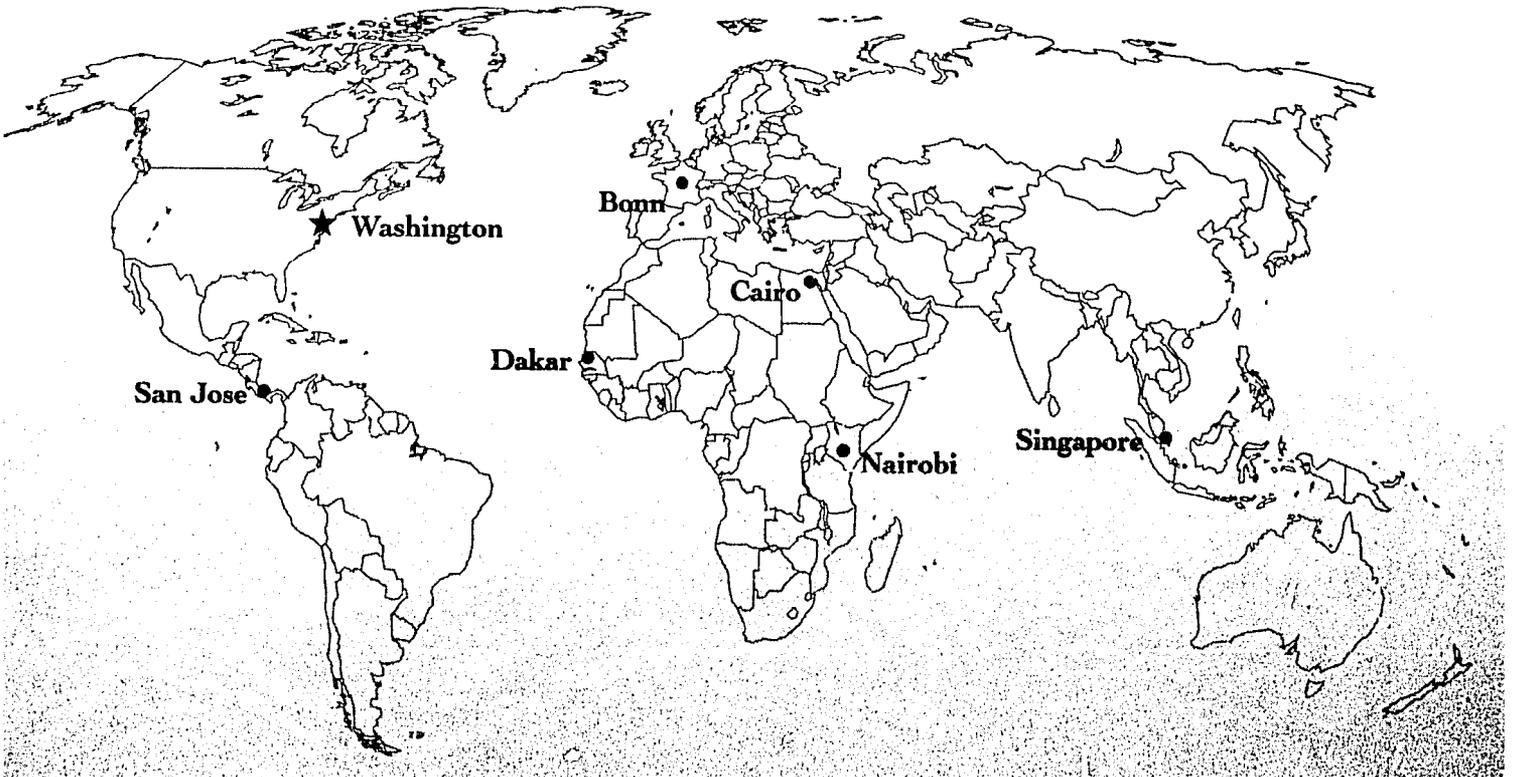


Regional Inspector General for Audit
Dakar

PID ABK-061
91995

**Audit of USAID's Grants to the Government of The Gambia
under the Financial and Private Enterprise Development Program
(No. 635-0232), the Financial Sector Restructuring Program
(No. 635-0233), and the Agricultural and Natural Resources
Program (No. 635-0235),
from June 1, 1992 through January 31, 1994**

