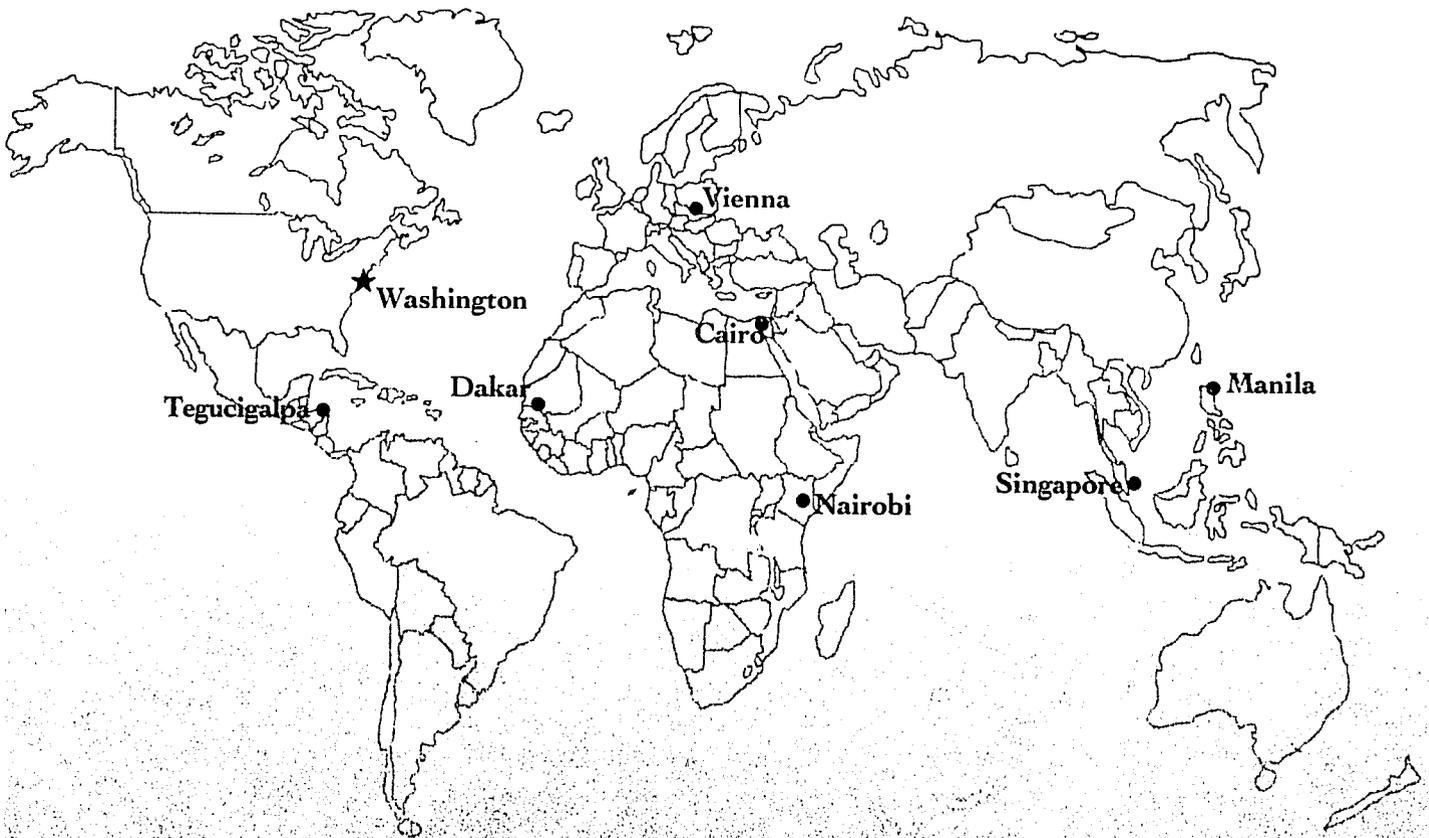


**Regional Inspector General for Audit
Dakar**

**AUDIT OF A.I.D.'S CONTRACT WITH ACTION
CONSULTING ASSOCIATION (NO. 685-0242-C-00-2167-00)
UNDER THE RURAL HEALTH DELIVERY SERVICES
II PROJECT (NO. 685-0242)
FROM JANUARY 31, 1992 TO JUNE 30, 1993**

**Audit Report No. 7-685-94-015-N
September 22, 1994**



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

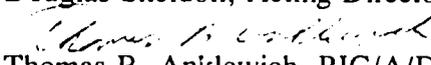
UNITED STATES ADDRESS
RIG / DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20521 - 2130

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

September 22, 1994

MEMORANDUM

To: Douglas Sheldon, Acting Director, USAID/Senegal

From: 
Thomas B. Anklewich, RIG/A/Dakar

Subject: Audit of USAID's Contract with Action Consulting Association (No. 685-0242-C-00-2167-00) under the Senegal Rural Health Delivery Services II Project (No. 685-0242), from January 31, 1992 through June 30, 1993 (Audit Report No. 7-685-94-015-N).

The attached report, prepared by the non-Federal audit firm, Ernst & Young, Senegal, presents the results of a financial audit of USAID's contract with Action Consulting Association (No. 685-0242-C-00-2167-00) under the Senegal Rural Health Delivery Services II Project (No. 685-0242), from January 31, 1992 through June 30, 1993.

