

UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



"Contractor information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public."

Regional Inspector General for Audit  
NAIROBI

PD-ARK-499

AUDIT OF  
WEST NILE AGRICULTURAL REHABILITATION  
PROJECT, GRANT NO. 617-0109

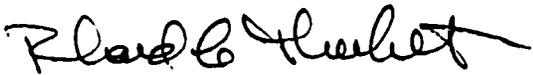
Audit Report No. 3-617-90-01-N  
October 27, 1989

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
REGIONAL INSPECTOR GENERAL/AUDIT

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October 27, 1989

TO: Director, USAID/Uganda   
FROM: RIG/A/Nairobi, Richard C. Thabet  
SUBJECT: Audit of West Nile Agricultural Rehabilitation  
Project, Grant No. 617-0109, Audit Report No.  
03-617-90-01-N

Attached is a copy of the subject audit report. The report presents the results of a non-Federal audit performed by the Certified Public Accounting firm of KPMG Peat Marwick, under the supervision of the Regional Inspector General for Audit, Nairobi (RIG/A/N). The audit was requested by USAID/Uganda.

The goal of the West Nile Agricultural Rehabilitation Project was to assist the returning population in resuming self-reliant, productive economic activities following the civil strife in the area during the early 1980s. Project funds were administered through CARE, a non-profit organization incorporated in the U.S.A. The Project was scheduled to be completed on April 30, 1990 at an estimated cost of \$4,361,717. The audit covered the period September 19, 1986 through September 30, 1988. USAID expenditures for the period totaled \$2,475,198.

The primary purposes of the audit were to: (a) review direct costs to assure propriety and allowability of charges to USAID and the validity of overhead rates; (b) identify and evaluate CARE's system of internal accounting controls; and (c) determine whether CARE/Uganda complied with applicable laws, regulations and terms of the grant agreement.

KPMG Peat Marwick concluded that most of the costs claimed for USAID reimbursement were proper and allowable, and issued an unqualified opinion in their audit report on A.I.D. expenditures. The auditors evaluation of internal accounting controls was too limited to permit the expression of an

opinion, but recommendations were made to improve the internal control system. The auditors noted that CARE did not always comply with grant provisions and consequently issued a qualified opinion on the auditee's compliance with laws, regulations and terms of the grant agreement. Additionally, the auditors were unable to determine the propriety of \$69,445, which they recommended be set aside for the contracting officer's determination (questioned costs), and recommended disallowances totaling \$10,818.

The auditee and USAID/Uganda generally concurred with the audit report, but requested that the portion of the questioned costs relating to the spare parts be accepted, stating that: the option to use air freight had been based on the security situation in Uganda at the time; that most of the spare parts had been used; and that there had been no deliberate attempt by the auditee to misuse U.S. funds. Copies of the missions and auditee comments are enclosed as Appendix 1 and 2, respectively.

RIG/A/N concluded that spare part expenditures totaling \$23,966 should be disallowed rather than questioned. CARE/Uganda ordered vehicle spare parts to be shipped by air. The selected vendor was the lowest bidder if the parts had been shipped by air freight, but was almost twice as expensive as the lowest bidder if sea freight was utilized. The ordered parts were delivered by the vendor five months later, by sea freight, and subsequently accepted by CARE/Uganda. Consequently, CARE/Uganda paid \$45,317 for sea freight delivery of spare parts that they could have obtained at the cost of \$21,351.

RIG/A/N believed it was unreasonable for CARE to have accepted and paid the high cost for these spare parts, and recommended disallowance of \$23,966, the difference between what was paid and the lowest sea freight bid (\$45,317 paid less the lowest sea freight bid of \$21,351 = \$23,966). The remaining \$45,479 (\$69,445 - \$23,966 = \$45,479) should be the total questioned costs.

The following report recommendations will be included in the Inspector General's recommendation tracking system:

Recommendation No. 1

We recommend that the Mission Director, USAID/Uganda:

- (a) recover \$23,966 in unallowable spare parts costs;
- (b) recover \$10,818 in unallowable operations and procurement costs; and

- (c) provide documentation of the recovery to the Regional Inspector General for Audit, Nairobi.

Recommendation No. 2

We recommend that the Mission Director, USAID/Uganda:

- (a) determine the allowability of \$45,479 in questioned costs; and
- (b) provide documentation of the resolution of these costs to the Regional Inspector General for Audit, Nairobi.

