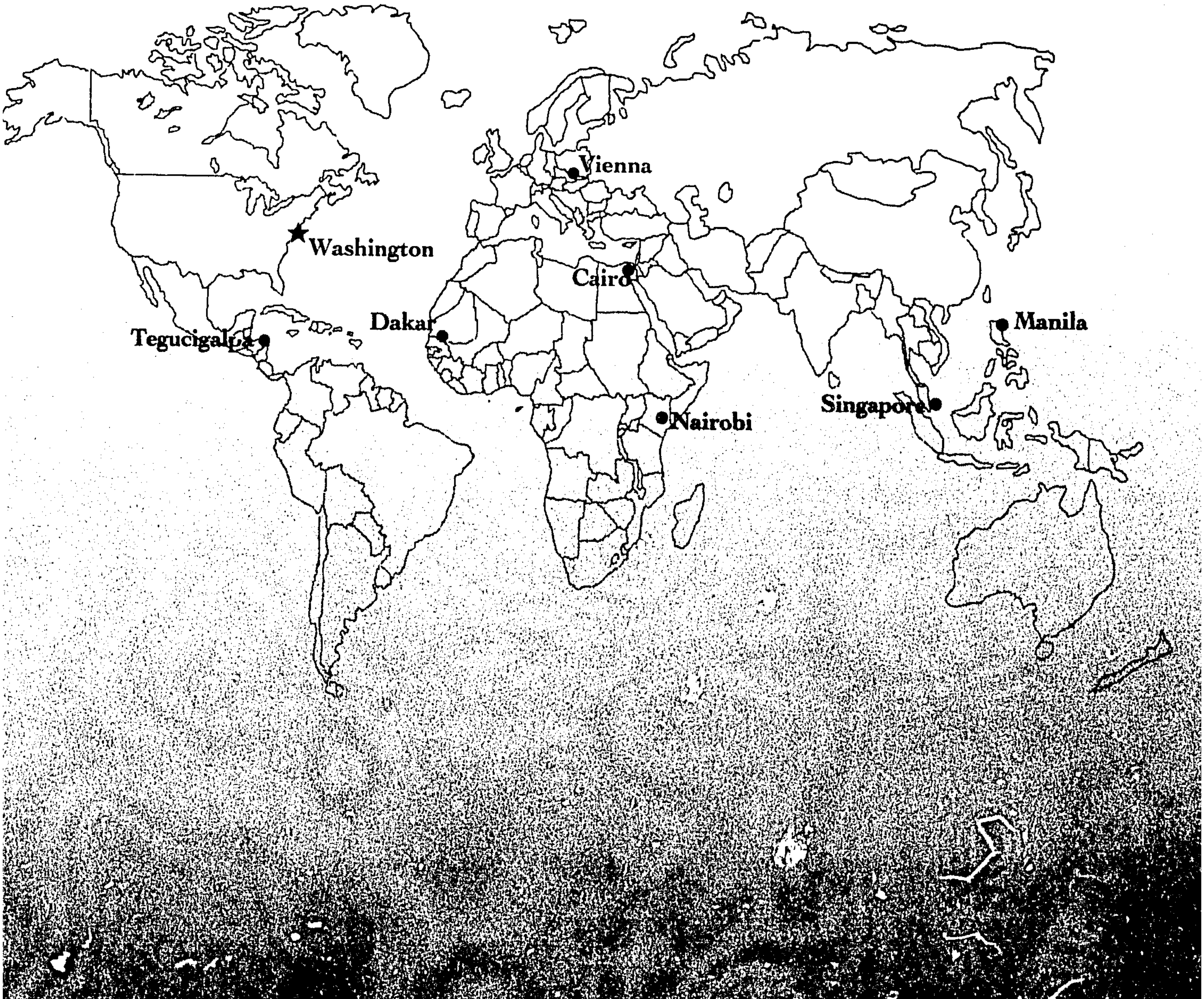
PD-ABJ-286

Regional Inspector General for Audit
Dakar

AUDIT OF USAID'S GRANT TO THE PROGRAM COORDINATING UNIT UNDER THE ECONOMIC POLICY REFORM PROGRAM IN MALI (NO. 688-0240) FROM OCTOBER 1, 1990 THROUGH MARCH 31, 1992

Audit Report No. 7-688-94-012-N
August 24, 1994



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August 24, 1994

MEMORANDUM

To: Bruno A. Kosheleff, Acting Director, USAID/Mali

Walter E. Shepherd

From: Walter E. Shepherd, Acting RIG/A/Dakar

Subject: Audit of USAID's Grant to the Program Coordinating Unit under the Economic Policy Reform Program in Mali (No. 688-0240), from October 1, 1990 through March 31, 1992 (Audit Report No. 7-688-94-012-N)

The attached report, prepared by the non-Federal audit firm, Deloitte and Touche of Abidjan, presents the results of a financial audit of the local operating costs of the Program Coordinating Unit (PCU), under the Economic Policy Reform Program in Mali from October 1, 1990 to March 31, 1992.

In September 1985, the U.S. Agency for International Development (USAID) and the Government of the Republic of Mali (GRM) signed a grant agreement to implement the Mali Economic Policy Reform Program with the purpose of promoting economic development through tax reform and budget restructuring programs. PCU was established within the GRM Ministry of Finance to carry out and monitor program activities. USAID inputs included technical assistance, commodities, training, and the financing of PCU's local operating costs. As of March 31, 1992, $470,000 had been granted to PCU, from which PCU had made expenditures totalling $94,000.

Deloitte and Touche performed the financial audit in accordance with U.S. Government Auditing Standards of the $94,000 in expenditures for the period October 1, 1990 to March 31, 1992 to determine whether the Fund Accountability Statement was fairly presented and whether PCU complied with applicable laws, regulations, and agreements that may have had a material effect on the Fund Accountability Statement. In carrying out this financial audit, the non-Federal auditor obtained an understanding of PCU's internal accounting controls over the USAID funds to plan the audit and to determine the nature, timing and extent of tests to be performed.