**Audit Report No. 7-635-95-002-N
December 29, 1994**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

December 29, 1994

MEMORANDUM

To: Rose Marie Depp, Director, USAID/The Gambia

From: Daniel J. Gowen, Acting RIG/A/Dakar 

Subject: Audit of USAID's Grants to the Government of The Gambia under the Financial and Private Enterprise Development Program (No. 635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235), from June 1, 1992 through January 31, 1994; (Report No. 7-635-95-002-N)

The attached report, prepared by the non-Federal audit firm KPMG Peat Marwick in Banjul, presents the results of the subject financial audit.

The U. S. Agency for International Development (USAID) and the Government of The Gambia (GOTG) signed three non-project assistance agreements as follows: the Financial and Private Enterprise Development Program (FAPE) on September 30, 1991; the Financial Sector Restructuring Program (FSRP) on May 13, 1991; and the Agriculture and Natural Resources Program (ANRP) on August 17, 1992. The purpose of these agreements was to provide cash grants to the GOTG to meet its external debts obligations. The programs were managed by the Central Bank of The Gambia (CBG), the fiduciary agent of the GOTG. The agreements required the CBG to establish a Separate Account in the Federal Reserve Bank of New York and other banks into which USAID had deposited the grant funds. The CBG, with the concurrence of USAID, was to disburse funds from this separate account for eligible GOTG debts. A total of \$24 million in USAID funding was budgeted under the three programs and was to be disbursed in eleven tranches. As of January 31, 1994, three tranches totalling \$7 million had been authorized by USAID and disbursed by the CBG for debt repayment.

KPMG performed the financial audit of the \$7 million in disbursements in accordance with U.S. Government Auditing Standards to determine whether the Fund Accountability Statement for the period June 1, 1992 through January 31, 1994 was fairly presented and whether the CBG 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 CBG'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.

KPMG found that the Fund Accountability Statement fairly presents the disbursements made by the CBG from the USAID grant. The audit did, however, identify questioned costs of \$1,001 for ineligible bank service fees. In obtaining an understanding of the internal control structure, the auditor found one weakness, the lack of regular bank reconciliations. Finally, in testing for compliance with applicable laws, regulations, and agreement terms, the auditors reported that the CBG complied in all material respects.

In its comments on the draft audit report, USAID/The Gambia concurred with the auditor that the ineligible bank service fees should be questioned.

The non-Federal audit report contains two findings and recommendations. The following recommendation has been included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/The Gambia resolve the questioned costs of \$1,001 and recover those costs determined to be unallowable.

Recommendation No. 1 is considered resolved since USAID/The Gambia agreed in its response to the draft report that the \$1,001 in bank service fees should be questioned. The recommendation will be closed when the \$1,001 questioned is recovered by USAID/The Gambia and the evidence thereof is provided to RIG/A/Dakar. Such evidence may include a copy of 1) a bill for collection, 2) a document showing reimbursement, or 3) 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 above recommendation.

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
THE GAMBIA**

**AUDIT OF USAID'S GRANTS TO THE GOVERNMENT OF THE GAMBIA
UNDER THE FINANCIAL AND PRIVATE ENTERPRISE DEVELOPMENT
PROGRAM (No. 635-0232), THE FINANCIAL SECTOR RESTRUCTURING
PROGRAM (No. 635-0233), AND THE AGRICULTURAL AND NATURAL
RESOURCES PROGRAM (NO. 635-0235); FROM JUNE 1, 1992 THROUGH
JANUARY 31, 1994.**

 **Peat Marwick**

**Banjul, The Gambia
Chartered Accountants and Business Consultants**

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The Gambia

Telephone (220) 226173
or (220) 226140
Telex 2232 GV
Telefax (220) 228140

pcbw/anrfapefsre/9411
Our Ref:

Your Ref:

24 November 1994

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

Dear Mr Anklewich,

United States Agency for International Development, The Gambia Audit of USAID's grants to the Government of The Gambia under the Financial and Private Enterprise Development Program (No.635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235); from June 1, 1992 through January 31, 1994.

