         |                       |                  |                    |                  |                   |                                    |                    |
| Lending capital (notes 2, 3<br>and 4) | 8,266,000             | 7,976,316        | -                  | 7,976,316        | 289,684           | -                                  | -                  |
| Technical assistance                  | 1,465,000             | -                | 1,559,608          | 1,559,608        | (94,608)          | 4,085                              | 14,803             |
| Training                              | 269,000               | -                | 174,613            | 174,613          | 94,387            | -                                  | -                  |
| Interest paid (note 4)                | <u>          -</u>    | <u>  37,883</u>  | <u>          -</u> | <u>  37,883</u>  | <u>(37,883)</u>   | <u>          -</u>                 | <u>          -</u> |
| Total expenditures                    | <u>10,000,000</u>     | <u>8,014,199</u> | <u>1,734,221</u>   | <u>9,748,220</u> | <u>251,580</u>    | <u>4,085</u>                       | <u>14,803</u>      |
| Fund balance (note 5)                 | \$ <u>          -</u> | <u>  155,333</u> | <u>          -</u> | <u>  155,333</u> | <u>(155,333)</u>  |                                    |                    |

See accompanying notes to fund accountability statement.

**Audit of**

**DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)**

**Notes to Fund Accountability Statement**

**For the Period March 29, 1983 to March 31, 1992**

**(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a) On March 29, 1983, the U.S. Agency for International Development Mission to Haiti (USAID/Haiti), approved the Development Finance Project, USAID/Haiti Project no. 521-0154, which provided U.S. \$10,000,000 in grant and loan funds to the Haitian Development Society of Finance (Société Financière Haitienne de Développement, S.A. - SOFIHDES) for the purpose of providing capital as well as technical and financial services to clients involved in new and expanded industrial projects and of stimulating substantial industrial growth in both the manufacturing and agricultural sectors of Haiti, to result in increased levels of employment and income.

The Project was completed on March 31, 1992.

b) The fund accountability statement is prepared in U.S. dollars. Transactions in Haitian gourdes were converted at average exchange rates of five to eight Haitian gourdes for one U.S. dollar in effect during the period.

c) The fund accountability statement is prepared in accordance with generally accepted accounting principles.

**(2) LENDING CAPITAL**

The lending capital provided by USAID/Haiti is repayable in Haitian gourdes in 21 equal semi-annual payments over a ten-and-a-half year period starting in May 1994. The original grant agreement called for repayments in Haitian gourdes of the U.S. dollar lending capital at the highest rates of exchange for the U.S. dollar which were, at the time repayments were made, "not unlawful" in Haiti. That clause was amended by USAID/Haiti's Project Implementation Letter (P.I.L.) no. 37 dated December 6, 1990 which provided for repayments in Haitian gourdes of the U.S. dollar lending capital at the highest rates of exchange for the U.S. dollar which were, at the time the loan disbursements were made, "not unlawful" in Haiti.

75

**Audit of  
DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)**

**Notes to Fund Accountability Statement**

**(2) LENDING CAPITAL (CONTINUED)**

As a result of that amendment and the decline of the Haitian gourde in relation to the U.S. dollar between the beginning and close out dates of the Project, the disbursed lending capital and repayable lending capital at March 31, 1992 are as follows:

|   | <u>Haitian gourdes</u> | <u>U.S. dollars</u> |
|---|------------------------|---------------------|
| U.S. dollar lending capital disbursed during the Project life   | G -                    | \$ 7,976,316        |
| U.S. dollar lending capital disbursed, equivalent in Haitian gourdes, based on P.I.L. no. 37  | 44,061,283             | -                   |
| Exchange rate adjustment  | <u>-</u>               | <u>(3,080,618)</u>  |
| U.S. dollar lending capital repayable in Haitian gourdes, with U.S. dollar equivalent at March 31, 1992, translated at the exchange rate of nine Haitian gourdes for one U.S. dollar in effect on that date | G <u>44,061,283</u>    | \$ <u>4,895,698</u> |

**(3) INTEREST ON DISBURSED LENDING CAPITAL**

The Project agreement provides for payments in Haitian gourdes, to an independant trust account, of interest at a 5% annual rate on disbursed lending capital, accruing from the first disbursement and payable semi-annually for twenty years until complete repayment of the lending capital.