We consider the recommendations unresolved pending a specific plan for corrective actions. Please advise me within 30 days of the actions taken or planned to clear the recommendations.

REPORT ON THE  
FINANCIAL & COMPLIANCE AUDIT OF  
WEST NILE AGRICULTURAL REHABILITATION  
PROJECT  
GRANT NO. 617-0109-G-00-6001-00

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**WEST NILE AGRICULTURAL REHABILITATION PROJECT**  
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WEST NILE AGRICULTURAL REHABILITATION PROJECT  
USAID - GRANT NO. 617-0109-G-00-6001-00  
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INTRODUCTION  
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Background  
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The West Nile region of Uganda was largely depopulated in the early 1980's due to civil strife in the area. Over the past several years, approximately half of the original population has gradually returned to the West Nile area from Zaire and Sudan. Because of the hostilities in the early 1980's and the subsequent looting and neglect of the area, those refugees who have returned have found little or nothing left of their homes or the once thriving regional economy (based largely on cash crops such as cotton and tobacco). The near total devastation of farms, roads, markets, and supply centers has made resumption of economic activity difficult for those who have returned and, at least until recently, has discouraged many remaining refugees from coming back. CARE, a non profit organization incorporated in the U.S.A., began working with USAID/Uganda on the West Nile Agricultural Rehabilitation Project in 1986.

The West Nile Agricultural Rehabilitation Project (Grant No. 617-0109-G-00-6001-00) was signed by the Care/Uganda representative on September 18, 1986. Project activities did not start up until several months later and has a Project Completion Date (PACD) of April 30, 1990. The total estimated funding for this grant is \$4,361,717.

The goal of the project is to assist the residents of the West Nile province to resume self-reliant, productive economic activities. The successful attainment of this goal will mean that the area will be transformed from a net drain on national and international resources to one that productively contributes to national reconstructions. The project purpose is to increase the quantity and improve the quality of Agricultural inputs and services to refugees in the West Nile.

AID provides assistance through a cooperative agreement with CARE-UGANDA. CARE is responsible for the implementation of the project, including all disbursements of project funds, and the management, administration and accounting for all project funds.

In order to achieve the project goals seven activities are planned for under the project. These include:

- (i) Material grants to refugees.
- (ii) Commercial distribution of Agriculture Inputs.
- (iii) Development of forestry resources.
- (iv) Re-equipping agricultural extension services.
- (v) Rehabilitation of District Farm Institutes.
- (vi) Rehabilitation of Farm to Market roads.
- (vii) Rural Water Supply.

Funding was to be provided by the following project participants:-

USAID	\$4,361,717
Experiment in International Living	333,333
CARE	666,667
Government of Uganda	614,000
	-----
	\$5,975,717
	-----

Subsequently, the grant agreement was amended by grant amendment No.1 on January 5, 1988. This amendment defined activities and objectives more precisely, identified specific objectives and target groups, and discontinued various unviable project activities.

The amendment also acknowledged that the Government of Uganda would not continue to provide funding. Rather, Government inputs would now be "in kind" e.g., use of government vehicles, drivers, etc.

USAID funds for the project were unchanged. However, the financial plan was revised so that the major categories of expenditure would be as follows:-

1. Personnel	\$1,473,564
2. Operations	505,961
3. Procurement	1,428,470
4. Mission Management Costs	586,617
5. CARE Headquarters Indirect Cost Recovery	367,105
	-----
	\$4,361,717
	-----

The grant amendment also acknowledged that the Mission Management Costs and Indirect Cost Recovery may be subject to variation in future.

Contributions from CARE and EIL were to remain unchanged from the original agreement.

## AUDIT

-----

Peat Marwick - Nairobi have been requested to perform a non-federal audit of the USAID funded portion of the West Nile Agricultural Rehabilitation Project, by USAID in Kampala, under contract number ORT-0000-I-00-6166-00. The audit was performed under the supervision of the Regional Inspector General-Audit, Nairobi.