Deloitte and Touche found that the Fund Accountability Statement fairly presents the disbursements made by PCU from the USAID grant. The audit did, however, identify questioned costs of $2,885 which consisted of $1,656 in ineligible payments of vacation salaries, taxes on fuel, and maintenance costs and $1,229 in unsupported payments for various purchases. Regarding the internal control structure, the auditor reported on conditions such as the lack of adequate internal control procedures in several areas, and an inadequate gasoline management system. Finally, in testing for compliance with applicable laws, regulations, and agreements, the auditor stated that PCU complied in all material respects.

In its response to the draft audit report, USAID/Mali generally agreed with the auditor's findings and recommendations. However, regarding the questioned costs, USAID Mali is yet to determine whether or not to sustain the $1,229 questioned as unsupported. Concerning the $1,656 ineligible questioned costs, USAID/Mali resolved $900 as sustained but did not sustain the remaining $756. The $756 consisted of $636 in vacation salaries, $109 in taxes paid on fuel purchases, and $11 in other ineligible payments. The Mission stated that the payments that the auditors identified as vacation salaries were in fact salary premiums which the employees were entitled to in accordance with the GRM practices; and also stated that the taxes on gasoline were unavoidable due to the small quantities purchased. The auditor, however, maintained its position with a rebuttal that the payments were made for forfeited vacation and therefore represented salaries but not premiums. Regarding the fuel taxes paid, the auditor pointed out that other small purchases of gasoline did not include taxes.

The non-Federal audit report contains eight findings and eight recommendations which should be implemented by USAID/Mali and PCU. The following recommendation has been included in the Office of the Inspector General's recommendation follow-up system.

> <u>Recommendation No. 1</u>: **We recommend that USAID/Mali resolve the questioned costs of $2,885 ($1,229 unsupported) and recover those costs determined to be unallowable or unsupported.**

Recommendation No. 1 is considered unresolved since of the $2,885 questioned, $900 is resolved as sustained, $11 is resolved as not sustained, $745 is unresolved, and the Mission is yet to make a determination on $1,229. To resolve this recommendation, USAID/Mali: a) will have to advise RIG/A/Dakar of its determination on the sustainability of the $1,229 unsupported questioned costs; b) regarding the $636, the Mission should provide RIG/A/Dakar with evidence that the additional premium paid was equal to the regular monthly premium, and is an eligible expense in accordance with the project agreement terms; and c) the Mission will have to agree to sustain the ineligible $109 taxes on gasoline or provide acceptable justification to support its position. For any amounts which the Mission determines to be not sustained, RIG/A/Dakar will close that portion of the recommendation upon receipt of the Mission's determination and any evidence required to support the position taken. For those amounts which the Mission determines to be sustained, that portion of the recommendation will be closed when such questioned costs are recovered by USAID/Mali and the evidence thereof is provided to RIG/A/Dakar. Such evidence may include a copy of: a bill for collection, a document showing reimbursement, or a document showing that the amount questioned was offset against amounts due by USAID.

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

AUDIT OF A.I.D.'S GRANT TO THE PROGRAM COORDINATING UNIT (P.C.U.)

UNDER THE ECONOMIC POLICY REFORM PROGRAM (N°688-0240)

FROM OCTOBER 1, 1990 THROUGH MARCH 31, 1992

///

AUDIT OF USAID'S GRANT TO THE PROGRAM COORDINATING UNIT (PCU) UNDER THE ECONOMIC POLICY REFORM PROGRAM (NO. 688-0240) FROM OCTOBER 1, 1990 THROUGH MARCH 31, 1992

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I. TRANSMITTAL LETTER AND SUMMARY

Mr. Thomas B Anklewich
Regional Inspector General for Audit
USAID/Dakar
Senegal

Dear Mr. Anklewich,

This report presents the results of our audit of the Fund Accountability Statement of the PCU's local operating costs for the United States Agency for International Development (USAID) Grant under the Economic Policy Reform Program (N°688-0240) for the period October 01, 1990 to March 31, 1992.

A. Background

In September 1985, USAID and the Government of the Republic of Mali (GRM) signed a grant agreement to implement the Mali Economic Policy Reform Program. The total life of project funding was to be $25.7 million by the project's completion date of June 30, 1992. The project's goal was to promote economic development through tax reform and budget restructuring programs. This was to be accomplished by stimulating increased employment in the private sector and reducing the size of the public sector so as to make it more efficient and less burdensome to the economy. The authorized funding of $25.7 million included two grants: one for which was disbursed to the GRM for tax and budgetary reforms and the other was for technical assistance services and commodities.

The GRM Ministry of Finance and Commerce is responsible for the overall project implementation. A Program Coordinating Unit (PCU) within the Ministry of Finance was established to carry out and monitor program activites. Inputs to be furnished by USAID under this project were comprised of technical assistance, commodities, training, and the financing of PCU's local operating costs related to project activities. As of March 31, 1992, the equivalent of FCFA 118,350,552 ($470,000) had been granted to PCU for these local operating costs.

A previous financial audit was performed which covered PCU's local operating costs from September 17, 1985 to September 30, 1990. Costs covered by this audit amounted to FCFA 91,953,913 ($302,581).

USAID/Mali requested the Regional Inspector General for Audit in Dakar (RIG/A/Dakar) to coordinate a financial audit of the amount granted to PCU in order to meet its audit management responsibilities set forth in USAID's Audit Management Resolution Program (AMRP). The financial audit performed under this Scope of Work covered the local expenditures incurred by PCU for the period October 1, 1990 through March 31, 1992.