Interest costs are paid under that clause to a trust fund administered by the Haitian Development Foundation (FHD) and are as follows:

|   | <u>Haitian gourdes</u> | <u>Equivalent in U.S. dollars.</u> |
|---|------------------------|------------------------------------|
| Interest costs from 1984 to March 31, 1992    | G 10,189,468           | \$ 1,706,017                       |
| Interest payments from 1984 to March 31, 1992 | (9,640,211)            | (1,572,996)                        |
| Translation adjustment                        | <u>-</u>               | <u>(71,992)</u>                    |
| Accrued interest payable at March 31, 1992    | G <u>549,257</u>       | \$ <u>61,029</u>                   |

**DEVELOPMENT FINANCE PROJECT**  
**USAID/Haiti Project no. 521-0154**  
**Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE**  
**(SOFIHDES)**

**Notes to Fund Accountability Statement**

**(4) INTEREST ON UNDISBURSED LENDING CAPITAL**

Funds provided by USAID to SOFIHDES as lending capital were deposited by SOFIHDES into U.S. dollar term deposits until their disbursements. Interest earned by those term deposits at annual rates from 3% to 7% during the life of the Project were paid or accrued to USAID/Haiti in accordance with USAID general grant provisions. Those interest costs are as follows:

|   | <u>U.S. dollars</u> |
|---|---------------------|
| Interest costs from 1984 to March 31, 1992    | \$ 119,532          |
| Interest payments from 1984 to March 31, 1992 | <u>(37,883)</u>     |
| Accrued interest payable at March 31, 1992    | \$ <u>81,649</u>    |

**(5) FUND BALANCE**

The fund balance at March 31, 1992 is composed of the following elements:

|  |                   |
|--|-------------------|
| o Excess of lending capital provided by USAID/Haiti over lending capital disbursed by SOFIHDES | \$ 73,684         |
| o Accrued interest payable, earned from the undisbursed lending capital (note 4)               | <u>81,649</u>     |
|  | \$ <u>155,333</u> |

The undisbursed lending capital of \$73,684 was remitted to USAID/Haiti on June 25, 1992.

The accrued interest payable of \$81,649 at March 31, 1992 had not been remitted yet as of September 25, 1992 pending a final determination of the amount by the financial close-out audit.

**(6) QUESTIONABLE COSTS**

According to USAID applicable regulations, costs charged to a Project must meet the following general criteria:

- a. Be reasonable for the performance of the Project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.

**DEVELOPMENT FINANCE PROJECT**  
**USAID/Haiti Project no. 521-0154**  
**Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE**  
**(SOFIHDES)**

**Notes to Fund Accountability Statement**

**(6) QUESTIONABLE COSTS (CONTINUED)**

- b. Be allocable to the Project. A cost is allocable in accordance with the relative benefits received.
- c. Conform to any limitations or exclusions set forth in the agreement in which the Project is based.
- d. Be adequately documented.

Ineligible costs are all those costs unallocable and or unallowable in accordance with laws, regulations, and agreement terms. Unsupported costs are all those costs not properly supported by the recipient, costs in excess of the budgeted amount per item and costs considered unreasonable under the circumstances.

The following are costs incurred for Project no. 521-0154 that were determined to be questionable because they did not conform, or there was no adequate evidence to determine whether they did indeed conform, with one or more of the above mentioned criteria:

| <u>Period</u>                     | <u>Description</u>   | <u>Inadequate<br/>Supporting<br/>Documentation</u> |
|-----------------------------------|--|--|
| May 1987                          | Training services rendered under P.I.L. no. 12                                       | \$ 931   |
| September 1987<br>to January 1988 | Training services rendered under P.I.L. no. 34                                       | 6,200  |
| July and August<br>1990           | Training services rendered under P.I.L. no. 36                                       | 6,900  |
| July and August<br>1990           | Travel expenses incurred under P.I.L. no. 36   | <u>772</u><br>14,803                               |
| July 1987                         | Sale of vehicle originally purchased for \$11,355 in October 1985 with Project funds | <u>4,085</u><br>\$ <u>18,888</u>                   |

18

**DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)**

**Notes to Fund Accountability Statement**

**(6) QUESTIONABLE COSTS (CONTINUED)**

The \$14,803 of training costs were not reimbursed by USAID/Haiti but are still carried on SOFIHDES' books as accounts receivable from USAID/Haiti.

