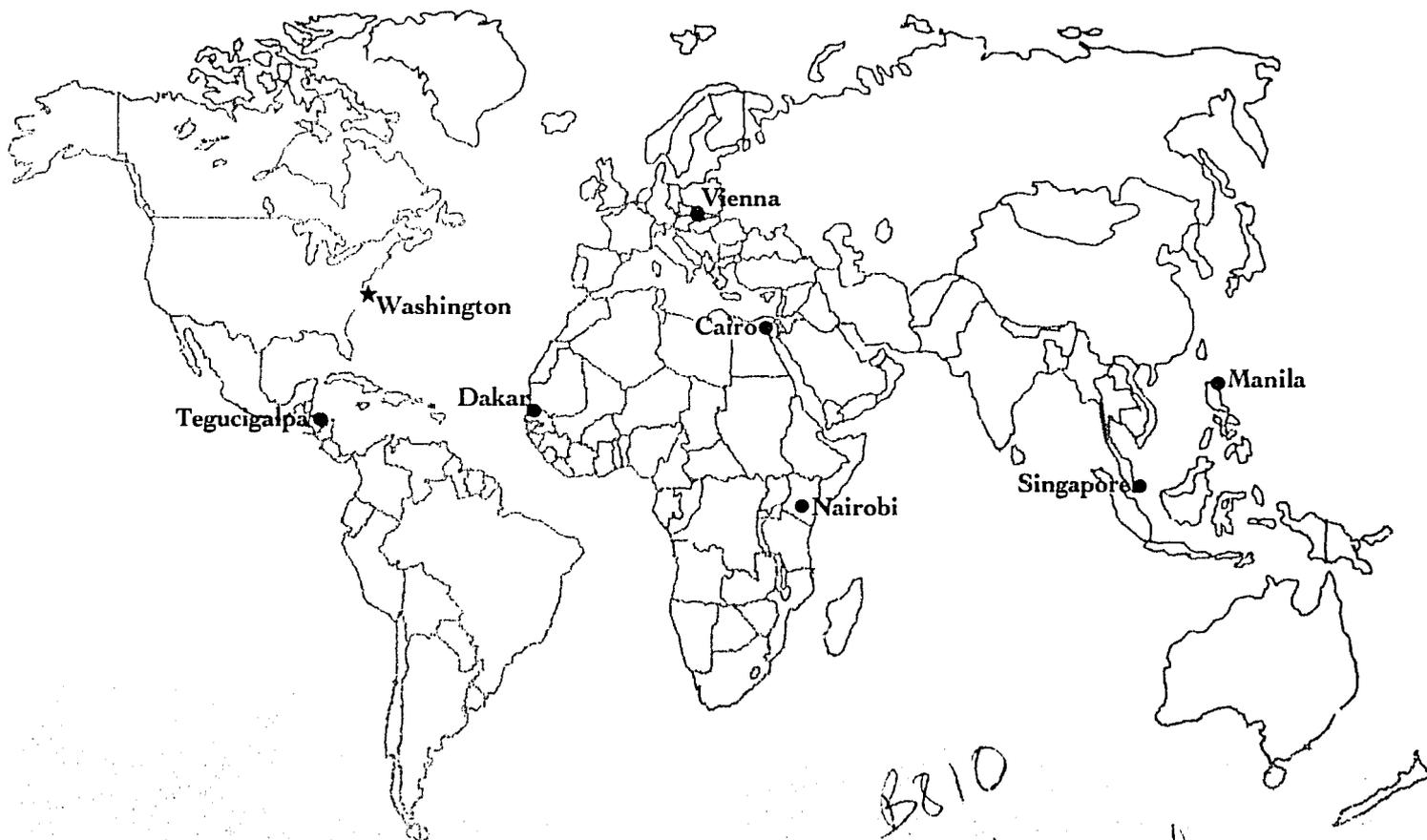


Regional Inspector General for Audit
Nairobi, Kenya

Audit of
Grant No. 623-0435-G-00-4035 to the
International Center for Tropical Agriculture (CIAT)
Under the Bean Research in East Africa
Project No. 698-0435.01

Report No. 3-698-93-22-N
June 10, 1993



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↓
Abuse only

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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS
OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE
ANY INFORMATION IS RELEASED TO THE PUBLIC.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 10, 1993

MEMORANDUM

TO: Director, REDSO/ESA, Fred Fischer

*Regional
Inspector General
for Audit/Nairobi*

FROM: RIG/A/Nairobi, Everette B. Orr

SUBJECT: Agency-contracted Audit of Grant No. 623-0435-G-00-4035-00 to the International Center for Tropical Agriculture (CIAT), Under the Bean Research in East Africa Project No. 698-0435.01
Audit Report No. 3-698-93-22-N

Attached are five copies of an agency-contracted financial audit report of Grant No. 623-0435-G-00-4035-00 to the International Center for Tropical Agriculture (CIAT), Under the Bean Research in East Africa Project No. 698-0435.01, Audit Report No. 3-698-93-22-N. The accounting firm of KPMG Peat Marwick (KPMG) of Nairobi, Kenya and its associate office in Colombia, KPMG Peat Marwick Colombia, performed the audit.