B. Audit Objectives and Scope

We performed a financial and compliance audit of the Program Coordinating Unit (PCU) for the Mali Economic Policy Reform Program (EPRP N°688-0240) in accordance with generally accepted auditing standards, US Government Audit Standards as set forth in the Comptroller General's ***Government Auditing Standards***, and guidelines contained in the Office of the Inspector General's ***Guide For Financial Audits Contracted by the Agency for International Development*** except that we did not have an external quality control review 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 auditing organizations in Côte d'Ivoire. We believe that the effect of this departure from financial audit requirement of Government Auditing Standards is not material because we participate in the Deloitte Touche Tohmatsu International worldwide internal quality control program which requires Deloitte Touche in Côte d'Ivoire to undergo a periodic quality control review by partners and managers from other Deloitte & Touche offices. In addition we did not fully meet the continuing education auditing standard. During the last two years we have not maintained sufficient documentary evidence of meeting the minimum 80 hours of continuing education requirement or the requirement to have 24 hours in subjects related to the government environment. However we do not believe that this departure from Government Auditing Standards has any impact on the results of this audit and we are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

The objectives of this financial-related audit are to:

i. determine the reasonableness, propriety and allowability of operating costs incurred by PCU during the period October 1, 1990 to March 31, 1992 and then express an opinion on whether the Fund Accountability Statement is fairly presented.

ii. obtain a sufficient understanding of PCU's internal control structure related to the operating costs and then review and evaluate this structure to determine the nature, timing, and extent of tests to be performed.

iii. perform tests of PCU's compliance with applicable laws, regulations, binding policies and procedures, and the Grant Agreement as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

iv. determine if previous audit recommendations have been fully implemented.

As defined in the statement of work, the scope of our work consisted of a review of the Fund Accountability Statement, steps and procedures to ascertain whether any required counterpart contributions have been provided in accordance with the USAID agreements and to verify that any commodities directly procured by USAID are accounted for and control procedures exist and have been placed in operation to adequately safeguard such assets. Work included an evaluation of project implementation actions and accomplishments to specifically determine that costs incurred are allowable, allocable and reasonable.

C. Summary of audit results

We summarize below our key conclusions which are fully detailed in the relevant sections of the present audit report.

1. Financial

We found that the Fund Accountability Statement was presented fairly. However, we questioned costs amounting to FCFA 808,228 (US$ 2,885) of the total $ 93,993 incurred by PCU. The questioned costs were shared between ineligible costs for FCFA 463,908 (US$ 1,656) and unsupported costs for FCFA 344,320 (US$ 1,229).

These questioned costs are detailed as follows:

Unsupported Costs		
	FCFA	US$ Equivalent
Documentation	344,320	1,229.71
	344,320	**1,229.71**
Ineligible Costs		
Vehicle maintenance	16,644	59.44
Fuel	248,294	886.76
Salaries and Wages	198,970	710.60
	463,908	**1,656.80**

2. *Internal Control*

Our review and evaluation of the internal control system disclosed the following immaterial weaknesses:

a) an inadequate gasoline management system
b) inadequate internal control procedures

3. *Compliance*

Our testing of transactions and records disclosed instances of PCU non-compliance with project agreement terms in the following areas:

- Payroll and social security taxes were not deducted from vacation salaries paid to some employees. The amount owed to the GRM authorities is estimated at FCFA 281,971 ($ 1,007).

- Vacation salaries amounting to FCFA 178,000 (US$635.71) were paid to GRM officials.

- Gasoline was used by the personal vehicle of the Project's supervisor for an amount of FCFA 217,789 (US$ 777.81).

- An amount of tax of FCFA 44,149 (US$ 157.67) was charged to some purchases despite the tax exempt status of the Project.

- The Project used FCFA 886,621 ($ 3,166.50) to pay salaries for its successor project without prior authorization from USAID. The amount was reimbursed when the succcessor project received funding.

4. *Status of prior audit recommendations*

Our review of the non-Federal auditor's points showed that written policies have been put in place as regards to internal control. These policies appear to operate effectively in spite of a need of minor improvements in some areas.

D. SYNOPSIS OF MANAGEMENT COMMENTS

USAID/Mali has provided the following comments:

a) The mission disagrees with the questioning of certain costs:

- Vacation salaries for GRM officials are considered as premiums and as such, are acceptable under the Program.

  We have not accepted this reason since the employees are not permanent employees of PCU.

- Taxes paid on small purchases of gasoline were unavoidable for small purchases of a gasoline/oil mixture.

  We have maintained our finding since other similar purchases made by the Project were not taxed.

- There is a strong possibility that the overpayment of FCFA 3,000 was an error in the amount invoiced.

  We have maintained our recommendation and suggest that a modified invoice be obtained.

b) PCU Management has taken steps to resolve the internal control weaknesses reported upon by the auditors.

c) Other questioned costs were found to be justified and are sustained.

Deloitte & Touche
October 27, 1993

II. FINANCIAL SECTION

A. Independent auditor's report

We have audited the accompanying Fund Accountability Statement of the PCU local operating costs for USAID's Grant under the Economic Policy Reform Program (N°688-0240) for the period October 1, 1990 to March 31, 1992. This Fund Accountability Statement is the responsibility of PCU's management. Our responsibility is to express an opinion on this Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, except that we did not have an external quality control review by an unaffiliated organization nor did our audit staff complete the minimum continuing education as required by Sections 3.46 and 3.6 respectively of the aforementioned 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.

As described in the notes to the accounts, the Fund Accountability 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 referred to above presents fairly, in all material respects, the financial position of the PCU's local operating costs for the Grant from USAID'S Economic Policy Reform Program in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement.

Separate reports have been issued pertaining to the results of our tests of PCU's compliance with laws and regulations and our consideration of the entity's internal control structure.

Deloitte & Touche

Deloitte & Touche
October 27, 1993

B. PCU'S FUND ACCOUNTABILITY STATEMENT OCTOBER 1, 1990 TO MARCH 31, 1992

	Receipts/Disbursements	Questioned Costs		
	Actual	Ineligible	Unsupported	Notes
Receipts				
Outstanding balance as at Sept. 30, 1990	628,201	-	-	
Advances	25,768,438	-	-	
Total Receipts	**26,396,639**	-	-	
Disbursements:				
Wages and Salaries	9,479,194	198,970		(3)
Civil Servants Premium	2,492,000	-		
Social Security	2,060,517	-		
Computer supplies	2,237,228	-		
Fuel	2,857,523	248,294		(4)
Office Supplies	2,196,420			
Other Costs	4,995,201	16,644	344,320	(5)
Total Disbursements	**26,318,083**	**463,908**	**344,320**	
Outstanding cash balance as at March 31, 1992	**78,556**			

C. Notes to Fund Accountability Statement

Note 1: Accounting Principles

The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements.