On April 12, 1984, the U.S Agency for International Development (USAID) and the Government of Senegal signed a grant agreement to implement the Rural Health Delivery Services II (RHDS II) project with the purpose of developing a village-based primary health care delivery system. On January 31, 1992, USAID/Senegal awarded Action Consulting Association (ACA), a Senegalese non-profit institution, a contract to manage the local operating costs for the project. During the period January 31, 1992 through June 30, 1993, ACA disbursed a total of \$333,000 in operating costs and received fees totalling \$89,000 for its services.

Ernst & Young performed the financial audit in accordance with U.S. Government Auditing Standards of the \$333,000 (FCFA 90 million) in disbursements to determine whether the Fund Accountability Statement for the period January 31, 1992 through June 30, 1993 was fairly presented and whether ACA 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 ACA's internal accounting controls over USAID funds to plan the audit and to determine the nature, timing and extent of tests to be performed.

Ernst & Young found that the Fund Accountability Statement fairly presented the local operating costs managed by ACA except for questioned costs of \$24,288. Regarding the questioned costs, the auditor questioned \$19,847 as unsupported because of the lack of supporting documents for several payments, and \$4,441 as ineligible due to excess per diem payments. In obtaining an understanding of the internal control structure, the auditors noted three internal control weaknesses and reported one as a material weakness—inadequate documentation of disbursements. Finally, in testing for compliance with applicable laws, regulations, and agreement terms, the auditors stated that ACA complied in all material respects.

In its response to the draft audit report, USAID/Senegal promised to resolve the findings and recommendations as quickly as possible.

The non-Federal audit report contains six findings and six recommendations which should be implemented by USAID/Senegal and ACA. The following recommendations have been included in the Office of the Inspector General’s recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Senegal resolve the questioned costs of \$24,288 (\$19,847 unsupported) and recover those costs determined to be unallowable or unsupported.

Recommendation No. 1 is considered unresolved until USAID/Senegal advises RIG/A/Dakar of its official determination of the sustainability of the questioned costs. 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/Senegal 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.

Recommendation No. 2: We recommend that USAID/Senegal obtain from the Action Consulting Association a plan to:

- 2.1 establish written procedures to improve its internal controls for documenting disbursements, and**
- 2.2 assure adequate segregation of duties exists over cash management.**

Recommendation No. 2 is considered unresolved. It can be resolved when RIG/A/Dakar receives an acceptable plan for corrective action and can be closed upon completion of the corrective action.

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

**UNITED STATES AGENCY
FOR INTERNATIONAL DEVELOPMENT
(USAID)**

**AUDIT OF A.I.D.'s CONTRACT WITH ACTION CONSULTING ASSOCIATION
(No. 685-0242-C-00-2167-00) UNDER THE
RURAL HEALTH DELIVERY SERVICES II PROJECT
(No. 685-0242)
from January 31, 1992 to June 30, 1993**

**AUDIT OF A.I.D.'s CONTRACT WITH ACTION CONSULTING ASSOCIATION
 (No. 685-0242-C-00-2167-00) UNDER THE
 RURAL HEALTH DELIVERY SERVICES II PROJECT
 (No. 685 - 0242)
 from January 31, 1992 to June 30, 1993**

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December 6, 1993

Mr. Thomas B. Anklewich
Regional Inspector General for Audit
USAID / RIG DAKAR

Subject : Audit of A.I.D.'s contract with Action Consulting Association
(No. 685-0242-C-00-2167-00) under the Rural Health Delivery
Services II Project (No. 685-0242), from January 31, 1992 to June 30, 1993

Dear Mr. ANKLEWICH :

This report presents the results of our financial audit of A.I.D.'s contract with Action Consulting Association (No. 685-0242-C-00-2167-00) under the Rural Health Delivery Services II Project. The audit covered disbursements totalling FCFA 90,377,513 (\$333,324) for the period January 31, 1992 through June 30, 1993. These disbursements were made by the Action Consulting Association, who was paid a fee of FCFA 24,272,315 for its services for the period January 31, 1992 to June 30, 1993.

A. BACKGROUND

On April 12, 1984, USAID/Senegal and the Government of Senegal (GOS) signed a grant agreement to implement the Rural Health Delivery Services II (RHDS II) Project. The life of project (LOP) funding was to be \$8 million by the project assistance completion date (PACD) on April 1, 1989. Since then the LOP funding and the PACD have been amended several times, the current life of project funding is \$10.725 million (which is fully obligated) and the PACD is December 31, 1993. The purpose of this project was to develop a village-based primary health care delivery to reduce the incidence of infectious diseases among the rural population and to develop a maternal and child health care infrastructure including family planning services. To achieve this purpose regional activities were planned such as training of health agents, information, education and communication outreach, and operations research.

Inputs to be furnished by A.I.D. under this project comprised of training, construction, commodities, technical assistance and financing of local operating costs. Activities related to these local operating costs were administered by Action Consulting Association (ACA), a Senegalese non-profit institution which was awarded an A.I.D. contract on January 31, 1992.

B. AUDIT OBJECTIVES AND SCOPE

This financial audit of A.I.D.'s contract with Action Consulting Association (No. 685-0242-C-00-2167-00) under the Rural Health Delivery Services II Project (No. 685 - 0242) covered the period January 31, 1992 to June 30, 1993.