USAID/Haiti will make the final determination as to whether those costs are allowable under the terms of the agreement.

# **KPMG** Mérové-Pierre — Cabinet d'Experts-Comptables

Comptables Professionnels Agréés d'Haïti  
Certified Public Accountants

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Page 14

**Audit of  
DEVELOPMENT FINANCE PROJECT  
USAID/HAITI PROJECT NO. 521-0154  
Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)**

**Internal Control Structure**

**Independent Auditors' Report**

We have audited the fund accountability statement of the Development Finance Project, USAID/Haiti Project no. 521-0154, managed by the Haitian Development Society of Finance (SOFIHDES), for the period March 29, 1983 to March 31, 1992 and have issued our report thereon dated September 25, 1992.

Except for not participating in an external quality control review program by an unaffiliated audit organization, as described further in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatements.

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

20

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

- o Accounting process
- o Procurement system
- o Payroll procedures
- o Receipts and disbursements
- o Travel and transportation procedures
- o Budgetary process.

For all of 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 operation, and we assessed control risk.

We noted matters, described in the following pages as findings nos. 1 to 3, involving the internal control structure of SOFIHDES and its operations 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 entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the reportable conditions described in the following pages as findings nos. 1 to 3 are material weaknesses.

This report is intended solely for the use of U.S. Agency for International Development and SOFIHDES. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*KPMG - Mérové-Pierre Cabinet d'Experts-Comptables*

September 25, 1992

21

DEVELOPMENT FINANCE PROJECT  
USAID/HAITI PROJECT NO. 521-0154  
Managed by

THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)

Internal Control Structure

Findings

1. SOFIHDES' ACCOUNTING SYSTEM DID NOT RECORD TRANSACTIONS BY SOURCES OF FUNDS

**Conditions:**

The accounting system of SOFIHDES was not designed to record transactions and present financial statements by sources of funds:

- o SOFIHDES did not maintain separate accounting records for USAID/Haiti's funds and did not prepare a separate fund accountability statement for the Development Finance Project.
- o Records of secretarial personnel salaries and fringe benefits charged to the grant from June 1983 to September 1987, for a total amount of \$107,157, as part of the technical assistance program, were not maintained separately from records of personnel costs paid on SOFIHDES counterpart funds.

**Criteria:**

The accounting system should be designed to take into consideration the various funds, and allow for separate presentations of those funds in accordance with requirements of the grantors.

**Cause:**

The accounting system was designed to reflect transactions on a consolidated basis. It does not provide trial balances by funds although monthly financial reports were submitted to USAID/Haiti.

**Effects:**

- o A fund accountability statement was not prepared for Project no. 521-0154. We had to compile the monthly vouchers submitted to USAID/Haiti in order to establish the fund accountability statement for the Project for the entire period under audit.

22'

- o We had to prepare a time-consuming compilation of monthly secretarial costs charged to the grant from June 1983 to September 1987 in order to perform a detailed analytical review of those costs and establish their reasonableness.

**Recommendation:**

We recommend that SOFIHDES modify its accounting system to separately account for transactions by sources of funds, as required by the grantors.

**2. RECORDS OF SOFIHDES' CUMULATIVE PROJECT COSTS WERE NOT REGULARLY RECONCILED WITH USAID/HAITI'S RECORDS**

**Condition:**

SOFIHDES did not carry out regular reconciliations of its records of cumulative Project costs with the records of USAID/Haiti.

**Criteria:**

Periodic reconciliations of cumulative Project costs should be performed frequently enough between the records of SOFIHDES and those of USAID/Haiti to promptly adjust for differences.

**Cause:**

Periodic verifications of cumulative Project amounts expressed in their U.S. dollar equivalents, particularly in the cases of technical assistance and training line items, which represent lesser budget amounts, were not performed.