In this report, for convenience purposes, we have used an exchange rate of US$1 for FCFA 280.

Note 2: Budget

The budget for the Project is defined on a calendar year basis. The audited period of October 01, 1990 through March 31, 1992 does not directly relate to a budget and therefore it would be inappropriate to indicate such information.

Note 3: Wages and Salaries

The detail of ineligible wages and salaries is shown as follows:

	FCFA	US$	Finding
- Overpayment of salary taxes for Bilali Traoré	20,970	74.89	3
- Vacation salaries December 1990 paid to civil servants (Basari Kone, Amidou O SY)	178,000	635.71	5
	198,970	710.60	

Note 4: Fuel

Questioned fuel costs relate to Project gasoline used for by a personal vehicle for FCFA 217,789 personal activities (see Finding No.7 in our report on Compliance) and of taxes unduly paid on purchases (see Finding No.8 in our report on Compliance) for FCFA 30,505.

Note 5: Other Costs

Other costs include the following types of expenses: documents, postal, training, bank charges, insurance, etc.

Questioned costs are made up of:

Ineligible costs

	FCFA	US$	Finding
October 90 tax on vehicle maintenance REF.P10L75SJB	2,351	8.40	8
December 90 tax on vehicle maintenance REF P12L7SJB	4,549	16.24	8
March 91 tax on vehicle maintenance REF P16L7SJB	6,744	24.08	8
October 91 overpayment on invoice Ref P22L8SJB	3,000	10.72	2
	16,644	59.44	

Unsupported Costs

	FCFA	US$
December 91 documentation	344,320	1,229.71

This expense is documented in Finding No.2 in our report on the Internal Control Structure.

Note 6: Contingent liabilities

The Project has understated its salaries and wages expenditure for payroll taxes not paid to GRM authorities. The understatement is estimated at FCFA 302,941 ($ 1,082) as explained in Finding No.3 in our report on Compliance.

III. Internal Control Structure

A. Independent auditor's report

We have audited the Fund Accountability Statement of the PCU's local operating costs for USAID's Grant under the Economic Policy Reform Program (EPRP) in Mali for the period from October 1, 1990 to March 31, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States except for not having a fully satisfactory continuing education program and not having an external quality review by an unaffiliated organization (refer to our report on the Fund Accountability Statement). 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.

In planning and performing our audit of the PCU's Fund Accountability Statement of the EPRP for the period from October 1, 1990 to March 31, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of the PCU 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 a Fund Accountability Statement 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:

- Accounting procedures
- Procurement system
- Travel and transport procedures
- Payroll procedures

For all the control 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 judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement.

These reportable conditions were the lack of adequate controls over gasoline management and inadequate internal control procedures.

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

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

Although, our study and evaluation disclosed no condition that we believe to be a material weakness, we have noted some deficiencies in the internal control structure which need to be addressed by the management. Our findings and recommendations are presented on the following pages.

This report is intended for the information of the management of PCU and USAID. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Deloitte & Touche

Deloitte & Touche
October 27, 1993

B. FINDINGS

1. Poor controls over gasoline management

Condition

Our audit revealed that internal controls over gasoline management were poor. Weaknesses noted were :

- Stockcards were updated prior to the approval of the gasoline request. We noted one instance of a gasoline request that was immediately recorded on the stockcard before the coordinator's approval as monitcred on the stock card.

- Supporting documentation did not contain enough information to allow adequate accountability on gasoline management. Project documents such as stockcards and petty cash receipts do not clearly identify the vehicle which has received gasoline coupons. On the stockcard only the type and the number of kilometers of the car are indicated.

- Purchase orders and receiving reports are not used when procuring gasoline.

Criteria

Internal control standards require that control procedures be established and maintained so that the Project will record, process, summarize and report reliable financial data and prevent irregularities and misappropriation of assets.

Cause

Gasoline management procedures are not defined in a procedure's manual.

Risk/Effect

There is a possibility of unauthorized use of gasoline.

Recommendation

We recommend that PCU establish procedures to:

- Update stockcards

- Document the consumption of gasoline per vehicle. Gasoline consumption must be clearly indicated on the stockcard and on petty cash receipts, specifying clearly the consumer (vehicle registration number, the type and the number of coupons given).

- Establish and implement the use of purchase orders and receiving notes

2. *Inadequate internal control procedures*

Condition

Internal control procedures were noted to be inadequate in several areas. Instances revealed during our audit included:

- Lack of supporting documentation. One instance in which a payment did not agree with the amount of the relevant invoice. A difference representing an overpayment of FCFA 3,000, must be questioned. Also, documentation costs of FCFA 344,320 were not supported by an invoice.

- No periodic physical inventory. No inventory of fixed assets was made during the course of the Project.

- Salaries are not accounted for properly. We noted that the Project withheld income tax on several staff vacation salaries without repaying the amounts to Malian tax authorities (see Finding 3).

  Salaries are also prepared monthly on individual pay slips without any summary by salary component. In fact, only the net salary pay is shown in the journal of entries. No centralization is performed.

- No independent control is made on quantities of office supplies in inventory. The secretary is the only person who receives and records the quantities on the stock card.

- There is inadequate documentation to show that the competitive bidding process has been carried out. Proforma invoices and the memo explaining the choice of a particular supplier are not attached to the payment voucher.

Criteria

The Project must design an adequate internal control structure not only to guarantee the accuracy and completeness of the financial data but also to prevent irregularities and misappropriation of assets.

Segregation of incompatible functions is, for instance, an integral part of a system of internal controls.

Cause

Management believed that due to the low level of office supplies, segregation of duties was impractical.

The verification of relevant documents prior to payment are not always performed.

Risk/Effect

The amount of FCFA 344,320 is questioned as unsupported and FCFA 3,000 is questioned as ineligible vehicle maintenance costs.

The lack of segregation of incompatible functions increases the risk of irregularities. However, we did not note any irregularities in the course of our work.