The objectives of the audit were to:

- i) determine the reasonableness, propriety and allowability of local expenditures totalling FCFA 90,377,513 (\$333,324) made by ACA during the period January 31, 1992 through June 30, 1993 and then express an opinion on whether the Fund Accountability Statement is fairly presented, in all material respects, in conformity with generally accepted accounting principles;
- ii) obtain a sufficient understanding of ACA's internal control structure related to the local expenditures and then review and evaluate this structure to determine the nature, timing and extent of tests to be performed in order to form an opinion on the fund accountability statement and then report on the internal control structure identifying (1) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk, (2) ACA's significant internal controls including the controls established to ensure compliance with laws and regulations that have a material impact on the fund accountability statement, and (3) the reportable conditions, including the material weaknesses identified as a result of the auditor's work in understanding and assessing the control risk; and
- iii) perform tests of ACA's compliance with contract terms, applicable laws and regulations as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement and then report on the results of compliance testing. These tests are also performed to determine whether the organization complied, in all material respects, with contract terms, laws and regulations and express positive assurance on those items tested and negative assurance on those items not tested.
In testing compliance, specific steps and procedures were designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct effect on the account statements.

The audit was performed in accordance with generally accepted auditing standards and U.S. Government Auditing Standards issued by the Comptroller General of the United States, except as discussed in the following paragraph:

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 control review program is offered by professional auditing organizations in Senegal. We believe that the effect of this departure from the financial auditing requirement of Government Auditing Standards is not material because we participate in the Ernst and Young worldwide internal quality control program which requires the Ernst and Young Dakar office to undergo a periodic quality control review by partners and managers from other Ernst & Young offices.

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

- Review of the grant agreement, project paper and other related project documents;
- Understanding, documentation and evaluation of ACA's accounting records and procedures ;
- Review and testing of local currency expenditures for goods and services procured by ACA to determine whether they were allowable, reasonable, relevant to project activities and supported by adequate documentary evidence;
- Reconciliation of the movement in funds for the period under review including reconciliation of ACA recorded revenues, expenditures and balances with bank records;
- Determining whether advances and reimbursements were made in accordance with agreement terms and reconciling advances and reimbursements per USAID Senegal's accounting system with those amounts reported by ACA as receipts from USAID/Senegal;
- Understanding, documentation and review of ACA's internal control systems and performing of tests to determine the extent to which established procedures and controls are functioning as intended. This includes the determination, evaluation and testing of control risks;
- Evaluation of ACA's physical and accounting controls over A.I.D. financed commodities and determination of their proper use, maintenance and custody;
- Determining whether ACA was in compliance with applicable U.S. and GOS laws, regulations and agreements by evaluating the ACA internal control system and substantive testing of recorded revenues and expenditures for the period under review;
- Planning of the audit so as to devise steps to identify instances or indications of fraud, abuse or illegal acts and reporting any such instances or indications to RIG/A/D.

At the beginning and end of the field work, respectively, an entrance and exit conference were held to formally advise Project management of the audit objectives and scope and results and to obtain their comments on the proposed findings and recommendations.

C. SUMMARY OF AUDIT RESULTS

1. FINANCIAL

We found that the Fund Accountability Statement representing the local costs charged by ACA under the Rural Health Delivery Services II Project was presented fairly except for questioned costs of FCFA 6,585,346 (\$24,288). Our testing of items on the Fund Accountability Statement revealed that ACA incurred and was reimbursed by USAID/Senegal for unsupported questioned costs of FCFA 5,381,346 (\$19,847) and ineligible questioned costs of FCFA 1,204,000 (\$4,441). These expenditures are discussed in Findings 3.B.2., 3.B.3., 4.B.3, summarized in the Fund Accountability Statement in page 8, and detailed in Appendix B.

2. INTERNAL CONTROL

In our review and evaluation of the internal control structure we noted the following reportable conditions none of which, except for (iii), we consider to be a material weakness :

- (i) Weak control procedures concerning separation of duties and supervision (Finding 3.B.1) ;
- (ii) Weak control procedures for per diem payment to seminar participants (Finding 3.B.2) ;
- (iii) Inadequate documentation of disbursements (Finding 3.B.3).

3. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

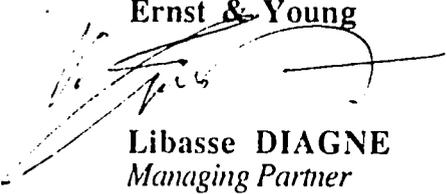
In our tests of compliance with agreement terms and applicable laws we found the following instances of immaterial non compliance :

- i) Ineligible funds advances made to other projects by ACA (Finding 4.B.1) ;
- ii) Disbursements made without a preliminary engagement in a disbursement order (Finding 4.B.2) ;
- iii) Ineligible per diem charged to USAID by ACA on project fees (Finding 4.B.3).

D. SYNOPSIS OF MANAGEMENT COMMENTS

Management comments are listed under each finding in Sections 3.B and 4.B. The complete text of the Management comments is given in Appendix D. to this report.

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


Ernst & Young
Libasse DIAGNE
Managing Partner

2. FINANCIAL SECTION

A. INDEPENDENT AUDITOR'S REPORT ON FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of the local currency expenditures managed by Action Consulting Association (ACA) under the Rural Health Delivery Services II Project No.685 - 0242 for the period January 31, 1992 through June 30, 1993. The Fund Accountability Statement is the responsibility of ACA management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

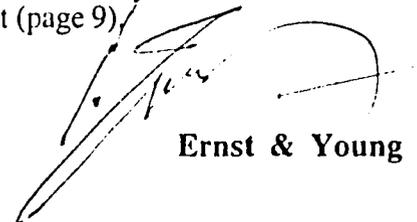
We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, except as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 Fund Accountability Statement. An audit also includes assessing 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 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 control review program is offered by professional auditing organizations in Senegal. We believe that the effect of this departure from the financial audit requirement of Government Auditing Standards is not material because we participate in the Ernst & Young worldwide internal quality control program.