On July 27, 1984, the Regional Economic and Development Services Office for East and Southern Africa (REDSO/ESA) signed Grant No. 623-0435-G-00-4035-00 with CIAT to support the Bean Research in East Africa. The purpose of the project is to develop, in collaboration with national programs in the region, new bean production technology components for traditional and improved cropping systems, and to further strengthen national research capacity in order to increase bean production and productivity in East Africa. KPMG and its associate office performed the audit work at the CIAT regional coordinating office in Addis Ababa, Ethiopia and at the CIAT headquarters in Cali, Colombia, respectively, and audited \$2,933,045 in expenditures that CIAT claimed for the period July 27, 1984 to August 31, 1992.

The primary objectives of the audit were to:

- audit the CIAT Fund Accountability Statement and express an opinion as to whether the Fund Accountability Statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the Grant;

- consider the CIAT internal control structure in order to determine the auditing procedures for the purposes of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test CIAT's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free from material misstatement, and report on any identified material instances of non-compliance.

The auditors expressed a qualified opinion on the Fund Accountability Statement due to questioned costs of \$22,081. The amount questioned related to payments of \$5,587 for which no supporting documents were available and another \$5,587 for which no supporting documents were available and another \$16,494 supported only by photocopies and/or informal documents. The report on the internal control structure disclosed a reportable condition concerning CIAT's failure to maintain adequate supporting documents. This condition was considered to be a material internal control weakness by the auditors. The report on compliance noted that CIAT complied, in all material respects, with the grant agreement.

The draft report was submitted to the auditee and REDSO/ESA for comment and their comments (Appendix I and Appendix II respectively) were taken into consideration in the preparation of the final report by KPMG Peat Marwick. CIAT disagreed with the findings, stating that, the explanations and evidence provided to KPMG were adequate to support the amounts indicated as questioned. REDSO/ESA/RPMC generally concurred with the draft report recommendations, but stated that an item should not be questioned when, although the original supporting document is not available, other corroborative documentation provides adequate support.

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

Recommendation No. 1: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa determine the allowability and recover, as appropriate, questioned/unsupported costs of \$22,081 from International Center for Tropical Agriculture.