In accordance with your instructions dated March 2, 1994 (IQC no. 624-999-I-0-2024-00, Delivery Order No. 10) this report presents the results of our Financial audit of the expenditures incurred by the Government of The Gambia under the Financial and Private Enterprise Development Program (No.635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235); from June 1, 1992 through January 31, 1994.

The audit covered disbursements totalling \$ 7,005,708 for the period June 1, 1992 through January 31, 1994.

1. SUMMARY

1.1 Background

USAID and The Government of The Gambia (GOTG) signed three non-project assistance agreements as follows: the Financial and Private Enterprise Development Program (FAPE) on September 30, 1991; the Financial Sector Restructuring Program (FSR) on May 13, 1991; and the Agriculture and Natural Resources Program (ANR) on August 17, 1992.

These agreements specified that cash disbursements would be provided to the GOTG upon the GOTG's completion of specific economic reforms. The Central Bank of The Gambia (CBG), the fiduciary agent of the GOTG, was to establish separate accounts in the Federal Reserve Bank of New York or other banks as both parties agreed to, into which USAID was to deposit the grant funds.

The grant funds and any interests earned were to be used for repayment of the country's eligible debts which are defined by the agreements. In making the debt repayments, repayment of official debts outstanding to the United States was to take priority over other debts.

Additional information relating to the individual programs are as follows.

Financial and Private Enterprise Development Program

The purpose of this program is to enhance the environment to induce sustainable increases of private investment and growth of private enterprises in the Gambia. Total USAID non-project assistance funding for this program is \$9 million. The funds are to be disbursed in three tranches of \$3 million each time the GOTG meets a set of conditions precedent. The program agreement contained six conditions precedent to be met by the GOTG prior to the disbursement of the first tranche. The first \$3 million tranche was disbursed on September 29, 1993. The Program Assistance Completion Date (PACD) is June 30, 1996.

Financial Sector Restructuring Program

This program is to promote and support financial policy reform in The Gambia. Under this program the GOTG is to adopt financial policies designed to improve efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses. Total USAID non-project assistance financing will be \$5 million, to be disbursed in three tranches of \$2 million, \$1 million, and \$2 million respectively. The program agreement contained eight conditions precedent to be met by the GOTG prior to the disbursement of the first tranche. The first \$2 million tranche was disbursed on July 6, 1992. The PACD is June 30, 1994.

Agriculture and Natural Resources Program

The purpose of the Agriculture and Natural Resources Program is to achieve sustainable increases in the value of production on land under improved resource management practices. Total USAID funding under this program is \$10 million to be disbursed in five tranches. The program agreement contained seven conditions precedent to be met by the GOTG prior to the issue of the first tranche. The first tranche in the amount of \$2 million was disbursed on June 25, 1993. The PACD is December 31, 1997.

Planned and actual expenditures for the three programs were as follows:

	Planned Disb. Life of Program.	Actual Disb as of January 31, 1994.
Financial and Private Enterprise Development Program	\$9,000,000	\$3,000,000
Financial Sector Restructuring Program	5,000,000	2,000,000
Agricultural and Natural Resources Program	10,000,000	2,000,000
Total	\$ 24,000,000	\$ 7,000,000

1.2 Audit Objectives and Scope

The objectives of this financial-related audit are to:

- i determine the eligibility and propriety of the disbursements made by the CBG from the separate accounts for the period June 1, 1992 through January 31, 1994 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 CBG's internal control structure relating to the separate accounts 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) CBG'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 CBG's compliance with agreement 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 the compliance testing. These tests are also performed to determine whether the organization complied in all material respects with agreement terms, laws and regulations and express positive assurance of those items tested and negative assurance on those items not tested.

In testing compliance, specific steps and procedures must be designed to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on Fund Accountability Statement.