As described in the Notes to the Fund Accountability Statement, the Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As part of our examination, and as detailed in Findings 3.B.2, 3.B.3, and 4.B.3 and appendix B of this report, we found that ACA incurred and was reimbursed by USAID/Senegal for questionable costs totalling FCFA 6,585,346 (\$24,288) which consisted of FCFA 5,381,346 (\$19,847) in unsupported questioned costs and FCFA 1,204,000 (\$4,441) in ineligible questioned costs. These costs are to be resolved by USAID/Senegal.

In our opinion, except for the effects of adjustments which may be necessary after the resolution of questionable costs as discussed in paragraph five of this report, the Fund Accountability Statement (page 8) presents fairly, in all material respects, project receipts and costs incurred and reimbursed for the period January 31, 1992 to June 30, 1993, in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement (page 9).



Ernst & Young

December 6, 1993

B. FUND ACCOUNTABILITY STATEMENT (amounts in FCFA)

	<i>QUESTIONED COSTS</i>				
	<i>BUDGET</i>	<i>ACTUAL</i>	<i>INELIGIBLE</i>	<i>UNSUPPORTED</i>	<i>NOTES</i>
RECEIPTS					
Cash received from USAID	164,803,772	94,900,000			2.C.2
Other income		-			
ACA fees	36,941,470	24,272,315			2.C.2
	<u>201,745,242</u>	<u>119,172,315</u>			
Totals for revenues	\$744,063	\$439,523			
EXPENDITURES					
Training/Seminar	61,159,152	39,361,268		477,200	
Operational Research	11,659,020	7,355,600			
Equipment for Reg. Pharmacies	8,540,910	7,926,370		4,904,146	
IEC Material	19,657,650	14,139,255			
HIS/Sup. Material	27,114,000	-			
Mat. Equipment for Child Survival	26,842,860	18,988,655			
Vehicles repair and maintenance	2,440,260	1,394,570			
Office supplies	1,084,560	457,877			
Supervision/Coordination meetings	7,185,210	753,918			
Less: Amend No.4 Reduction	(879,850)	-			
ACA fees	36,941,470	24,272,315	1,204,000		
	<u>201,745,242</u>	<u>114,649,828</u>	<u>1,204,000</u>	<u>5,381,346</u>	
Totals for expenditures	\$744,063	\$422,844	\$4,441	\$19,847	
OUTSTANDING BALANCE	-	<u><u>4,522,487</u></u>			
		\$16,679			

C. NOTES TO THE FUND ACCOUNTABILITY STATEMENT FROM THE PERIOD JANUARY 31, 1992 THROUGH JUNE 30, 1993

1. Basis of accounting

The ACA Fund Accountability Statement was prepared on the basis of cash receipts and expenditures. All income was recorded as revenue when received from USAID and all expenses were recorded as expenditures when paid.

2. Receipts

Receipts for the project over the period January 31, 1992 through June 30, 1993 are detailed as follows:

<i>Date</i>	<i>Amounts in FCFA</i>	<i>Amounts in US\$</i>
March 4, 1992	13,700,000	50,000
April 9, 1992	14,050,000	50,000
August 27, 1992	12,500,000	50,000
November 12, 1992	13,150,000	50,000
February 5, 1993	13,325,000	50,000
February 25, 1993	14,025,000	50,000
April 8, 1993	14,150,000	50,000
	94,900,000	350,000

Based on these figures, the average exchange rate is 1 US\$ = 271.14 FCFA.

As of June 30, 1993, ACA had received FCFA 24,272,315 (\$89,519) in fees for the management and disbursement of the project funds.

3. Reconciled Cash position

Add total receipts from January 31, 1992 to June 30, 1993	94,900,000
Less total expenditures from Jan 31, 1992 to June 30, 1993	(90,377,513)
Book balance as of June 30, 1993	FCFA <u>4,522,487</u>
Add outstanding Checks as of June 30, 1993	225,000
Bank account balance as of June 30, 1993	FCFA <u>4,747,487</u>

3. INTERNAL CONTROL STRUCTURE

A. INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS

We have audited the Fund Accountability Statement of the local currency expenditures managed by Action Consulting Association (ACA) under the Rural Health Delivery Services II Project No. 685-0242 for the period January 31, 1992 through June 30, 1993 and have issued our report thereon dated December 6, 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 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.

In planning and performing our audit of ACA, we considered ACA's 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 ACA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 the Fund Accountability Statement in accordance with cash basis accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Cash Receipts
- Cash Disbursements

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

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

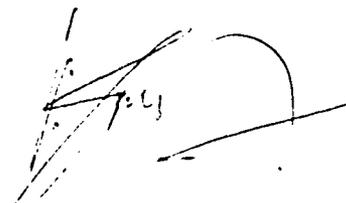
In summary, the reportable conditions are as follows:

- (i) Weak control procedures concerning separation of duties and supervision (Finding 3.B.1);
- (ii) Weak control procedures for per diem payment to seminar participants (Finding 3.B.2);
- (iii) Inadequate documentation of disbursements (Finding 3.B.3);

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 Fund Accountability Statement being audited may occur and not detected within a timely period by employees in the normal course of performing their assigned functions. We believe condition (iii) above is a material weakness.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness as defined above.

This report is intended for the information of ACA's management and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


Ernst & Young

• December 6, 1993

B. FINDINGS

3.B.1.: Weak control procedures concerning separation of duties and supervision

During our review, we found that bank reconciliations performed by the accountant, were not documented as being reviewed by a supervisor. In addition, nearly all transactions and record keeping related to cash management were handled by the accountant.