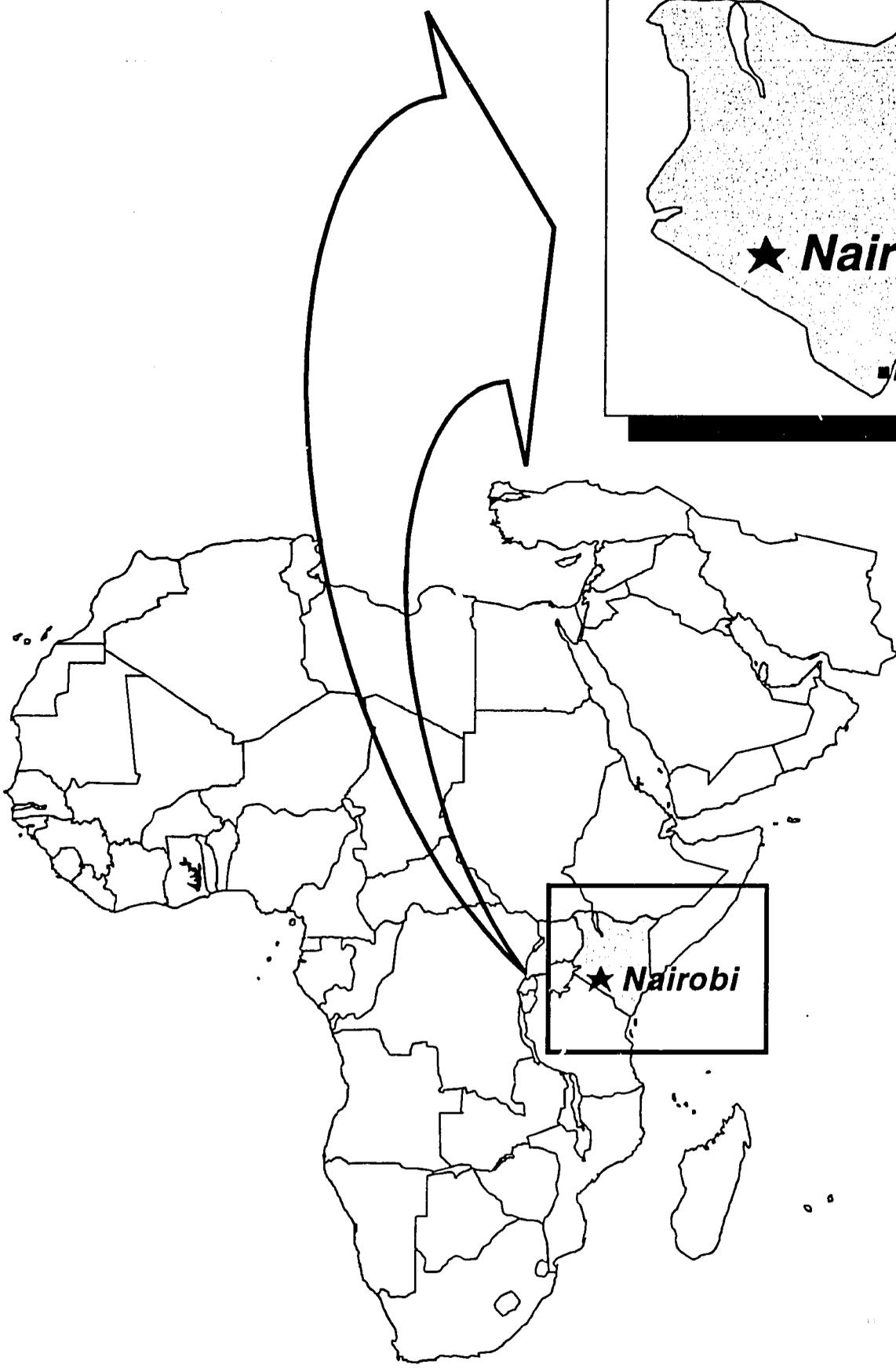
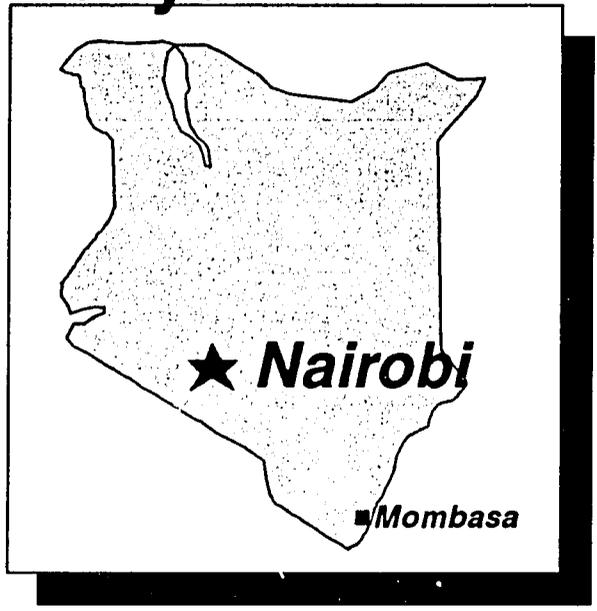
Recommendation No. 2: We recommend that the Director, Regional Economic Development Services Office for East and Southern Africa obtain from Centro International Center for Tropical Agriculture a plan of action to ensure that original source supporting documents are kept with payment vouchers.

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

Thank you for the cooperation extended to KPMG Peat Marwick and Regional Inspector General for Audit representatives during the audit.

Attachments: a/s

Kenya



AUDIT OF
GRANT NO. 623-0435-G-00-4035-00
TO INTERNATIONAL CENTER FOR TROPICAL AGRICULTURE (CIAT)
UNDER THE BEAN RESEARCH IN EAST AFRICA
PROJECT NO. 698-0435.01

ATTACHMENT

. 2'

AGENCY-CONTRACTED AUDIT OF THE
CENTRO INTERNACIONAL DE AGRICULTURA TROPICAL
UNDER THE REGIONAL ECONOMIC DEVELOPMENT SERVICES
OFFICE FOR EAST AND SOUTHERN AFRICA BEAN
RESEARCH IN EAST AFRICA
GRANT NO. 623-0435-G-00-4035-00

- 2

AGENCY-CONTRACTED AUDIT OF THE
CENTRO INTERNACIONAL DE AGRICULTURA TROPICAL (CIAT)
UNDER THE REGIONAL ECONOMIC DEVELOPMENT SERVICES
OFFICE FOR EAST AND SOUTHERN AFRICA (REDSO\ESA)
BEAN RESEARCH IN EAST AFRICA
GRANT NO.623-0435-G-00-4035-00

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- I. Management Comments: CIAT.
- II. Management Comments: REDSO/ESA.
- III. Analysis of Unsupported Costs

. 64

1. INTRODUCTION

1.1. Background

On July 27, 1984, the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) authorized a Grant of \$2,500,000 to support the Bean Research in East Africa Project. The funding level has subsequently been increased to \$3,300,000. As of August 31, 1992 disbursements under the Grant totalled US\$2,933,045.