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

- Review of the project grant agreement, project implementation letters and other related project documents and identify those laws and regulations which, if not observed, could have a direct and material effect on the fund accountability statement;
- Review of previous financial evaluations and reports;
- Determination, understanding, documentation and evaluation of CBG's organisational structure with respect to the separate accounts in order to determine the extent to which established procedures and controls are functioning as intended and documented;
- Identification and assessment of the level and nature of control risk and design of substantive tests;
- Determination, documentation and evaluation of the procedures for the control of funds, reconciliation of the movement in funds for the separate accounts for the period under review including reconciliation of CBG recorded revenues and expenditures with bank records;
- Compilation of the fund accountability statement and agreement to the underlying records of the CBG for the separate accounts for the period under review.
- Determination as to whether the CBG is in compliance with agreement terms, applicable laws and regulations by evaluating the CBG 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.

The audit has been conducted in accordance with United States Government Auditing Standards as set forth by the Comptroller General of the United States (the 'Yellow Book'), Standards for internal controls in the Federal Government as set forth by the Comptroller General of the United States (The "Green book"), Guide for Financial Audits Contracted by the Agency for International Development issued by the AID office of the Inspector General and Assessing compliance with Applicable Laws and Regulations issued by General Accounting Office/Office of Policy (the 'Grey' Book'), except that we did not have an external quality control review by an unaffiliated audit organisation as required by paragraph 46 chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional auditing organisations in The Gambia. 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 KPMG worldwide internal quality control review by partners and managers from other KPMG offices.

Our audit work was carried out on site at CBG and USAID/The Gambia. At the beginning and end of the field work, respectively, an entrance and exit conference were held to formally advise CBG management and USAID/The Gambia of the audit objectives and scope and results. Prior to the exit conference, USAID/The Gambia and CBG personnel were provided discussion documents setting out the key findings of our audit.

1.3 Summary of Audit Results

1.3.1 Summary of audit results - financial

We found that the Fund Accountability Statement showing the receipts and disbursements made by the CBG in connection with USAID's grant to the CBG under the Financial and Private Enterprise Development Program (No.635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235) was presented fairly. However our testing of items on the Fund Accountability Statement found that the CBG incurred and was reimbursed by USAID/The Gambia for ineligible questioned costs of \$1,001. These expenditures are discussed in finding 4.2.1 and summarised in the Fund Accountability Statement.

1.3.2 Summary of audit results - Internal control

We have assessed the overall internal control environment of CBG relating to the separate accounts as satisfactory. This was based on the outcome of tests on the components of the CBG's control environment which are assessed as follows:

- | | |
|------------------------------------|----------------|
| • Control consciousness | - satisfactory |
| • segregation of duties | - satisfactory |
| • management override | - satisfactory |
| • competence of personnel | - satisfactory |
| • Protection of assets and records | - satisfactory |

The following reportable condition was noted, which we do not consider to be a material weakness.

- Lack of regular preparation of bank reconciliations (section 3.2.1)

1.3.3 Compliance

The principal laws, regulations, binding policies and procedures applicable to CBG are as follows:

- Project Grant Agreements
- Project Implementation Letters

In our tests of compliance with agreement terms and applicable laws we found two instances of immaterial noncompliance as follows:

- Payment of Bank Charges (section 4.2.1)

1.4 Synopsis of Management Comments

The management of USAID/The Gambia and CBG generally agreed with the audit findings presented at the fieldwork exit conference. Where managements view was not the same as KPMG's, we have included their comments in our findings.

2. FINANCIAL SECTION

2.1 Independent auditor's report on the Fund Accountability Statement

We have audited the Fund Accountability Statement showing the revenues and expenditures of the CBG under the Financial and Private Enterprise Development Program (No.635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235) for the period June 1, 1992 through January 31, 1994. The Fund Accountability Statement is the responsibility of CBG's 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 United States 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 organisation as required by section 3.4.6 of the aforementioned standards (See section 1.2 for further details). 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 project management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 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.

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects CBG's advances and expenditures incurred and reimbursed for the period in conformity with the basis of accounting described in note 1 of the Fund Accountability Statement.