Recommendation

The project should design and implement simplified procedures that will ensure that minimum aspects of Internal Control Standards are taken into account. specific recommendations include:

a) Supporting documentation such as the purchase request, purchase order and the receipt note must be attached to the invoice to enable proper examination and control. Before signing a check, the signatory must match all supporting documents submitted and validate the check amount. Supervisory controls should be ensured.

   In the absence of justification, the questioned costs of FCFA 344,320 and an overpayment FCFA 3,000 should be reimbursed by the Project. With regards to the latter, USAID/Mali and the Project believe that there is a strong possibility that the amount on the invoice was in error, and furthermore believe that it is not cost effective to look for that supplier to request the reimbursement of the amount overpaid. We recommend, in this instance, that a corrected invoice should be obtained.

b) We recommend that a physical inventory be taken at least once a year. Fixed assets should be tagged showing the donor's name, the registration number of the fixed asset and the date of acquisition.

c) An independent legalized salary journal must be kept monthly which will include salary components by individual and a centralization of all salary items for the staff.

d) Management should be aware of instances where incompatible functions are not segregated, and establish compensating controls.

In response to our recommendation, USAID/Mali has informed us that since the end of this Project and the beginning of the follow-on Project the PCU for the successor Project has taken the following steps to ressolve the internal control weaknesses reported upon by the auditors:

- The PCU has hired a new administrator who will supervise the work of the accountant and review all the payment documents for adequacy and completeness.

- A system for control of vehicle and fuel use has been established, with fuel use by vehicule and by kilometer now included in monthly vehicle reports.

- A physical inventory of all fixed assets has performed and documented at the end of the Project, and further inventories will be performed periodically under the successor Project. All fixed assets have been tagged with USAID emblems.

- The PCU is setting up a new system of salaries management to meet the audit recommendations.

- A manual of procedures is being prepared to cover all the financial management aspects of the new project and a USAID financial analyst will review periodically the PCU financial management and internal control system to ensure that prescribed procedures are being implemented.

IV. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS

A. *Independent Auditor's Report*

We have audited the Fund Accountability Statement of the PCU's local operating costs for USAID's Grant under the Economic Policy Reform Program (EPRP) in Mali for the period of October 1, 1990 to March 31, 1992 and have issued our report thereon dated October 27, 1993.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States except for not having fully satisfactory continuing education program and not having an external quality control review by an unaffiliated organization (refer to our report on the Fund Accountability Statement). 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 PCU is the responsibility of PCU's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of PCU's 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.

We noted certain immaterial instances of nocompliance which are identified in the accompanying findings.

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

This report is intended for the information of the management of PCU and USAID. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Deloitte & Touche

Deloitte & Touche
October 27, 1993

B. Findings

3. Nonpayment of payroll taxes

Condition

We noted that the Project withheld income tax (IGR or Impôt Général sur le Revenu) on several staff vacation salaries without repaying the amounts to Malian tax authorities. The total amount withheld was FCFA 98,749 as follows:

	FCFA
Kadidiatou Traoré	21,584
Fanta Cissé	20,037
Abdoulaye Coulibaly	50,716
Mody Cissoko	6,412

	98,749

We nonetheless noted that the Project overpaid the IGR for Mr. Bilali Traoré for April 1991 in excess of FCFA 20,970 ($ 75).

We noted that remuneration paid to Miss Kadidiatou Traoré for her 1990 and 1991 vacation did not support payroll taxes (IGR and INPS) as required by Malian Legislation. She was paid the net amount of FCFA 218,376. In addition, Mr. Sekou Maïga, a driver, was paid overtime for FCFA 11,000 without any payroll tax deduction. We estimate that the Project underestimated it's payroll taxes for approximately FCFA 58,000 ($ 207), including about FCFA 33,000 ($ 118) representing the employees share.

We also noted that the Project did not pay payroll tax (INPS) on the premium paid to Tidiane Siby in October 1990 and on the salaries paid to three PCU's staff members (Abdoulaye Coulibaly, Fanta Cisse and Kadidiatou Traore) in December 1990 and July 1991. The total amount not paid was FCFA 146,192 as follows:

Employee	Salary or Premium	INPS Employee's Part	INPS PCU's Share	Total not paid
Tidiane Siby	81,000	2,916	14,904	17,820
Abdoulaye Coulibaly	157,416	9,267	25,364	34,631
Fanta Cissé	116,960	4,210	21,521	25,731
Kadidiatou Traoré	134,086	4,827	24,672	29,499
Abdoulaye Coulibaly	175,051	6,302	32,209	38,511
		27,522	118,670	146,192

Criteria

Any salary and wages or remuneration which is not a reimbursement of costs, paid to an employee in compensation of services rendered are subject to taxation and to Social Security contribution.

Cause

Relevant legislation was unknown to Project officials.

Risk/Effect

The total effect of the errors noted is:

Ineligible wages and salaries	:	FCFA 20,970 ($ 75)
Contingent liability	:	FCFA 302,941 ($1,082)

Included in the contingent liability is an amount of approximately FCFA 60,522 (FCFA 27,522 plus FCFA 33,000) which should be recoverable from the employees.

There is a risk of penalties from tax authorities in case of control.

Recommendation

We recommend that steps be taken to regularize the position of the Project vis-à-vis the Malian authorities.

We have been informed by USAID/Mali that since the Project has been closed for about a year and its terminal disbursement date has passed, the Mission has decided to address this issue to the Ministry of Finance and Commerce, (which originally hired the concerned employees through the PCU), so that they may take action to collect the taxes owed to them by the employees.

We also recommend that USAID/Mali recover the ineligible payment of $ 75.

4. *Anticipated vacation*

Condition

We noted that in July 1991, seven months after his previous vacation, Mr. Abdoulaye Coulibaly was paid for his 1991 vacation with the approval of the Project's supervisor.

Criteria

GRM labor law stipulates that an employee is only entitled to annual leave after 11 months of continuous service from his previous vacation date.

Cause

PCU's schedule for vacation was made without taking into account the different regulations.

Risk/Effect

The payment of vacation time was not made in accordance with the terms of GRM law.

Recommendation

We recommend that in the future, the new Project take into account the criteria mentioned above. Exceptions should be documented by way of a written memo by the Project's supervisor explaining the conditions to support such payment.