**Effect:**

Project costs confirmed by USAID/Haiti for the life of the Project, as adjusted, total U.S. \$9,699,829. This amount is U.S. \$10,708 lower than total costs of U.S. \$9,710,537 presented in SOFIHDES' records. Differences by budget line items between USAID/Haiti's confirmation, as adjusted, and SOFIHDES' records are as follows:

|                      | <u>USAID/Haiti's<br/>confirmation</u> | <u>SOFIHDES'<br/>records</u> | <u>Differences</u> |
|----------------------|---------------------------------------|------------------------------|--------------------|
| Lending capital      | \$ 7,976,316                          | 7,976,316                    | -                  |
| Technical assistance | 1,519,159                             | 1,599,608                    | (40,449)           |
| Training             | <u>204,354</u>                        | <u>174,613</u>               | <u>29,741</u>      |
| Total expenditures   | \$ <u>9,699,829</u>                   | <u>9,710,537</u>             | <u>(10,708)</u>    |

We could not determine the cause of the above differences because a detailed reconciliation could not be made for vouchers processed before 1988. USAID/Haiti's detailed records on the Project prior to that year were no longer available and costs accumulated before that year could only be confirmed by line items in total.

23

This scope limitation on our examination constituted one of the restrictions that resulted in our qualifying our opinion on the Project's fund accountability statement.

**Recommendation:**

SOFIHDES should reconcile its cumulative records on the Project with those of USAID/Haiti in U.S. dollar equivalents on a regular basis, in order to promptly adjust any differences with USAID/Haiti.

3. SOFIHDES DID NOT FOLLOW A SYSTEMATIC PROCEDURE TO ENSURE THAT ALL THIRD PARTY COSTS REBILLED TO USAID/HAITI WERE ADEQUATELY DOCUMENTED

**Condition:**

Supporting documentation for the following training expenditures was lacking or was inadequate:

| <u>Period</u>                  | <u>Description</u>                             | <u>Inadequate Supporting Documentation</u> |
|--------------------------------|--|--|
| May 1987                       | Training services rendered under P.I.L. no. 12 | \$ 931                                     |
| September 1987 to January 1988 | Training services rendered under P.I.L. no. 34 | 6,200                                      |
| July and August 1990           | Training services rendered under P.I.L. no. 36 | 6,900                                      |
| July and August 1990           | Travel expenses incurred under P.I.L. no. 36   | <u>772</u>                                 |
|                                |  | \$ <u>14,803</u>                           |

**Criteria:**

USAID standard provisions consider improperly supported costs to be questionable and therefore disallowable under the Project.

**Cause:**

Parties that provided the above mentioned training services and related expenditures did not submit original or sufficient supporting documentation and SOFIHDES' requests for appropriate documentation from those parties were unsuccessful.

**Effect:**

Requests for reimbursements of the above \$14,803 of training expenditures were disallowed by USAID/Haiti. SOFIHDES still carries those amounts on its books as accounts receivable from USAID/Haiti.

24

**Recommendation:**

SOFIHDES should establish and follow procedures to ensure that:

- o Parties providing services submit adequate documentation for those expenses
- o Cost are not billed to USAID/Haiti unless they are adequately documented.

25

Comptables Professionnels Agréés d'Haïti  
Certified Public Accountants

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Page 20

**Audit of  
DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by**

**THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)**

**Compliance with Agreement Terms and Applicable  
Laws and Regulations**

**Independent Auditors' Report**

We have audited the fund accountability statement of the Development Finance Project, USAID/Haiti Project no. 521-0154, managed by the Haitian Development Society of Finance (SOFIHDES), for the period March 29, 1983 to March 31, 1992 and have issued our report thereon dated September 25, 1992.

Except for not participating in an external quality control review program by an unaffiliated audit organization, as described further in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

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

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from these failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the material instances of noncompliance, described in findings nos. 1 and 2 on the following pages.



26

We considered these material instances of noncompliance in forming our opinion on whether SOFIHDES fund accountability statement is presented fairly, in all material respects, in conformity with generally accepted accounting principles and with the terms of the agreement with USAID/Haiti, and this report does not affect our report dated September 25, 1992 on the fund accountability statement.