U.P.M. Peter Merwisch

Chartered Accountants
Banjul, The Gambia.

Date: *24 November 1994.*

2.2 Fund Accountability Statement

	Receipts/Disburs. Actual \$	Questioned Costs Ineligible Unsupported \$ \$	Notes
RECEIPTS			
FAPE			
First Cash Transfer	3,000,000		
Interest Earned	12,261		
Account Total	<u>3,012,261</u>		
FSRP			
First Cash Transfer	2,000,000		
Interest Earned	-		
Account Total	<u>2,000,000</u>		
ANR			
First Cash Transfer	2,000,000		
Interest Earned	11,681		
Account Total	<u>2,011,681</u>		
Total Receipts	7,023,942		
DISBURSEMENTS			
FAPE			
First Cash Transfer	3,001,626		
Service Charges	-		
Account Disbursements	<u>3,001,626</u>		
FSRP			
First Cash Transfer	1,999,560		
Service Charges	567	567	2
Account Disbursements	<u>2,000,127</u>		
ANR			
First Cash Transfer	2,003,521		
Service Charges	434	434	2
Account Disbursements	<u>2,003,955</u>		
Total Disbursements	7,005,708		
Outstanding Balance	<u>18,234</u>		
Total Unsupported Costs		<u>1,001</u>	

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2.3 Notes to the Fund Accountability Statement

1. The Fund Accountability Statement has been prepared on the basis of cash accounting whereby income is recognised on receipt of cash or cash equivalent and expenditure recognised on the disbursement of cash or cash equivalent.

2. Ineligible costs

These amounts relate to bank charges and commissions levied on respective accounts in contravention to the Grant Agreements.

3. INTERNAL CONTROLS

3.1 Independent Auditor's Report on Internal Controls

We have audited the Fund Accountability Statement showing the revenues and expenditures of the Central Bank of The Gambia (CBG) under the Financial and Private Enterprise Development Program (No.635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235) from June 1, 1992 through January 31, 1994 and have issued our report there on dated 24 November 1994.

We conducted our audit in accordance with generally accepted auditing standards and United States Government Auditing Standard Issued by the Comptroller General of the United States, except that we did not have an external quality control review by an unaffiliated organisation as required by section 3.4.6 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.

In planning and performing our audit of the CBG we considered its internal control structure in order to determine our audit 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 CBG is responsible for establishing and maintaining an internal control structure for the project. In fulfilling this responsibility, estimates and judgements by project management are required to assess the expected benefits and related costs of the internal control structure, policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with the basis of accounting described in note 1 to the Fund Accountability Statement (section 2.2). Because of the 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 effectiveness of the design and operation of policies and procedure may deteriorate.

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

- Disbursement cycle
- Recording and reporting cycle.

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

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

In summary, the only reportable condition is as follows:

- Lack of regular preparation of bank reconciliations

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

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 the reportable condition described above is not a material weakness.

The report is intended for the information of management and others within CBG 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.

K. Paul Roberts Marwick

**Chartered Accountants
Banjul, The Gambia**

Date *24 November* 1994.

3.2 FINDINGS

3.2.1 Lack of regular preparation of bank reconciliations

Observation

We noted that CBG did not prepare bank reconciliations for the three project accounts on a regular basis.

Implication

There is a risk that unauthorised amounts may be processed, or that authorised amounts may be incorrectly processed through the account without CBG knowledge and will not be picked up and subsequently rectified on a timely basis.

Recommendation

Given the nature of operation of the accounts and the small number of transactions processed, we recommend that CBG reconcile each account after each receipt and disbursement of a tranche of money and thereafter monitor a static balance on the account until receipt of the following tranche.

Management comments

None

4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS

4.1 Independent auditors report on compliance of the CBG with applicable laws and regulations

We have audited the Fund Accountability Statement representing the revenues and expenditures of the Central Bank of The Gambia (CBG) under the Financial and Private Enterprise Development Program (No.635-0232), the Financial Sector Restructuring Program (No. 635-0233), and the Agricultural and Natural Resources Program (No. 635-0235) from June 1, 1992 through January 31, 1994 and have issued our report there on dated 24 November 1994.