5. *Payment of GRM officials*

Condition

We noted that Mr. Bacari Koné and Mr. Amidou O Sy, the PCU supervisor, were respectively paid FCFA 125,000 and FCFA 53,000 for vacation not taken in December 1990 in addition to their premiums for the month.

These individuals are GRM civil servants assigned to the PCU by the Ministry of Finance and Commerce. They are not on the Project's payroll and are only entitled to receive premiums.

Criteria

Representatives of the GRM are not permanent staff of the PCU. Therefore, vacation costs must be supported by the GRM who is responsible for them.

Cause

It is believed that Malian civil servants are generally entitled to an extra month's pay if they forfeit their customary one month's vacation. Since these employees did so and were paid their regular salary for the month by the GRM, the PCU paid its customary premium.

Risk/Effect

Misuse of Project's funds for an amount of FCFA 178,000.

Recommendation

USAID disagrees with this finding in consideration that the vacation paid were in fact premiums allowable under the Program. We have not accepted this reason since we do not believe that the payment of foreited vacation represents a premium.

We therefore recommend that the total amount of FCFA 178,000 be questioned and refunded to the Project.

6. Payment of salaries for successor project

Condition

We noted that in February 1992, the PCU used FCFA 886,621 from the Project's fund to cover the salaries of its successor project (PRED). This amount was reimbursed to the Project in March 1992 when the PCU received the new project's funds.

Criteria

The Project's fund must relate to Project related expenses.

Cause

This was due to the fact that the Project was closed and that the new project (PRED) started in January 1992 without funding. Until the funding was received, the PCU had to cover salary expenditure.

Risk/Effect

Risk of payment of non-Project related expenses.

Recommendation

We recommend that in the future, prior to taking such an initiative, the PCU should obtain a written approval from USAID.

7. ***Project gasoline used in personal vehicle***

Condition

We noticed that the supervisor of the Project used gasoline for his own vehicle.

Criteria

Gasoline purchased is to be used by the Project vehicles and for the Project's needs.

Cause

For convenience purposes, the supervisor preferred to use his own vehicle.

Risk/Effect

Mismanagement of gasoline consumption involving a questioned cost of 1,360 liters of gasoline representing FCFA 217,789. (See Appendix No. 1).

Recommendation

We recommend that Project rules be respected and that gasoline be used only by Project vehicles and strictly for Project purposes only. The questioned amount must be reimbursed by the supervisor.

8. *Tax unduly paid*

Condition

We noticed that certain expenditure paid from petty cash does not allow the buyer to obtain a tax exemption. An amount of FCFA 30,505 of tax was paid on gasoline purchases (See detail on Appendix 2) and FCFA 13,644 for vehicle maintenance.

Criteria

Project purchases are tax free.

Cause

Urgent situations require that certain expenditure be met by the petty cash fund.

Risk/Effect

The total amount of tax paid of FCFA 44,149 is questioned.

Recommendation

In its response to the draft report, USAID/Mali has stated that the Project was advised by its regular gasoline dealer that an exoneration was not available for small purchases of gasoline/oil mixture. The Project argues that purchasing and stocking large quantities of gasoline and oil and mixing them to produce the needed mixture is not cost effective.

The auditors do not agree with this argumentation. The questioned costs relate to tax paid on gasoline and diesel purchases for which, in other instances, the PCU did not pay tax.

We recommend that as much as possible, purchases be made by check to avoid purchases that require payment of taxes especially with non formal suppliers. The Project should seek reimbursement of the tax paid.

Appendix No.1

Detail of fuel used for non-necessarily project related purposes

Date	Gasoline Coupons No.s	Quantity in Liters	Unit Price	Amount
09-28-91	541612 à 541615	40	159,89	6,396
10-26-91	582025 à 582028	40	159,89	6,396
11-05-91	582045 à 582048	40	159,89	6,396
11-09-91	632707 à 632710	40	159,89	6,396
11-16-91	632727 à 632730	40	159,89	6,396
11-23-91	632743 à 632746	40	159,89	6,396
11-30-91	632755 à 632758	40	159,89	6,396
12-06-91	667457 à 667460	40	159,89	6,396
12-13-91	667477 à 667 480	40	159,89	6,396
12-21-91	667493 à 667496	40	159,89	6,396
12-27-91	667505 à 667508	40	159,89	6,396
01-04-92	702445 à 702448	40	159,89	6,396
01-10-92	702453 à 702456	80	159,89	12,791
01-17-92	702469 à 702476	80	159,89	12,791
01-24-92	702482 à 702489	50	159,89	7,994
01-24-92	433861 à 433863	30	159,89	4,797
01-31-92	11507 à 11514	80	159,89	12,791
02-07-92	11525 à 11532	80	159,89	12,791
02-14-92	11546 à 11553	80	159,89	12,791
02-21-92	11563 à 11568	60	159,89	9,593
02-22-92	769641 à 769642	20	160,88	3,218
02-29-92	769659 à 769666	80	160,88	12,870
03-07-92	769679 à 769686	80	160,88	12,870
03-13-92	769699 à 769706	80	160,88	12,870
03-21-92	769723 à 769973	80	160,88	12,870
		------		---------
TOTAL 1		**1,360**		**217,789**

Appendix No.2

Detail of tax paid on fuel purchases

Date	Supplier	Number of liters	Amount	Tax
04-10-90	Shell	10	3,000	786
04-10-90	Shell	30	6,300	1,650
05-10-90	SIEPP	10	3,000	786
05-10-90	Shell	20	4,200	1,100
06-10-10	Shell	23.50	5,000	1,292
06-10-90	Mobil	5	1,500	393
09-10-90	Shell	15	4,500	1,180
09-10-90	Shell	20	4,200	1,100
10-10-90	Shell	5	1,500	393
20-02-91	Shell	2	600	157
02-02-90	Shell	2	600	157
21-02-91	Le Cauris	2	600	157
27-07-91	Sam Station	20	600	2,802
27-07-91	El Hadj Bakary	20	6,000	2,802
30-07-91	Shell	30	9,000	4,203
31-07-91	SMH	10	3,000	1,401
31-07-91	TEXACO	28.3	6,000	2,775
31-07-91	Shell	28.3	6,000	2,775
01-08-91	Shell	28.3	6,000	2,775
08-08-91	Shell	10	3,000	1,401
26-08-91	Shell	2	600	280
29-08-91	Shell	1	300	140