The Bean Research in East Africa Project is implemented by the Centro Internacional De Agricultura Tropical (CIAT), which has its headquarters in Cali, Colombia, in collaboration with the existing bean research programs in Ethiopia, Kenya and Uganda. Sudan, Madagascar and Somalia participate as associate members. The regional coordinating office of CIAT is based in Addis Ababa, Ethiopia. There is a research station for the project in Kawanda, Kampala, Uganda. The total authorized USAID grant funding of US\$3.3 million supports the salaries of CIAT regional technicians, regional short-term and long-term training, in-country training, workshops, staff travel, collaborative bean research, equipment and operational support. The Canadian International Development Agency (CIDA) provides an additional Canadian \$3.27 million in project funding. Project activities (including personnel) located in Ethiopia are supported entirely by CIDA funds. Project activities in other countries are jointly funded by CIDA and USAID. The purpose of the project is to strengthen national bean research systems and breeding programs in member countries in collaboration with international centers and other donors. The original grant expiry date of July 27, 1989 has been extended twice and the last extension is scheduled to expire on September 28, 1992.

1.2 Audit Objectives

Peat Marwick was contracted, under its Indefinite Quantity Contract (No.623-0000-I-00-2005-00), to perform an Agency-contracted audit of CIAT under REDSO/ESA Bean Research in East Africa Grant No.623-0435-G-00-4035-00, in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). The principal objective was to determine whether disbursements by the auditee are adequately supported in accordance with the provisions of the Grant and are allowable, allocable and reasonable.

With respect to the costs claimed, the objectives of the engagement were to:

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

- consider the auditee's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses;
- test the auditee's compliance with the terms of the Grant, as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free from material misstatement, and report on any identified material instances of non-compliance.

1.3. Audit Scope

The scope of our audit was limited to an examination of costs claimed under the Grant by CIAT. The detailed audit scope is set out below.

(a) Audit Report on the Fund Accountability Statement

The audit covered costs claimed by CIAT from July 27, 1984 to August 31, 1992. Total costs reimbursed by REDSO/ESA to CIAT amounted to US\$2,933,045, of which US\$821,483 was tested by Peat Marwick.

(b) Audit Report on CIAT's internal control structure

The audit reviewed the internal control structure relevant to the recording of receipts and disbursements by CIAT under the Grant.

(c) Audit Report on CIAT's compliance with the Grant

The audit report covers only CIAT's compliance in respect of the Fund Accountability Statement under the Grant.

1.4. Restrictions on Audit Scope

Within the parameters stated above, there were no restrictions on our audit scope with the exception that we have not complied with Government Auditing Standard 3.46 regarding external quality control review. We do not however believe that this scope limitation had an adverse effect on our audit

1.5. Audit Methodology

Due to the location of the accounting records in Colombia, the audit assignment was performed jointly by Peat Marwick Kenya and our KPMG associate firm in Colombia, KPMG Peat Marwick Colombia. Peat Marwick Kenya acted as lead reporting office, and KPMG Peat Marwick Colombia performed detailed audit procedures in Colombia on our behalf.

Peat Marwick Kenya conducted an initial survey of the accounting records of CIAT from September 2, 1992 to September 16, 1992, at which time the selection of transactions for detailed testing was completed. Peat Marwick Kenya subsequently prepared its audit work program for approval by RIG/A/N, secured approval and KPMG Peat Marwick Colombia performed the field work from November 13, 1992 to February 2, 1993.

The principal audit steps performed included:

- a review of the terms and conditions of the Grant, applicable standard provisions and regulations and other project documents as deemed necessary;
- a review of CIAT's internal control structure in order to assess CIAT's significant internal control policies and procedures, and the adequacy of CIAT's accounting system and internal controls;
- performance of detailed compliance procedures to evaluate CIAT's compliance with the Grant;
- performance of audit procedures to obtain reasonable assurance of detecting errors, irregularities and illegal acts as defined by AICPA Statements of Auditing Standards 53 and 54;
- testing of receipt and disbursement transactions from the Fund Accountability Statement to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls.

1.6 Summary of Audit Results

1.6.1 Audit report on the Fund Accountability Statement

Our report on the Fund accountability Statement is set out in section 2. As noted in section 2.2 there are questioned costs of US\$22,081. Our audit report states that the Fund accountability Statement is fairly stated except for the questioned costs noted above.

1.6.2 Review of CIAT's internal control structure

Our review of CIAT's internal control structure is set out in section 3. Our report indicates that there is one reportable condition, as defined by the American Institute of Certified Public Accountants, relating to filing of third party documentation with payment vouchers.