## AUDIT OBJECTIVES

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Our contract requires us to undertake the following tasks in respect of the period from September 19, 1986 to September 30, 1988:

- (a) perform an audit in accordance with generally accepted auditing standards and the Financial and Compliance elements of the Standards for Audit of Governmental Organizations, Programs, Activities and Functions issued by the Comptroller General of the United States in 1981;
- (b) review direct and indirect costs to assure propriety and allowability of charges to USAID and the validity of overhead rates;
- (c) determine whether the grantee (CARE) has complied with applicable laws, regulations and terms of the grant agreement;
- (d) identify and evaluate internal controls;
- (e) analyze the potential for cost savings through more efficient or effective operations and
- (f) prepare professional audit reports in accordance with SAS 14, as presented in the "Codification of Statements on Auditing Standards", AU Section 621, analyzing problem areas in need of improvement, proposing recommendations and itemizing costs recommended for acceptance, disallowance, and further negotiations (questioned costs).

**AUDIT SCOPE**

-----

The audit was designed to cover the expenditure incurred on the project which has been funded from USAID monies. This includes both direct and indirect costs incurred, from all sources.

A significant proportion of the expenditure charged to the project was paid directly from CARE International in New York. We have had verification procedures undertaken on these funds by our New York Office.

In respect of control matters, we have reviewed controls in respect of CARE's Kampala Office and the Arua Project Site.

We have not reviewed and assessed controls, procedures and operations in the CARE International Office.

The results of our audit are detailed in the Audit Reports on pages 8 to 37.

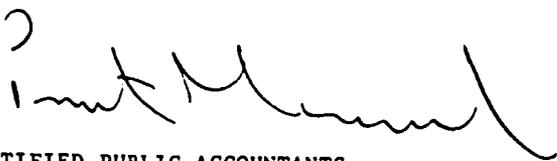
AUDIT REPORT ON AID REVENUES AND EXPENDITURES  
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We have examined the Statement of Agency for International Development Revenues and Expenditures for the West Nile Agricultural Rehabilitation Project for the period from September 19, 1986 to September 30, 1988, as prepared by CARE International in Uganda. Agency for International Development had grant number 617-0109-G-00-6001-00 with CARE International in Uganda during this period. Our examination was made in accordance with generally accepted auditing standards and the Comptroller General's "Standards for Audit of Government Organizations Programs, Activities and Functions" (1981 Revision) and, accordingly included such tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances.

As described in Footnote I, it is CARE International in Uganda's accounting policy to prepare its statement of AID Revenues and Expenditures on a basis outlined by the terms and conditions of the grant agreement with AID and the applicable US Government laws and regulations. Accordingly, the accompanying statement of AID expenditures is not presented in conformity with generally acceptable accounting principles.

In our opinion, the Statement of Agency for International Development Expenditures for the West Nile Agricultural Rehabilitation Project, prepared by CARE International in Uganda attributed to the AID grant during the period September 19, 1986 to September 30, 1988, is fairly stated in accordance with the terms and conditions of the grant agreements with AID and the applicable US government laws and regulations which have been applied on a consistent basis.

Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of CARE International in Uganda or the Agency for International Development and should not be used for any other purpose.

  
CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI  
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Date: June 17, 1989.  
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WEST NILE AGRICULTURAL REHABILITATION PROJECT  
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STATEMENT OF AGENCY FOR INTERNATIONAL DEVELOPMENT REVENUES  
AND EXPENDITURES FOR THE PERIOD ENDING SEPTEMBER 30, 1988  
-----

(all money amounts are in United States Dollars)

REVENUES

Funds drawn against letter of Credit  
Facility \$2,475,198  
-----

EXPENDITURES

I	Personnel	\$715,241
II	Operations	309,034
III	Procurement	864,662
IV	Mission Management Costs	377,934
V	CARE Headquarters Indirect Cost Recovery	208,327
		-----
		\$2,475,198
		-----

UNEXPENDED FUNDS

\$ NIL  
-----

WEST NILE AGRICULTURAL REHABILITATION PROJECT

NOTES TO THE STATEMENT OF AID REVENUES AND EXPENDITURES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The statement of AID Revenues and Expenditures has been prepared on a basis consistent with the terms and conditions of the grant agreement with AID and the applicable US government laws and regulations and accordingly are not reported in conformity with generally accepted accounting principles.

(b) All expenditures in respect of the project for which AID funds have been applied are included under the appropriate caption as and when incurred.