				30,505

ACTION: RIG-1
INFO: DCM-1 AMB-1

DISTRIBUTION: RIG
CHARGE: RIG

VZCZCDK0667
RR RUEHDK
DE RUEHBP #4709/01 1871554
ZNR UUUUU ZZH
R 061552Z JUL 94
FM AMEMBASSY BAMAKO
TO AMEMBASSY DAKAR 0495
BT
UNCLAS SECTION 01 OF 03 BAMAKO 04709

RIG AIDAC

FOR RIG DAKAR

E.O. 12356: N/A
SUBJECT: MISSION COMMENTS ON THE DRAFT AUDIT REPORT ON USAID'S GRANT TO THE PROGRAM COORDINATION UNIT (PCU) UNDER THE MALI ECONOMIC POLICY REFORM PROJECT NO. 688-0240.

PART I. COMMENTS IN RESPONSE TO THE RECOMMENDATIONS INCLUDED IN THE OFFICE OF THE INSPECTOR GENER\L'S TRACKING SYSTEM, AS NOTED IN THE MEMO ATTACHED TO THE REPORT.

A. RECOMMENDATION NO.1: THAT USAID MALI RESOLVE THE QUESTIONED COSTS OF DOLS. 2,885 (DOLS. 1,229 UNSUPPORTED) AND RECOVER THOSE COSTS DETERMINED TO BE UNALLOWABLE.

MISSION HAS DETERMINED THE FOLLOWING:

1. UNSUPPORTED COST DOLS. 1,229 (CFA 344,320).

THIS QUESTIONED COST RELATES TO A MISSING BILL FOR SUBSCRIPTIONS TO MAGAZINES. THE PCU IS SEARCHING FOR THE BILL AND MISSION HAS DETERMINED THAT THIS AMOUNT SHOULD BE SUSTAINED UNTIL THE BILL IS FOUND. IF THE BILL IS NOT FOUND MISSION WILL REQUEST REIMBURSEMENT FROM THE MINISTRY OF FINANCE AND COMMERCE.

B. INELIGIBLE COSTS:

1. WAGES AND SALARIES:

1.1. OVERPAYMENT OF SALARY TAXES FOR EMPLOYEE BILALI TRAORE, DOLS. 74.89 (CFA 20,970):

MISSION HAS DETERMINED THAT THIS COST IS SUSTAINED AND WILL ISSUE A LETTER TO THE MINISTRY OF FINANCE AND COMMERCE TO REQUEST REIMBURSEMENT OF THE AMOUNT OF TAXES OVERPAID.

1.2. VACATION SALARIES DECEMBER 1990 PAID TO CIVIL SERVANTS (BAKARI KONE, AMIDOU O SY) - DOLS. 635.71 (CFA 178,000):

THIS CONCERNS PREMIUMS PAID BY THE PCU TO TWO MALIAN CIVIL SERVANTS ASSIGNED TO THE PCU BY THE MINISTRY OF FINANCE AND COMMERCE. THESE EMPLOYEES DID NOT TAKE A MONTH OF VACATION THAT WAS AVAILABLE TO THEM, AND WERE EACH PAID AN ADDITIONAL PREMIUM. THEY WERE ON THE PERMANENT STAFF OF THE PCU AND NORMALLY THEIR SALARIES WERE PAID BY THE GOVERNMENT OF THE REPUBLIC OF MALI (GRM), WHILE PREMIUMS WERE PAID BY THE PCU. MALIAN CIVIL SERVANTS ARE GENERALLY ENTITLED TO AN EXTRA MONTH'S PAY IF THEY FORFEIT THEIR CUSTOMARY ONE MONTH'S VACATION. SINCE THESE EMPLOYEES DID SO AND WERE PAID THEIR REGULAR SALARY FOR THE MONTH BY THE GRM, THE PCU PAID ITS CUSTOMARY PREMIUM. IN EFFECT, THE FORFEITED VACATION IS TREATED AS A 13TH MONTH OF WORK. MISSION BELIEVES THAT THE PCU'S ACTION WAS APPROPRIATE AND REQUESTS THAT THIS QUESTIONED COST NOT BE SUSTAINED.

2. FUEL:

2.1. PROJECT GASOLINE USED IN A PERSONAL VEHICLE - DOLS. 777.81 (CFA 217,789):

MISSION HAS DETERMINED THAT THESE COSTS ARE SUSTAINED AND A LETTER IS BEING ISSUED TO THE MINISTRY OF FINANCE AND COMMERCE REQUESTING REIMBURSEMENT.

2.2. TAXES PAID ON FUEL PURCHASES - DOLS. 109 (CFA 30,505):

THESE TAXES WERE CHARGED ON SMALL PURCHASES OF GASOLINE/OIL MIXTURE FOR THE PROJECT MOTORBIKES. THE PROJECT WAS ADVISED BY ITS REGULAR GASOLINE DEALER THAT AN EXONERATION WAS NOT AVAILABLE FOR SMALL PURCHASES OF GASOLINE/OIL MIXTURE. THE PROJECT ARGUES THAT PURCHASING AND STOCKING LARGE QUANTITIES OF GASOLINE AND OIL AND MIXING THEM TO PRODUCE THE NEEDED MIXTURE IS NOT COST EFFECTIVE. THE VALUE OF EMPLOYEE INPUT REQUIRED FOR THE PAPERWORK AND THE INVENTORY CONTROL INVOLVED PLUS THE COST OF ADEQUATE STORAGE APPEAR TO EXCEED THE AMOUNT OF TAXES PAID. MISSION REQUESTS THAT RIG/A/DAKAR NOT SUSTAIN THIS AMOUNT.