Sound internal control practices require key duties and responsibilities in authorizing, processing, recording, and reviewing transactions to be separated among individuals. In addition, qualified and continuous supervision should be provided to ensure that internal control objectives are achieved.

While the president of ACA signed the monthly report submitted to USAID which included a copy of the bank account reconciliation, there were no established procedures requiring bank account reconciliation be reviewed to ensure that cash transactions which were mainly handled by one employee were authorized and processed as intended.

Resulting from lack of such procedures is the risk that errors or irregularities will not be detected or corrected in a timely manner.

Recommendation 3.B.1.:

We recommend that specific procedures be established for accomplishing and documenting detailed supervisory reviews of monthly bank reconciliations. These procedures should emphasize the review of high risk transactions such as those which are handled with minimum separation of duties.

Management Comments :

ACA Management agrees with this recommendation and will take it into account when handling future projects.

3.B.2.: Weak control procedures for per diem payment to seminar participants

Our tests on per diem justification revealed the lack of participants and supervisor's signatures on some payment receipts. An amount of FCFA 477,200 (\$1,760) has then been disbursed without the supervisor's signature on the payment receipt.

The per diem payment procedures require per diem be paid by field agents on the basis of the seminar's supervisor and participants' signatures on the payment receipt and the attendance sheet. The supervisor is the regional Head Doctor and is, according to local administrative regulations, the appropriate person able to testify the effective seminar's attendance by participants. ACA adopted this procedure since only three field agents are working for the whole project training activities area -regions of Fatick, Kaolack and Louga (which often holds simultaneously many seminars)-, and the field agents paying the per diem to participants are not constantly present on the seminars' field to make sure of effective attendance. The field agents then rely on the seminar's attendance sheet signed by the participants and the supervisor to make the corresponding payment.

The ACA field agent failed to comply with the per diem procedures.

Therefore, if such situation should happen again, there is a risk that per diem be paid to participants that have missed part of a seminar, or be disbursed for a non intended destination.

Recommendation 3.B.2.:

We recommend that the per diem procedures be strictly applied by the field agents. As for the FCFA 477,200 (\$1,760) questioned costs, we recommend that USAID/Senegal request ACA to provide adequate justification of the corresponding expenses or else reimburse the total amount.

Management comments :

ACA has obtained all required signatures to satisfy this recommendation and those documents are included in Exhibit "B" attached hereto.

Moreover, in the future, ACA will more fully explain to USAID and its accountants ACA'S accounting procedures for per diem disbursements to workshop participants. More specifically, ACA only obtain supervisors' signatures when ACA field agents themselves did not keep participant attendance records.

Auditors' comments :

The Exhibit "B" document attached to the ACA comments to the draft audit report does not include any justification of the insupported costs.

Therefore, we maintain our recommendation.

3.B.3.: Inadequate documentation of disbursements

Our tests of charges revealed respective amounts of FCFA 4,544,146 (\$16,759) paid to local carpenters and FCFA 360,000 (\$1,328) paid to two designers, without being supported by invoices. The only documents presented to us for justification were payment receipts signed by the beneficiaries.

Specific standards for internal controls require written evidence of all transactions related to the project. Also, the documentation must be available for examination.

The project management justified the lack of invoices by the fact that some of their suppliers were illiterate.

The lack of proper documentation creates the risk of having non justified expenses resulting in ineligible costs.

Recommendation 3.B.3.:

We recommend that expenses be systematically justified by adequate invoices or contracts. If a case should happen with a difficulty to justify the corresponding expense, the project management

should at least obtain prior approval from USAID. We also recommend that USAID request that ACA provide adequate supporting documentation for the \$18,087 unsupported questioned costs or reimburse the total amount.

Management comments :

ACA Management agrees with this recommendation and ACA has collected the appropriate invoices for all payments made to carpenters and designers.

Auditors' comments :

Unless ACA provides the adequate supporting documentation for the \$18,087 unsupported questioned costs, we maintain our recommendation.

4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS

A. INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

We have audited the Fund Accountability Statement of the local currency expenditures managed by Action Consulting Association under the Rural Health Delivery Services II Project for the period January 31, 1992 through June 30, 1993 and have issued our report thereon dated December 6, 1993.

We conducted our audit in accordance with generally accepted auditing standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, except for 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.

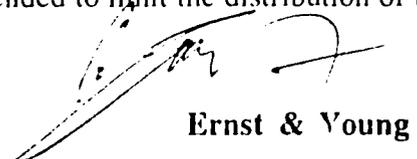
Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to ACA is the responsibility of ACA's Management. As part of the Audit, we performed tests of ACA's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion with all such provisions.

Our testing of transactions and records selected, disclosed the following instances of non compliance:

- i) Ineligible funds advances made to other projects by ACA (Finding 4.B.1);
- ii) Disbursements made without a preliminary engagement in a disbursement order (Finding 4.B.2);
- iii) Ineligible per diem charged to USAID by ACA on project fees (Finding 4.B.3).

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

The report is intended for the information of ACA's management and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Ernst & Young

December 6, 1993

B. FINDINGS

4.B.1.: Funds advances made to other projects whereas such operations are not allowed by ACA contract with USAID

We noted that the following amounts were advanced to other projects by ACA for seminar per diem disbursements :

PRITECH	1,233,260 CFA
ISTI	54,000 CFA
	<hr/>
	1,287,260 CFA (\$4,748)

Although these funds were entirely reimbursed to ACA , the ACA contract with USAID (i-e Section C, Article III.B.3) clearly states that " Under no circumstances shall the contractor (ACA) co-mingle the project activity funds with the contractor's own or other funds or use the project activity funds for any purpose other than those enumerated in the disbursement orders approved by the USAID contracting office(COTR)".