1.6.3 Review of CIAT's compliance with the Grant

Our review of CIAT's compliance with the Grant is set out in section 4. Our report indicates no items of material non-compliance with the Grant.

1.7 Summary of Recommendations

	<u>Recommendation No.</u>	<u>Page No.</u>
1. Resolve questioned costs of US\$ 22,081	1	9
2. All payment vouchers to be filed with originating third party documents	2	13

1.8 Summary of CIAT Management Comments

The response of CIAT management to our draft report is included in Appendix I.

CIAT management disagree that there are questioned costs of US\$22,081, and consider that sufficient explanations were provided to Peat Marwick for these expenditures to be accepted.

CIAT management disagree with the reportable condition noted in Section 3, on the grounds that there is adequate support for the transactions noted as questioned, and as a result the exceptions do not constitute a weakness in the system of internal control.

1.9 Summary of REDSO/ESA Management Comments

The response of REDSO/ESA management to our draft report is included in Appendix II.

REDSO/ESA management suggest that where expenditures lack original supporting documentation, other available documentation should be taken into account before categorising the expenditures as questioned costs.

KPMG Peat Marwick

Certified Public Accountants

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2.

INDEPENDENT AUDITOR'S REPORT ON THE FUND
ACCOUNTABILITY STATEMENT OF CIAT UNDER
REDSO/ESA GRANT NO. 623-0435-G-00-4035-00

We have audited the Fund Accountability Statement for the period July 27, 1984 to August 31, 1992. This financial statement is the responsibility of the management of CIAT. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States with the exception that we did not comply with Government Auditing Standard Section 3.46 regarding external quality control review. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also assesses the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the Fund Accountability Statement, this financial statement was prepared on a cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Fund Accountability Statement of CIAT for the period July, 27, 1984 to August 31, 1992 is fairly stated on the above accounting basis with the exception of questioned costs of US\$22,081. Details of the questioned costs are set out in section 2.2 of this report.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of CIAT and the U.S. Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: February 2, 1993

2.1 Fund Accountability Statement of CIAT under REDSO/ESA Project Grant No.623-0435-G-00-4035-00 for the period July 27, 1984 to August 31, 1992

	<u>Note</u>	<u>US\$</u>	<u>US\$</u>
<u>Revenues</u>	2		
Expenditure claims reimbursed by REDSO/ESA			2,933,045
<u>Expenditures</u>	3		
Skills transfer		386,435	
Information exchange coordination		382,907	
Technology generation		287,621	
Policy analysis		38,146	
Management administration		810,633	
Personnel		1,027,303	

			2,933,045

<u>Unexpended Funds</u>	4		-

2.1 Notes to the Statement

1. Basis of Accounting

The Fund Accountability Statement is prepared on a cash receipts and payments basis. As noted in notes 2 and 3 below, revenues and expenditures are recorded when cash is physically received or expended.

2. Revenues

Revenues represent expenditures reimbursed by REDSO/ESA.

3. Expenditures

Expenditures represent payments made by CIAT for costs incurred under the Grant.

4. Unexpended Funds

As REDSO/ESA funds CIAT on a reimbursement claim basis, there are no unexpended funds.

2.2 Fund Accountability Statement of CIAT under REDSO/ESA Project Grant
No.623-0435-G-00-4035-00 for the period July 27, 1984 to August 31, 1992 -
Questioned Costs

	Total	Disbursements	Questioned Costs		Reference
	Disbursed	Recommended	Ineligible	Unsupported	
	US\$	US\$	US\$	US\$	
<u>Expenditures</u>					
Skills transfer	386,435	381,676	-	4,759	2.3
Information exchange coordination	382,907	380,896	-	2,011	2.3
Technology generation	287,621	286,733	-	888	2.3
Policy analysis	38,146	38,146	-	-	-
Management and administration	810,633	806,426	-	4,207	2.3
Personnel	1,027,303	1,017,087	-	10,216	2.3
	<u>2,933,045</u>	<u>2,910,964</u>	<u>-</u>	<u>22,081</u>	

2.3 Expenditures

Expenditures consist of payments under the Grant for project administration, personnel, training, policy analysis, and skills and information exchange.

Included in the management and administration expenditure category is a 15% CIAT headquarters overhead recovery allocation. This is calculated on 15% of direct costs excluding capital equipment, and is provided for by the Grant.

Verification

1. For a sample of payments by CIAT reimbursed by REDSO/ESA under the Grant, we performed the following work:
 - ensured that the payment was authorized;
 - ensured that the payment was adequately supported by originating third party documentation;
 - ensured that the payment was for purposes relevant to the Grant and was allowable, allocable and reasonable.
2. For personnel costs incurred and reimbursed, we ensured that:
 - the costs were authorized and agreed to personnel terms of employment;
 - ensured that the salary scales did not exceed the maximum FSO-1 scale.
3. For the CIAT headquarters 15% overhead recovery, we ensured that the overhead recovered was correctly calculated in accordance with the Grant.