We conducted our audit in accordance with generally accepted auditing standards and United States 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 organisation as required by section 3.4.6 of the aforementioned standards (see section 1.2 for further details). 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 agreement terms and laws and regulations applicable to the CBG is the responsibility of CBG management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement we performed tests of CBG's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our testing of transactions, and records disclosed one instance of non compliance with these laws and regulations. This instance of non compliance that we found is identified in the findings section of this report.

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

The report is intended for the information of management and others within CBG 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.

UPNG Arab Mansich

**Chartered Accountants
Banjul, The Gambia**

Date *24* November 1994.

4.2 Findings

4.2.1 Payment of Bank Charges

Observation

Bank charges amounting to \$1,001 were charged to CBG accounts with Standard Chartered Bank, New York, under the ANR and FSRP Programs.

The grant agreements for the ANR and FSRP Programs prohibit the CBG claiming bank charges under the USAID grant agreements.

We note that subsequent to these charges being made an agreement has been reached with Standard Chartered Bank New York and that no further charges have been made to the accounts. We note additionally that Standard Chartered Bank New York have made some reimbursement of this amount by way of zeroing subsequent overdrawn balances on the accounts.

Recommendation

We recommend that CBG reimburse the ANR and FSRP programs the amount of \$1,001.

Management comments

The Mission is in agreement that the remaining \$1,001 ineligible costs resulting from bank service charges should be questioned. The Mission's file documentation indicates that the GOTG was notified by USAID that bank service fees are not allowable costs under the Agreement terms. Furthermore, during the meeting between KPMG Burrow and Controller Burkhart, it was disclosed by Burrow that measures were being taken by the GOTG and Standard Chartered Bank New York to reverse the bank charges.

Upon issuance and receipt of the final audit report, USAID The Gambia will immediately issue a bill for collection to resolve and close this remaining audit recommendation. The collection of this disallowed cost will be held in abeyance until a subsequent review or audit is undertaken through the close out period of all three agreements to determine if the bank charges were indeed reinstated to the accounts.

UNCLAS

AIDAC RIG/A/DAKAR

BANJUL 03752

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

DISTRIBUTION: RIG
CHARGE: RIG

VZCZCDK0693
RR RUEHDK
DE RUEHJL #3752/01 2971558
ZNR UUUUU ZZH
R 241558Z OCT 94
FM AMEMBASSY BANJUL
TO AMEMBASSY DAKAR 1035
BT
UNCLAS SECTION 01 OF 02 BANJUL 003752

AIDAC

RIG/A/DAKAR T.ANKLEWICH

E.O. 12356 N/A
SUBJECT: DRAFT AUDIT REPORT OF USAID'S NPA GRANTS
TOTHE GOVERNMENT OF THE GAMBIA

REF: DAKAR 08691 AND DRAFT AUDIT REPORT

RECOMMENDATION NO. 1: WE RECOMMEND THAT USAIO/THE
GAMBIA RESOLVE THE QUESTIONED COSTS OF \$ 1,910,972
(\$1,884,971 UNSUPPORTED) AND RECOVER THOSE COSTS
DETERMINED TO BE UNALLOWABLE OR UNSUPPORTED.

MISSION COMMENTS:

1. USAID/THE GAMBIA CONTROLLER, R. BURKHART, MET
WITH KPMG AUDITOR, P.BURROW, ON THURSDAY OCTOBER
13, 1994 AND REVIEWED STATUS OF SUBJECT AUOIT
REPORT AND UNRESOLVED QUESTIONED COSTS. BURROW
INDICATED THAT UNSUPPORTEO QUESTIONED COSTS OF
\$1,170,947 UNDER PROJECT NO. 635-0233 AND \$706,424
UNDER PROJECT NO. 635-0235 WERE NO LONGER
QUESTIONED. BOTH THE EXPORT CREDIT GUARANTEE FUND
AND IFAD HAVE RESPONOEO SUBSEQUENT TO THE
PREPARATION OF THE DRAFT AUDIT REPORT AND
CONFIRMEO THAT PAYMENTS IN THE ABOVE AMOUNTS HAO
BEEN RECEIVED. BURROW STATED THAT HE HAD INFORMED
RIG/A/DAKAR AUDITOR CHEIKH (CANNOT CONFIRM
SPELLING OF NAME) CONCERNING THE CONFIRMATION O/A
AUGUST 30, 1994.