ACA management failed to comply with the relevant section of the Contract, because USAID/Senegal officials requested ACA to make these disbursements.

Recommendation 4.B.1.:

We recommend that, in order to comply with the Contract with USAID, ACA should not make disbursements on behalf of other projects. We also recommend that USAID/Senegal strictly adhere to contract terms and other applicable regulations approving disbursements for project activities.

Management comments :

ACA Management is in complete agreement.

4.B.2.: Disbursements made without a preliminary engagement in a disbursement order

Two disbursements amounted to FCFA 455,725 (\$1,681) were made upon a Project Management Department of the Health Ministry (PMD) request without a disbursement order (D.O) as required by the procedures (see Appendix B).

Internal procedures and the ACA contract (Section C Article III.B.3) require prior approval by USAID before any disbursement; the approval being documented by a D.O. signed by both PMD and USAID. In addition, the supplier selection must be made by ACA.

In this case, the selection was made by the PMD. However, USAID finally approved the disbursement.

Recommendation 4.B.2.:

We recommend that the disbursements procedures as well as suppliers' selection procedures be strictly followed by ACA and PMD.

Management comments :

ACA always tries to follow regulations, but from time to time immaterial irregularities have been tolerated to keep programs on schedule. Nevertheless, ACA will try more diligently to follow all regulations concerning obtaining properly signed "DOs" before disbursing funds and will choose project suppliers strictly by the rules.

4.B.3.: Ineligible per diem charged to USAID by ACA on project fees

ACA has signed a contract with USAID for services including the management of the local currency expenditures for this project. According to the contract terms, ACA is paid fees by USAID on a cost reimbursement basis. The audit revealed that ACA was reimbursed by USAID for per diem paid to its field agents for 6,000 CFA per day (\$22/day) when these agents were actually paid 2,500 CFA per day (\$9/day) by ACA. The difference remained in ACA's own account. We estimated the total amount then recovered by ACA over the audited period to FCFA 1,204,000 (\$4,441) .

Therefore, ACA management failed to comply with the contract terms.

In respect of this finding, total ineligible costs of FCFA 1,204,000 (\$4,441) have been made by ACA out of AID funds under the RHDS II.

At the exit conference, USAID/Senegal officials requested that we review hotel related expenditures billed to USAID/Senegal by ACA to determine whether there was no over-billing to USAID. We performed such review and found that hotel related expenditures reimbursed to ACA by USAID were fairly stated.

Recommendation 4.B.3.:

We recommend that USAID /Senegal recover ineligible costs totalling FCFA 1,204,000 (\$4,441) from ACA.

Management comments :

ACA totally disagrees with this assessment. It is not a just conclusion. ACA accepted the per diem rate fixed by USAID/Senegal for agents working in the field. That rate was and is 6,000 FCFA per fieldwork day. The contract permits this payment without regard to any accounting. Please see Exhibit "A" hereto for a complete discussion and analysis of this contract provision.

Auditors' comments :

ACA Management does agree with the cost reimbursement principle contract with USAID/Senegal. Since ACA accepted 6,000 CFA per day plus hotel costs for its agents for the time spent in the

field, ACA should stick to the contract terms and give the entire amount of 6,000 CFA plus hotel costs to the field agents and not just 2,500 CFA plus hotel costs.

In our comprehension, we consider the amount of FCFA 1,204,000 (\$ 4,441) not provided to the field agents have not been spent according to their intended contract destination.

Therefore, we maintain our recommendation.

APPENDIX A

SCHEDULE OF QUESTIONED COSTS

**AUDIT OF A.I.D.'s CONTRACT WITH
ACTION CONSULTING ASSOCIATION
(No. 685-0242-C-00-2167-00)
UNDER THE RURAL HEALTH DELIVERY SERVICES II
PROJECT (No 685 - 0242)**

from January 31, 1992 to June 30, 1993

<i>Findings/Noncompliance</i>	<i>Questioned Costs</i>	
	<i>Ineligible</i>	<i>Unsupported</i>
ACA paid to local carpenters and designers FCFA 4,544,146 (\$16,759) and FCFA 360,000 (\$1,328) respectively without adequate invoices to support the payments (see details in Appendix B):		FCFA 4,904,146 (\$18,087)
Per diem valued FCFA 477,200 (\$1,760) were paid to seminar participants without the supervisor's signature on the payment receipt evidencing effective attendance (Appendix B):		FCFA 477,200 (\$1,760)
Per diem were paid by ACA to field agents at the rate of FCFA 2,500/ day(\$9/day) instead of FCFA 6,000/day (\$22/day) billed to USAID as per the contract terms. The difference valued FCFA 1,204,000 (\$4,441) remained in ACA's own account	FCFA 1,204,000 (\$4,441)	