Results

1. Total questioned unsupported costs amounted to US\$22,081. An analysis of this amount is as follows:-

	US\$
Payments lacking supporting documents	5,587
Payments supported only by photocopies	13,943
Payments supported by informal documents (lacking letterheads)	2,551

	22,081
	=====

For a detailed analysis of the above by voucher number, and expense category, see Appendix III.

Recommendation No.1

If the Centro Internacional De Agricultura Tropical is unable to provide originating third party documents for the questioned costs of US\$22,081, the amount should be deducted from the next reimbursement claim submitted by the Centro Internacional De Agricultura Tropical to REDSO/ESA.

CIAT Management Comments

CIAT management do not accept that costs of US\$22,081 are questioned. They provide a detailed description of the documentation available to support the transactions, and request that the information is sufficient for the questioned costs to be accepted.

KPMG Peat Marwick

Certified Public Accountants

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3. INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE OF CIAT UNDER THE REDSO/ESA GRANT NO.623-0435-G-00-4035-00

We have audited the Fund Accountability Statement of CIAT for the period July 27, 1984 to August 31, 1992 and have issued a report thereon dated February 2, 1993.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

In planning and performing our audit of the Fund Accountability Statement of CIAT we considered CIAT's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

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

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

- controls over disbursements;
- controls over preparation of reimbursement claims;
- controls over cash management;
- controls over receipt of funds from REDSO/ESA.

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 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 judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A description of reportable conditions is set out on page 13 immediately following this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element 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. In our opinion the reportable condition set out on page 13 is a material weakness.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of CIAT and the U.S. Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: February 2, 1993

3.1 Introduction

3.1.1 Definition

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- . the control environment;
- . the accounting system;
- . control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

We have classified the internal control structure of CIAT on a functional basis, relating to the administration of the Grant as follows:

- controls over disbursements;
- controls over preparation of reimbursement claims;
- controls over cash management;
- controls over receipt of funds from REDSO/ESA.

3.2 Findings

Maintenance of files and documents

Observation

As noted in section 2.3, a number of expenditures have been questioned on the grounds of lack of adequate originating supporting documentation.

Recommendation No.2

CIAT management should ensure that all payment vouchers are filed with originating supporting third party documents.

CIAT Management Comments

CIAT management do not accept this recommendation on the grounds that there is adequate support for the transactions noted above, and as a result the exceptions do not constitute a weakness in the system of internal control.

KPMG Peat Marwick

Certified Public Accountants

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4.

INDEPENDENT AUDITORS REPORT ON CIAT'S COMPLIANCE WITH THE GRANT

We have audited the Fund Accountability Statement of CIAT under REDSO/ESA Grant No.623-0435-G-00-4035-00 for the period July 27, 1984 to August 31, 1992 and have issued our report thereon dated February 2, 1993.

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

Compliance with the Grant is the responsibility of CIAT's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of CIAT's compliance with certain provisions of the Grant. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, CIAT complied, in all material respects, with the provisions referred to in the preceding paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that CIAT had not complied, in all material respects, with those provisions.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the information of CIAT and the U.S. Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

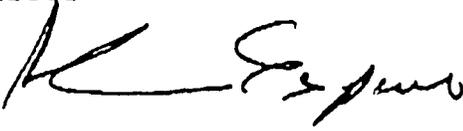
Date

February 2, 1993

Centro Internacional de Agricultura Tropical CIAT

Message

To: Simon Woods Fax number: 254-2-215695
 Manager
 KPMG Peat Marwick, Nairobi

From: Abraham E. Espino 
 Financial Controller
 CIAT, Cali, Colombia

Date: 29 March 1993 Centro de Costo: ACO3

Subject: Audit of USAID Grant No. 698-0435-G-00-4035

Following are CIAT's management comments regarding your audit of the above-referenced USAID grant:

1.8 Summary of CIAT Management Comments (page 4)

Regarding section 1.6.1 "Audit report on the Fund Accountability Statement," CIAT flatly disagrees with the statement that there are questioned costs amounting to US\$22,081. The explanations and evidences given to KPMG - Cali are sound enough to clarify any of the questioned expenditures.

Regarding section 1.6.2 "Review of CIAT's internal control structure," CIAT disagrees with the assertion that there is one reportable condition relating to filing of third party documentation with payment vouchers on the grounds of immateriality and lack of understanding by the auditors of the nature of some of the payments questioned. For example, it may be unreasonable to require formal third party documentation with letterhead for payments made for "plowing, planting, removing trash, spraying and fetching water" by field workers.