3. BURROW ALSO INOICATED THAT UNSUPPORTED
QUESTIONED COSTS OF \$7,600 WERE THE RESULT OF THE
U.S. BASED BANKING INSTITUTION FAILING TO RESPOND
TO A REQUEST FOR BANK BALANCE CONFIRMATION.

UNCLAS

AIDAC RIG/A/DAKAR

BANJUL 03752

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BANJUL 03752

Page 2 of

BURROW EMPHASIZED THAT THROUGHOUT THE AUDIT ENGAGEMENT HE WAS AWARE THAT ALL PARTIES ENCOUNTERED DIFFICULTIES OBTAINING REGULAR

INFORMATION FROM STANDARD CHARTERED BANK IN NEW YORK. HE STATED THAT THE LOCAL GAMBIA STANDARD CHARTERED BANK DIRECTOR INTERCEDED TO PROMPT STANDARD CHARTERED NEW YORK TO FACILITATE THE AUDIT PROCESS.

CONTROLLER BURKHART INQUIRED IF ALTERNATE AUDIT PROCEDURES COULD BE USED IN LIEU OF DIRECT CONFIRMATION RESPONSE. BURROW RESPONDED THAT KPMG WAS SATISFIED THAT THE STANDARD CHARTERED ISSUED BANK STATEMENT FOR THE ACCOUNTS AS OF THE END OF THE AUDIT PERIOD WAS SUFFICIENT AUDIT DOCUMENTATION TO BE USED IN LIEU OF A POSITIVE CONFIRMATION RESPONSE. BURROW INDICATED HE ALSO DISCUSSED THIS FACT WITH RIG/A/DAKAR AUDITOR, CHEIKH, O/A AUGUST 30, 1994 AND IT WAS HIS UNDERSTANDING THAT RIG WOULD CONCUR WITH THE ALTERNATE AUDIT DOCUMENTATION (I.E., USING THE END OF PERIOD BANK STATEMENT) RESULTING IN THE \$7,600 NO LONGER BEING QUESTIONED.

4. MISSION MANAGEMENT DOES NOT BELIEVE THE DRAFT AUDIT REPORT IS CORRECT IN CLASSIFYING \$25,000 IN IMPUTED INTEREST AS INELIGIBLE QUESTIONED COSTS RESULTING FROM FAILURE TO DEPOSIT DOLLAR FUNDS IN AN INTEREST BEARING ACCOUNT.

THE MISSION REVIEWED THE FSR GRANT AGREEMENT NO. 635-0233, ESPECIALLY ARTICLES 4.1 (C) AND 5.1 (B), AND NO PORTION OF THE AGREEMENT REQUIRES THAT THE SEPARATE NON-COMMINGLED ACCOUNT BE INTEREST BEARING. IN FACT THE ISSUE OF INTEREST BEARING ACCOUNTS IS NEVER DISCUSSED OR REQUIRED IN ANY OF THE SUBSEQUENT PILS, CONFIRMATIONS FROM THE GOTG, CLEARANCE CABLES FROM REOSO/WCA AND RLA/DAKAR, MISSION CORRESPONDENCE AND NOTIFICATIONS TO THE GOTG, NOR IN THE CERTIFICATION AND NOTIFICATION OF DISBURSEMENT REQUEST TO FA/FM/A/NPA AID/W. ALL GRANT FUNDS WERE DISBURSED FROM THE SEPARATE ACCOUNT FOR AGREED UPON PURPOSES BY THE END OF SEPTEMBER 1992. IT WAS NOT UNTIL JANUARY 12, 1993 THAT THE MISSION REALIZED THAT AGENCY FINANCIAL MANAGEMENT GUIDANCE FOR SEPARATE INTEREST BEARING ACCOUNTS WAS NOT INCORPORATED INTO THE FSR GRANT AGREEMENT. IT WAS AT THAT POINT THAT THE MISSION NOTIFIED THE GOTG OF THE DEFICIENCY IN THE LEGAL GRANT AGREEMENT AND REQUESTED THE GOTG TO ESTABLISH INTEREST BEARING ACCOUNTS AND THAT THE GRANT AGREEMENTS WOULD BE SUBSEQUENTLY AMENDED TO