APPENDIX B
DETAIL OF QUESTIONED COSTS

<i>Date of issue</i>	<i>Amounts (CFA)</i>	<i>Beneficiary</i>
10-20-1992	98,525	Ousseynou FAYE
09-24-1992	98,530	Ousseynou FAYE
09-24-1992	147,770	Kaba DIANKHA
10-20-1992	147,770	Kaba DIANKHA
09-30-1992	126,700	Badou DIOUF
10-20-1992	126,700	Badou DIOUF
09-30-1992	137,360	Malick YADE
10-20-1992	137,365	Malick YADE
09-24-1992	173,470	Matar NDIAYE
10-20-1992	173,475	Matar NDIAYE
11-26-1992	220,066	Amsatou SYLLA
12-21-1992	220,066	Amsatou SYLLA
11-26-1992	31,675	Massamba FAYE
12-21-1992	31,675	Massamba FAYE
11-26-1992	60,620	Bandiougou CISSE
12-21-1992	60,620	Bandiougou CISSE
11-26-1992	96,040	MBemba GASSAMA
12-21-1992	96,040	MBemba GASSAMA
09-25-1992	79,350	Babacar SEYE
10-19-1992	79,350	Babacar SEYE
09-25-1992	56,660	Pape FALL
10-21-1992	56,660	Pape FALL
09-25-1992	71,400	El Hadj Cheikh DIALLO
10-15-1992	71,400	El Hadj Cheikh DIALLO
09-25-1992	27,300	Mohamed DIALLO
10-15-1992	27,300	Mohamed DIALLO
09-25-1992	97,745	Abdoulaye CISSE
10-22-1992	97,744	Abdoulaye CISSE
09-25-1992	62,170	Ousmane NDIAYE
10-22-1992	62,170	Ousmane NDIAYE
09-24-1992	98,600	Demba GUEYE
10-14-1992	98,600	Demba GUEYE
09-24-1992	173,475	Bella SQUARE and Ibrahima BA
10-14-1992	173,475	Bella SQUARE and Ibrahima BA
09-23-1992	162,505	Insa DANFAKHA
10-07-1992	162,505	Insa DANFAKHA
09-23-1992	20,250	Ibrahima FALL
10-07-1992	20,250	Ibrahima FALL
sub-total	<u>3,883,376</u>	

sub-total	3,883,376	
09-23-1992	10,500	Birahim SY
10-06-1992	10,500	Birahim SY
09-23-1992	72,100	Moussa TANGARA
10-06-1992	72,100	Moussa TANGARA
09-23-1992	28,070	Amadou NIANG
10-06-1992	28,070	Amadou NIANG
09-23-1992	83,330	Mamadou Bigué NIANG
10-06-1992	83,330	Mamadou Bigué NIANG
09-23-1992	136,385	Pape NDIAYE
10-06-1992	136,385	Pape NDIAYE
Carpenters costs	<u>4,544,146</u>	
12-30-1992	240,000	Alioune DIOUF
12-30-1992	120,000	Sidy Lamine DRAME
Designers costs	<u>360,000</u>	
04-12-1992	37,200	Formation en micro (Dakar)
04-17-1992	32,000	Formation en micro (Dakar)
04-13-1992	96,000	Formation en micro (Dakar)
03-27-1993	32,000	Seminaire à Dakar
03-26-1993	32,000	Seminaire à Dakar
03-25-1993	32,000	Seminaire à Dakar
03-29-1993	72,000	Seminaire à Dakar
03-30-1993	72,000	Seminaire à Dakar
03-31-1993	72,000	Seminaire à Dakar
Per diem costs	<u>477,200</u>	
Total unsupported costs	<u>5,381,346</u>	

Total unsupported costs	5,381,346	
Ineligible per diem costs	1,204,000	ACA fees
Total of questioned costs	<u>6,585,346</u>	
	=====	

APPENDIX C
ACRONYMS

USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
ACA	ACTION CONSULTING ASSOCIATION
GOS	GOVERNMENT OF SENEGAL
AID	AGENCY FOR INTERNATIONAL DEVELOPMENT
RIG	REGIONAL INSPECTOR GENERAL
COTR	USAID CONTRACTING OFFICE

ACTION CONSULTING ASSOCIATION
VILLA No.1356 SICAP LIBERTE II
DAKAR, SENEGAL

No 00156

July 22, 1994

Mr. Wayne McKeel
Financial Comptroller
U.S Agency for International Development
B.P. 49 Dakar, Senegal

Re: Regional Inspector General's Recommendations and Ernst & Young's Audit Report concerning Contract No. 685-0242-C-00-2167 between USAID/Senegal and ACA

Dear Mr. McKeel:

Thank you for meeting with us to discuss the above-referenced matters. We are now formally responding to the Regional Inspector General's recommendations and all the issues appearing in the Audit Report.

TWO (2) OIG RECOMMENDATIONS

Recommendation No.1: We recommend that USAID/Senegal resolve the questioned costs of \$24,288 (\$19,847 unsupported) and recover those costs determined to be unallowable or unsupported.

ACA's Response: ACA asserts that the \$4,441 deemed unallowable is indeed not only allowable, but also specifically provided for in the contract. In support of this assertion, ACA has attached Exhibit "A" hereto. Thus, those costs deemed "ineligible" are incorrectly reported as such. Moreover, we have gathered the financial documentation required concerning the costs deemed unsupported, and they are attached as Exhibit "B" hereto.

Recommendation No.2: We recommend that USAID/Senegal work with the management of the Action Consulting Association to establish specific written procedures to (a) improve internal controls over the documentation of disbursements and (b) assure adequate segregation of duties over cash management.

ACA's Response: For future projects, ACA will (a) focus greater attention on obtaining the appropriate signatures on financial documents and (b) separate the cashier's function from the accountant's function and increase supervision of both.

SIX (6) ERNST & YOUNG RECOMMENDATIONS

Recommendation 3.B.1: We recommend that specific procedures be established for accomplishing and documenting detailed supervisory reviews of monthly bank reconciliations. These procedures should emphasize the review of high risk transactions such as those which are handled with minimum separation of duties.