CIAT Management Comments regarding Recommendation No. 1 (page 9)

CIAT management does not agree with the recommendation that if CIAT is unable to provide originating third party documents for the questioned costs of US\$22,081, the amount should be deducted from the next reimbursement claim submitted to REDSO/ESA. CIAT has for the most part provided original documents to support these costs, but

even if it had not done so, there is no question that the payments were legitimately made and there are other verification procedures that the auditors could have used to preclude rating these payments as questionable. In the few cases in which no original documents were provided, CIAT has a perfectly valid explanation to render these costs as valid. Following is a detailed explanation for each of the alleged unsupported costs listed in the auditors' APPENDIX III:

.....

A. Payments Lacking Supporting Documents

The basic supporting documents for these four items are the original BANK PAYMENT VOUCHERS duly signed by the recipient. Cheque number and bank name are also shown as follows:

<u>Item</u>	<u>B.P. Voucher</u>	<u>US\$ Equiv.</u>	<u>Cheque No.</u>	<u>Bank</u>	<u>Date</u>
1. H. Mukasa	0043	3,007	417698	Barclays	31/10/89
2. P. Kaddu	0104	1,252	474609	"	9/11/89
3. Res.Station Support	0116	828	474621	"	30/11/89
4. Editorial Fee	2368	<u>500</u>	S59252337	Swiss Bank	6/11/89
		5,587			

- A.1 Technicians Course at Mukono Institution. There is an original Bank Payment Voucher signed by the Principal of the Mukono Institution, Peter Kaddu, for payment of room and board services.
- A.2 Technicians Course at Mukono. This is exactly the same situation as the one in item A.1. A second payment voucher is signed by the Principal of the Mukono Institution, Peter Kaddu, for room and board services.
- A.3 Payments to national programs -subprojects- correspond to a budget line previously approved by the donor. It has been customary to grant resources to the national programs either in cash or in kind through the investigators or coordinators of the projects. Donors have agreed with this procedure. This particular payment is for C. Ssali, of Kawanda Research Station in Uganda issued for research station support. The original Bank Payment Voucher is signed by him.
- A.4 To pay editorial fees for the September 1988 Workshop in Nairobi, Africa. There is an original invoice from the Institute signed by the editor and the carbon copy of the

Payment Voucher stating the amount, date and recipient of the check (in this case Eva Ndavur, Consultant Editor).

B. Payments Supported only by Photocopies

<u>Item</u>	<u>Date</u>	<u>US\$ Equiv.</u>
1. Arrowpack	04/85	1,775
2. Gestetner	04/86	1,664
3. U. of Florida	04/88	2,800
4. Swanair Travel	09/88	7,416
5. Exclusive Travel	10/90	288
		<u>13,943</u>

- B.1 When Dr. David Allen, Project Coordinator was sent to Africa, CIAT hired the Arrowpack Transport and Warehousing Co. for the packing, air freight and insurance of this personal effects.

There are original payment authorization and payment voucher, and there is a copy of the original invoice. Follow up of this item indicates the original invoice was used for Customs Declaration purposes.

- B.2 Purchase of a Gestetner photocopier for Dr. David Allen's office. Copies of Invoice, Bank Payment Voucher, Purchase Order, and Deliver Note exists. The established procedures determines that original invoices for capital goods have to be sent to the Fixed Assets Office at CIAT Headquarters.

However, in this case this item was purchased by the International Livestock Center for Africa -ILCA- a sister institution in our behalf. The original invoice can be requested at ILCA-Nairobi.

- B.3 Research expenses of Jane Kisakie of Uganda a scholar at University of Florida. There is an original letter from U. of Florida invoicing us for the US\$2,800 and an agreement with the same university supporting the payment. The carbon copy of the cheque and payment voucher sent are also available.
- B.4 There is an original receipt from Swanair Travel and Safaris Ltd. to support this payment.
- B.5 Immaterial

C. Payments Supported by Informal Documents

We never expected to get letterheaded vouchers for payments on "plowing, planting and sticks", "labor for cleaning generator", "applying fertilizer", "removing trash" "fetching water and spraying", etc. This is the case with these items.

Again, the supporting documents for these payments are the Bank Payment Vouchers signed by the recipient and an accounting sheet approved by our representative. The payments are for "Casual Labor" for "sub-projects" or grants to national programs mainly for field work in the countries. Grant letters sent to national programs for the "sub-projects" are kept in our files in Africa.