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REFLECT THE REQUIRED GUIDANCE. DUE TO THE FACT THAT ALL TRANSFERRED GRANT FUNDS UNDER AGREEMENT NO. 635-0233 HAD BEEN DISBURSED FROM THE SEPARATE ACCOUNT BY THE GOTG PRIOR TO JAN 12, 1993, THE AGREEMENT WAS NOT AMENDED. HOWEVER, THE GOTG TOOK APPROPRIATE STEPS TO OPEN INTEREST BEARING ACCOUNTS ON THE TWO OTHER GRANT AGREEMENTS PRIOR TO THE CASH TRANSFERS.

IT IS OUR UNDERSTANDING THAT A WRITTEN GRANT AGREEMENT IS A LEGAL BINDING DOCUMENT BETWEEN TWO SEPARATE PARTIES AND THAT ABSENT A FORMAL AMENDMENT, THE GOTG DOES NOT HAVE A RESPONSIBILITY TO COMPLY WITH UNILATERAL U.S.G. FINANCIAL GUIDANCE PROCEDURES, USAID/THE GAMBIA REQUESTED USAIO/W GC/AFR TO REVIEW THIS CASE AND ISSUE A LEGAL OPINION ON THE SUSTAINABILITY OF THE QUESTIONED COST. GC/AFR PAULINE JOHNSON CONCURS WITH THE MISSION'S RECOMMENDATION THAT THE \$25,000 IMPUTED INTEREST QUESTIONED COST IS NOT SUSTAINABLE UNDER THE LEGAL AGREEMENT TERMS. USAID THE GAMBIA WILL FORWARD TO RIG/A/DAKAR BY POUCH A COPY OF GC/AFR OPINION ON THIS ISSUE TO SUPPORT THE MISSION'S RECOMMENDATION.

5. THE MISSION IS IN AGREEMENT THAT THE REMAINING \$1,001 INELIGIBLE COSTS RESULTING FROM BANK SERVICE CHARGES SHOULD BE QUESTIONED. THE MISSION'S FILE DOCUMENTATION INDICATES THAT THE GOTG WAS NOTIFIED BY USAID THAT BANK SERVICE FEES ARE NOT ALLOWABLE COSTS UNDER THE AGREEMENT TERMS. FURTHERMORE, DURING THE MEETING BETWEEN KPMG BURROW AND CONTROLLER BURKHART, IT WAS DISCLOSED BY BURROW THAT MEASURES WERE BEING TAKEN BY THE GOTG AND STANDARD CHARTERED BANK NEW YORK TO REVERSE THE BANK CHARGES.

UPON ISSUANCE AND RECEIPT OF THE FINAL AUDIT REPORT, USAIO THE GAMBIA WILL IMMEDIATELY ISSUE A BILL FOR COLLECTION TO RESOLVE AND CLOSE THIS REMAINING AUDIT RECOMMENDATION. THE COLLECTION OF THIS DISALLOWED COST WILL BE HELD IN ABEYANCE UNTIL A SUBSEQUENT REVIEW OR AUDIT IS UNDERTAKEN THROUGH THE CLOSE OUT PERIOD OF ALL THREE AGREEMENTS TO DETERMINE IF THE BANK CHARGES WERE INDEED REINSTATED TO THE ACCOUNTS.

6. USAIO/THE GAMBIA APPRECIATES BEING GIVEN THE

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OPPORTUNITY TO MAKE COMMENTS ON THE DRAFT AUDIT
REPORT. WE LOOK FORWARD TO FURTHER COOPERATION
WITH RIG/DAKAR.

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