ACA's Response: As stated in the response to the second OIG recommendation above, ACA will separate the duties of the cashier from those of the accountant when handling future projects. Moreover, project supervisors have been reminded to carefully review monthly bank statements, initialing each page to indicate that the entire statement has been reviewed.

Recommendation 3.B.2: We recommend that the per diem procedures be strictly applied by the field agents. As for the FCFA 477,200 (\$1,760) questioned costs, we recommended that USAID/Senegal request ACA to provide adequate justification of the corresponding expenses or else reimburse the total amount.

ACA's Response: ACA has obtained all required signatures to satisfy this recommendation and those documents are included in Exhibit "B" attached hereto. Moreover, in the future, ACA will more fully explain to USAID and its accountants ACA's accounting procedures for per diem disbursements to workshop participants. More specifically, ACA only obtain supervisors' signatures when ACA's field agents themselves did not keep participant attendance records.

Recommendation 3.B.3: We recommend that expenses be systematically justified by adequate invoices or contracts. If a case should happen with a difficulty to justify the corresponding expense, the project management should at least obtain prior approval from USAID. We also recommend that USAID request that ACA provide adequate supporting documentation for the \$18,087 unsupported questioned costs or reimburse the total amount.

ACA's Response: ACA has collected the appropriate invoices for all payments made to carpenters and designers. Moreover, in the future, if we want to obtain goods or services from entrepreneurs who can neither read nor write, we will consult with USAID/Senegal before disbursing funds.

Recommendation 4.B.1: We recommend that, in order to comply with the contract with USAID, ACA should not make disbursements on behalf of other projects. We also recommend that USAID/Senegal strictly adhere to contract terms and other applicable regulations approving disbursements for project activities.

ACA's Response: We are in complete agreement.

25

Recommendation 4.B.2: We recommend that the disbursements procedures as well as suppliers' selection procedures be strictly followed by ACA and PMD.

ACA's Response: ACA always tries to follow regulations, but from time to time immaterial irregularities have been tolerated to keep programs on schedule. Nevertheless, ACA will try more diligently to follow all regulations concerning obtaining properly signed "DOs" before disbursing funds and will choose project suppliers strictly by the rules.

Recommendation 4.B.3: We recommended that USAID/Senegal recover ineligible costs totalling FCFA 1,204,000 (\$4,441) from ACA.

ACA's Response: ACA totally disagrees with this assessment. It is not a just conclusion. ACA accepted the per diem rate fixed by USAID/Senegal for agents working in the field. That rate was and is 6,000 FCFA per fieldwork day. The contract permits this payment without regard to any accounting. Please see Exhibit "A" hereto for a complete discussion and analysis of this contract provision.

We have enjoyed our work relationship and experiences with USAID, and we look forward to future endeavors.

Sincerely,

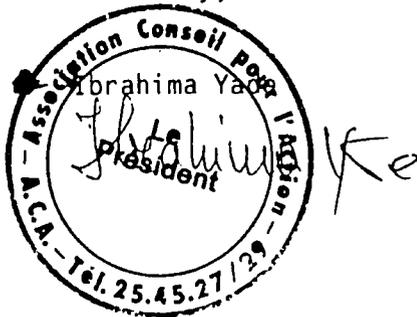

Ibrahim Yacouba
Le Président
A.C.A. - Tél. 25.45.27/29

EXHIBIT "A"

Ernst & Young's Audit Report states that per diems paid to ACA at the rate of 6,000 FCFA per field agent day is ineligible because ACA actually paid its field agents only 2,500 FCFA per field agent day. Since this is a cost reimbursement contract (as the argument goes), ACA is entitled to be reimbursed only for the 2,500 FCFA per field agent day actually disbursed. The preceding argument notwithstanding, it is ACA's position that the Audit Report failed to consider pertinent contractual provisions which control this issue.

Although we appreciate that this contract is termed a cost reimbursement contract, we specifically accepted the terms of this USAID/Senegal contract in good faith. And on this per diem issue the contract states in relevant part as follows:

USAID INDEMNITY POLICY (as of May 1, 1989) p.3

- b. The per diem rates to be paid for approved in-country travel are as follows:

- Dakar * * * * *
- Outside Dakar: A flat rate of CFA 6,000 per day with no receipts or CFA 6,000 per day plus the actual cost of lodging, with commercial hotel receipts required, up to a maximum of CFA 21,000 total. This allows up to CFA 15,000 for hotel costs.

Thus, USAID's Indemnity Policy allowed ACA to accept 6,000 FCFA per day plus hotel costs for its agents for the time they spent in the field. In good faith, ACA accepted this contract term and provided receipts only for hotel costs as agreed, accepting the fixed rate of 6,000 FCFA per day for all other aspects of the per diem. By accepting this option ACA was responsible for any amount over the 6,000 FCFA plus hotel costs. Moreover, in accordance with a fixed rate, no accounting was demanded or necessary for the 6,000 FCFA. Since USAID established this fixed rate itself, to demand reimbursement from ACA would be in effect to unilaterally modify the contract. Thus, we do not understand why Ernst & Young stated in writing that these per diem costs are ineligible. They are in fact eligible and are in accordance with the terms of the contract.

EXHIBIT " B "

Attached hereto are financial documents justifying all costs deemed "unsupported" as follows:

1. all carpenters' invoices totalling 4,544,146 FCFA;
2. all designers' invoices totalling 360,000 FCFA; and
3. all necessary participant attendance sheets signed by the appropriate supervisor totalling 477,200.

Report Distribution

APPENDIX E

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Report Distribution

APPENDIX E

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