3. OTHER COSTS:

3.1. TAXES PAID ON OTHER EXPENDITURES (DOCUMENTS, POSTAL COSTS, TRAINING, BANK CHARGES, AND INSURANCE) - DOLS. 48.72 (CFA 13,644):

MISSION HAS DETERMINED THAT THESE COSTS ARE SUSTAINED AND IS ISSUING A LETTER TO THE MINISTRY OF FINANCE AND COMMERCE REQUESTING REIMBURSEMENT.

3.2. OVERPAYMENT ON INVOICE -DOLS 10.71 CFA(3,000)

THE PROJECT INFORMED THE MISSION THAT THIS CONCERNS AN AMOUNT THAT WAS TO BE PAID TO A SUPPLIER WHO DID NOT HAVE A FIXED LOCATION. IN MAKING PAYMENT, THE PCU RELIED ON THE PURCHASE ORDER, WHICH STATED THE AMOUNT AT 88,500 FCFA, AND OVERLOOKED THE FACT THAT THE INVOICE STATED THE PRICE AT QUOTE 85,5000 CFA UNQUOTE. MISSION AND PROJECT BELIEVE THAT THERE IS A STRONG POSSIBILITY THAT THE AMOUNT ON THE INVOICE WAS IN ERROR, AND FURTHERMORE BELIEVE THAT IT IS NOT COST EFFECTIVE TO LOOK FOR THAT SUPPLIER TO REQUEST THE REIMBURSEMENT OF THE AMOUNT OVERPAID. NEVERTHELESS, PROCEDURES HAVE BEEN PUT IN PLACE BY THE FOLLOW-ON PROJECT TO ENSURE THOROUGH REVIEW OF AMOUNTS STATED ON BILLS WITH ATTENTION TO ANY DIFFERENCES FROM THOSE STATED ON PURCHASE ORDERS. ACCORDINGLY, MISSION REQUESTS THAT THIS COST NOT BE SUSTAINED.

PART II. MISSION AND PCU MANAGEMENT COMMENTS ON AUDITOR'S FINDINGS ON INTERNAL CONTROL STRUCTURE WHICH WERE NOT INCLUDED IN THE INSPECTOR GENERAL'S FOLLOW-UP SYSTEM.

SINCE THE END OF THIS PROJECT AND THE BEGINNING OF THE FOLLOW-ON PROJECT THE MISSION AND THE PROJECT COORDINATION UNIT FOR THE SUCCESSOR PROJECT HAVE TAKEN THE FOLLOWING STEPS TO RESOLVE THE INTERNAL CONTROL WEAKNESSES REPORTED UPON BY THE AUDITORS:

- THE PCU HAS HIRED A NEW ADMINISTRATOR WHO WILL SUPERVISE THE WORK OF THE ACCOUNTANT AND REVIEW ALL THE PAYMENT DOCUMENTS FOR ADEQUACY AND COMPLETENESS.

- A SYSTEM FOR CONTROL OF VEHICLE AND FUEL USE HAS BEEN ESTABLISHED, WITH FUEL USE BY VEHICLE AND BY KILOMETER NOW INCLUDED IN MONTHLY VEHICLE REPORTS.

- A PHYSICAL INVENTORY OF ALL FIXED ASSETS WAS PERFORMED AND DOCUMENTED AT THE END OF THE PROJECT, AND FURTHER

INVENTORIES WILL BE PERFORMED PERIODICALLY UNDER THE SUCCESSOR PROJECT. ALL FIXED ASSETS HAVE BEEN TAGGED WITH USAID EMBLEMS.

- THE PCU IS SETTING UP A NEW SYSTEM OF SALARIES MANAGEMENT TO MEET THE AUDIT RECOMMENDATIONS.

- A MANUAL OF PROCEDURES IS BEING PREPARED TO COVER ALL THE FINANCIAL MANAGEMENT ASPECTS OF THE NEW PROJECT AND A USAID FINANCIAL ANALYST WILL REVIEW PERIODICALLY THE PCU FINANCIAL MANAGEMENT AND INTERNAL CONTROL SYSTEM TO ENSURE THAT PRESCRIBED PROCEDURES ARE BEING IMPLEMENTED.

PART III. MISSION AND PCU MANAGEMENT COMMENTS ON AUDITOR FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS (NOT INCLUDED IN INSPECTOR GENERAL'S FOLLOW-UP SYSTEM).

A. NON PAYMENT OF INCOME TAXES, "IMPOTS GENER\L SUR LE REVENU," AND SOCIAL SECURITY TAXES FOR TOTAL AMOUNT OF DOLS. 1,082 (CFA 302,941).

BECAUSE THE PROJECT HAS BEEN CLOSED FOR ABOUT A YEAR AND ITS TERMINAL DISBURSEMENT DATE HAS PASSED, THE MISSION HAS DECIDED TO ADDRESS THIS ISSUE TO THE MINISTRY OF FINANCE AND COMMERCE, (WHICH ORIGINALLY HIRED THE CONCERNED EMPLOYEES THROUGH THE PCU), SO THAT THEY MAY TAKE ACTION TO COLLECT THE TAXES OWED TO THEM BY THE EMPLOYEES.

B. PAYMENT TO THE ACCOUNTANT FOR ANTICIPATED FORFEIT OF VACATION AFTER LESS THAN ELEVEN MONTHS OF SERVICE AND PAYMENT OF SALARIES FOR SUCCESSOR PROJECT:

THESE PAYMENTS RESULTED IN NO LOSS TO THE PROJECT, SINCE THEY WERE EVENTUALLY EITHER LIQUIDATED OR REIMBURSED, BUT NEVERTHELESS MISSION AGREES WITH THE AUDITOR'S . FINDINGS AND MAKES NOTE OF THEM FOR THE FOLLOW-ON PROJECT.
MISSION WOULD LIKE TO THANK THE FIRM OF DELOITTE AND TOUCHE FOR ITS CONDUCT OF THIS AUDIT AND WILL WORK WITH THE PCU UNDER THE SUCCESSOR PROJECT TO ENSURE THAT THE RECOMMENDATIONS MADE IN THIS REPORT ARE IMPLEMENTED.
DAMERON

BT
#4709

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