Except as mentioned above, the results of our tests of compliance indicate that, with respect to items tested, SOFIHDES complied, in all material respects, with the provisions referred to above and with respect to items not tested, nothing came to our attention that caused us to believe that SOFIHDES had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the U.S. Agency for International Development and SOFIHDES. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*KPMG - Mérové-Pierre Cabinet d'Experts Comptables*

September 25, 1992

DEVELOPMENT FINANCE PROJECT  
USAID/Haiti Project no. 521-0154  
Managed by

THE HAITIAN DEVELOPMENT SOCIETY OF FINANCE  
(SOFIHDES)

Compliance with Agreement Terms and Applicable  
Laws and Regulations

Findings

1. SOFIHDES DID NOT OBTAIN PRIOR CLEARANCE FROM USAID/HAITI FOR DISPOSING OF A VEHICLE PURCHASED WITH PROJECT FUNDS

**Condition:**

A vehicle purchased in October 1985 for \$ 11,355 under the technical assistance program of the Project agreement was sold in July 1987 for a net price of \$ 4,085. SOFIHDES did not obtain prior clearance from USAID/Haiti in relation to that disposal, which was made at a loss of \$ 3,296 based on the depreciation schedule applied by SOFIHDES.

An amount of \$ 2,000 from the net proceeds from the disposal, which was made through a car dealer, was used for the purchase of two new vehicles from that dealer, and the balance of \$2,085 was deposited into SOFIHDES' bank account.

**Criteria:**

A.I.D standard provisions require that planned disposals of non-expendable equipment purchased with Project funds be first cleared with A.I.D's Project officer.

**Cause:**

SOFIHDES wanted to dispose promptly of the vehicle, whose performance was unsatisfactory, before its resale value declined further.

**Effect:**

It is not evident that the disposal of the vehicle was the most advantageous settlement available to the Project. The net proceeds of \$4,085 from the sale of the vehicle has been reported as a questionable cost.

**Recommendation:**

SOFIHDES should establish procedures to ensure that prior clearance is obtained from USAID/Haiti regarding the disposal of this vehicle.

28

2. SOFIHDES DID NOT OBTAIN ALL REQUIRED QUOTATIONS FOR SOME PROCUREMENTS

**Condition:**

SOFIHDES obtained no quotations or only one or two quotations prior to purchasing a vehicle and radio and computer equipment for a total amount of \$51,133 which was charged to the grant under the technical assistance line item of the Project agreement.

**Criteria:**

USAID standard provisions require that at least three bid quotations be obtained for all procurements of goods in excess of U.S. \$250.

**Cause:**

SOFIHDES did not systematically apply procurement procedures. Information obtained indicates also that often only one supplier offered the specific goods required.

**Effect:**

There is no evidence that the Project obtained the best terms and conditions available for those purchases. However, prices paid were found to be generally reasonable.

**Recommendation:**

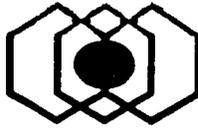
SOFIHDES should establish procurement procedures and controls required by the Project agreement to ensure that all purchases and services are procured at the most advantageous terms and conditions available.

**Audit of**  
**DEVELOPMENT FINANCE PROJECT**  
**USAID/Haiti Project no. 521-0154**  
**Managed by**  
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**(SOFIHDES)**

List of Report Recommendations

|  | <u>Page</u> |
|--|-------------|
| <br><u>Recommendations on Internal Control Structure</u>   |             |
| 1. We recommend that SOFIHDES modify its accounting system to separately account for transactions by sources of funds, as required by the grantors.....  | 17          |
| 2. SOFIHDES should reconcile its cumulative records on the Project with those of USAID/Haiti in U.S. dollar equivalents on a regular basis, in order to promptly adjust any differences with USAID/Haiti.....          | 18          |
| 3. SOFIHDES should establish and follow procedures to ensure that:   |             |
| o Parties providing services submit adequate documentation for those expenses  |             |
| o Cost are not billed to USAID/Haiti unless they are adequately documented.....  | 19          |
| <br><u>Recommendations on Compliance with Agreement Terms and Applicable Laws and Regulations</u>  |             |
| 1. SOFIHDES should establish procedures to ensure that prior clearance is obtained from USAID/Haiti regarding the disposal of this vehicle.....  | 22          |
| 2. SOFIHDES should establish procurement procedures and controls required by the Project agreement to ensure that all purchases and services are procured at the most advantageous terms and conditions available..... | 23          |