	<u>Item</u>	<u>US\$ Equiv</u>	<u>Voucher No.</u>	<u>Date</u>
1.	C. Ssali	261	0245	05/09/90
2.	C. Ssali	416	0304	18/09/90
3.	C. Ssali	355	0302	18/09/90
4.	C. Ssali	683	0378	01/02/91
5.	C. Ssali	464	0305	20/09/90
6.	L. Kanya	<u>372</u>	0248	11/09/90
		2,551		

Additionally, all these expenditures for the subprojects of the national projects are subject to the direct control of CIAT scientists since they are carried out jointly with the national researchers.

.....

CIAT Management Comments on Recommendation No. 2: (page 13)

CIAT management feels that this recommendation is unnecessary as KMPG - Cali can clearly ascertain that CIAT's internal control procedures, not only for the USAID Grant but for the handling of all the financial resources entrusted to the Center, require the filing of originating supporting third party documents. Where there are exceptions (immaterial in most cases), it has been proven that there are valid reasons for them.

FINAL GENERAL COMMENT

CIAT management regrets that the documentation originally available to the KMPG auditors in Cali apparently did not clearly establish the validity of US\$22,081 out of US\$821,483 costs tested. However, it trusts that with the additional evidence recently pointed out to the auditors and the explanations given above, the final audit report will appear without any exception or reportable condition. Finally, CIAT management wishes to thank KMPG-Peat Marwick in Cali and Nairobi for the opportunity of making these comments.

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

UNITED STATES POSTAL ADDRESS
US AID MISSION TO KENYA
BOX 201
APO NEW YORK, NEW YORK 09575

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30281
NAIROBI, KENYA

March 18, 1993

KPMG Peat Marwick
P.O. Box 40612
Nairobi

Subject: Draft Audits Reports for CIAT and CIP Financial Audits

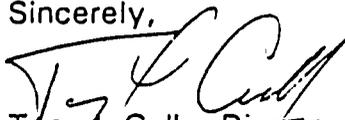
Dear Sirs:

As requested in your letter dated 2nd March 1993, REDSO/ESA has reviewed the subject audit reports and generally concurs with the proposed draft audit recommendations. REDSO staff members are prepared to coordinate resolution of the recommendations with the auditees upon issuance of the final audit reports.

REDSO does wish to comment on the practice of questioning costs based exclusively on the lack of original supporting documentation. We consider the categorical rejection of photocopied supporting documents, without consideration to the adequacy of the collective documentation, to be somewhat severe. REDSO has found in previous reviews of such documentation that, although the actual invoice may be a photocopy, when related supporting documents are considered the composite package provides adequate support. We suggest that all related documents be considered collectively in conjunction with the photocopies before deciding to question the item.

We now await issuance of the final reports.

Sincerely,



Tony L. Cully, Director
REDSO/ESA/RFMC

cc: FFischer, REDSO/DIR
RWomack, REDSO/CON
JFlynn, REDSO/ANR
EOrr, RIG/A/Nairobi

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REDSO/ESA GRANT TO CIAT

ANALYSIS OF UNSUPPORTED COSTS

Narrative	Date	Skills Transfer	Information Exchange	Technology Generation	Management & Admin.	Personnel	TOTAL
		US\$	US\$	US\$	US\$	US\$	US\$

Unsupported By documents							
H.Mukasa	12/89	3007					
P.Kaddu	12/89	1252					
Research station Support	12/89				828		
Editorial Fee	12/89	500					

SUB-TOTAL		4759	0	0	828	0	5587

Photocopies only							
Arrowpack	4/85		887	888			
Gestetner	8/86				1664		
Univ.Of Florida	4/88					2800	
Swanair Travel	9/88					7416	
Exclusive Travel	10/90		288				

SUB-TOTAL		0	1175	888	1664	10216	13943

Informal Support only							
C.Ssali	10/90				261		
C.Ssali	10/90				416		
C.Ssali	10/90				355		
C.Ssali	10/90				683		
C.Ssali	10/90		464				
L.Kamya	10/90		372				

SUB-TOTAL		0	836	0	1715	0	2551

TOTAL		4759	2011	888	4207	10216	22081
=====							

ANALYSIS OF UNSUPPORTED COSTS

APPENDIX III

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ATTACHMENT II

REPORT DISTRIBUTION

American Ambassador to Kenya	1
Director, REDSO/ESA	5
RCO. REDSO/ESA	1
AA/AFR	2
AA/FA	1
AA/OPS	1
Madagascar/IOS/Djibouti/REDSO/EA Desk	1
LAC/SAM/B	1
AFR/CONT	1
XA/PR	1
LEG	1
GC	1
FA/FM	1
POL/CDIE/DI	1
FA/MCS	1
REDSO/RFMC	1
REDSO/Library	1
IG	1
AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
AIG/I&S	1
IG/I/NFO	1
IG/A/PSA	1
IG/A/FA	1
RIG/A/EUR/W	1
RIG/A/Bonn	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
IG/RM/GS (Unbound)	1