30'



# SOFIHDES

**SOCIETE FINANCIERE HAITIENNE DE DEVELOPPEMENT S.A.**  
SOCIETE ANONYME HAITIENNE AU CAPITAL DE SEPT MILLIONS CINQ CENT MILLE GOURDES

February 12, 1993

Mérové-Pierre - Cabinet D'Experts Comptables  
P. O. Box 13270, Delmas  
Port-au-Prince, Haiti

Att: Mr. Philippe Elie  
Senior Manager

Dear Sirs,

Following are the management comments on the results of the audit performed by Mérové-Pierre Cabinet d'Experts Comptables for the period of March 29, 1983 to March 31, 1992 USAID/Haiti Project No. 521-0154 managed by Sofihdes.

## **A- INTERNAL CONTROL STRUCTURE**

### **1) Sofihdes accounting system did not record transactions by sources of funds.**

Over the period under consideration, USAID was the sole provider of technical assistance and long term loan funds to Sofihdes. While the finding is correct, the failure to maintain separate records did not prevent segregating, from Sofihdes accounting books, all transactions pertaining to USAID funds. The only caveat was the amount of time necessary to perform such segregation.

In any case, Sofihdes will modify its accounting system to separately account for transactions by sources of funds as required by grantors.

### **2) Records of Sofihdes' cumulative project costs were not regularly reconciled with USAID/Haiti's records.**

While no formal reconciliation procedure was established between the grantor and the grantee, several other mechanisms, which provided a certain degree of assurance were used over the period:

.../...

31

2.1 *Loan Funds.* Cumulative balances of loan funds were reconciled regularly, through requests for advances and reimbursements put up by Sofihdes to USAID/Haiti.

2.2 *Technical Assistance and Training Funds.* A major effort to reconcile these funds was undertaken in early 1988 between Sofihdes and USAID/Haiti. This effort resulted in another format being adopted in March 1998, for reimbursement vouchers submitted by Sofihdes. The new format indicated the budget, cumulative disbursements and balance for each line item.

2.3 *Yearly Audit.* By way of the confirmations sent by Sofihdes' external auditors during Sofihdes annual audit, the grantor and the grantee could reconcile the balances in their respective books.

In the future a systematic reconciliation procedure will be established between Sofihdes and the grantor in order to adjust promptly for any differences in their books.

- 3) **Sofihdes did not follow a systematic procedure to ensure that all third party costs rebilled to USAID/Haiti were Adequately documented.**

This finding related to four (4) reimbursement vouchers totalling \$ 14,803. Over the length of the project, Four Hundred and Sixty (460) Vouchers were submitted and subsequently approved by USAID/Haiti for a total amount of \$1.7 million of technical assistance and training funds. As agreed upon in the January 1993 exit conference between USAID/Haiti, Sofihdes and Mérové-Pierre - Cabinet d'Experts Comptables, the four non reimbursed vouchers will be re-submitted by Sofihdes with the proper documentation.

In the future, Sofihdes will take all necessary steps to claim reimbursable expenses with the proper documentation

## **B- COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS**

- 1) **Sofihdes did not obtain prior clearance from USAID/Haiti for disposing of a vehicle purchased with project funds.**

The vehicle was disposed of because of poor performance and prohibitive repair costs. It was replaced with two more appropriate vehicles. In the process, Sofihdes failed to obtain the proper USAID/Haiti clearance.

Sofihdes will establish procedure to ensure that prior clearance is obtained from USAID/Haiti regarding the disposal of any non expendable items purchased with project funds.

**2) Sofihdes did not Obtain all Required Quotations for Some Procurements.**

Market conditions in Haiti often made it difficult if not impossible to obtain three quotations for all procurement. In some cases, only one or two suppliers were available for the specific goods required.

Sofihdes management recommends that, whenever a procurement rule cannot be applied, USAID/Haiti be advised and give a waiver for the exception to the procedure.



Serge Dévieux  
General Manager

SD/as

## APPENDIX I

### REPORT DISTRIBUTION

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