(c) Revenues

The amount shown as project revenues is equivalent to the total expenditures as of the reporting date. CARE draws funds in arrears in respect of project activity.

(d) Expenditures

The total expenditures reported to AID-Washington as of September 30, 1988 on the SF-269 was \$2,450,579. This differs from actual expenditures by \$24,619. This is evidently due to an administrative error in CARE-New York.

(e) Indirect Recovery

The amount shown as an indirect recovery has been calculated at 9.19% of all other costs. CARE International in Uganda are unable to confirm whether the figure shown is accurate, because the rate of overhead recovery varies annually, as agreed between CARE International in New York and AID in Washington.

WEST NILE AGRICULTURAL REHABILITATION PROJECT  
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PROJECT COSTS FOR THE PERIOD ENDING SEPTEMBER 30, 1988  
 -----

(All money amounts are in United States dollars)

2. QUESTIONED AND DISALLOWED COSTS  
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	Cost Categories -----	Costs Claimed -----	Costs Recommended for Acceptance -----	Costs Recommended for Disallowance -----	Costs Questioned -----
I.	Personnel	\$715,241	\$715,241	-	-
II.	Operations	309,034	234,994	\$5,054	\$68,986
III.	Procurement	864,662	858,439	5,764	459
IV.	Mission Management	377,934	377,934	-	-
V.	Indirect Recovery	208,327	208,327	-	-
		-----	-----	-----	-----
		\$2,475,198	\$2,394,935	\$10,818	\$69,445
		-----	-----	-----	-----

2.1. OPERATIONS

(a) Vehicle Maintenance and Repairs

(1) Questioned

(a) Purchases of Toyota spares

(1) March 1988 Chq 349	\$43,803.18
(2) May 1988 Chq 403	1,513.42
(3) June 1988 NCT 3-06-23	23,201.00

(b) Misallocated Costs

Office Rent	468.75
	-----
	\$68,986.35
	-----

(a) Purchases of Spares

These costs have been considered questionable because of the scale of purchasing. The project has 9 vehicles at Arua. This represents a minimum of \$7,000 per car. There have also been further purchases of spares for the West Nile Project.

However, the project is providing spares for non-AID vehicles used on the project (e.g. Government of Uganda vehicles), and conditions in the West Nile region are less than kind to vehicles. The project managers also point out that at any time the project site may be cut off from Kampala for long periods because of internal disturbance in Uganda.

The spares stockpiles in Arua did not appear to be excessive at the time of our visit.

We also question whether the purchase has been made at the best price. From the Requests for Quotation it appears that the purchase for \$43,803.18 plus \$1,513.42 (exchange fluctuation) from BASH-UK was at a price which was approximately \$7,000 in excess of that quoted by Toyota Japan.

We were informed that BASH-UK can provide the parts on a considerably shorter lead-time than Toyota.

We consider that USAID Kampala should pursue this matter with CARE International in Uganda to determine whether the time saving justifies the additional cost incurred.

**Auditees Response**  
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(1) March 1988 Chq 349	\$43,803.18
(2) May 1988 Chq 403	\$ 1,513.42

Quotations for supply of Toyota parts for maintaining project vehicles were invited from three different suppliers in May. Since the Arua security situation was very critical with frequent threats to project personnel, Mission management considered keeping the project's fleet of vehicles in reliable functioning condition for enabling project staff to evacuate/escape from Arua at all times as a major priority. Given the paramount importance of security of project personnel, Mission decided to order the parts by airfreight considering that getting parts by sea freight will entail the following disadvantages:

1. Parts would have arrived after more than six months from the date of confirmation of order.
2. Since parts have to arrive through Mombasa port and by road from Mombasa to Kampala, the risk of losing the consignment in Mombasa port and enroute to Kampala by road was very high due to the serious security situation prevailing in Uganda during 1986/87.
3. The loss of consignment would have led to a situation where the project's fleet of vehicles, which comprised 9 Toyota vehicles, became inoperable for want of parts. This would have halted the project implementation for extended periods as well as jeopardizing the possibility of project staff evacuation by road in case of deterioration of the security situation in West Nile.

Thus the decision to order the parts by air freight was made.

The following air freight quotes were received:

Bash (UK) Stg.f25,805 or	\$41,289.20
Toyota Japan	\$54,620.00
Crusader Generator (UK)	\$50,039.00

The same suppliers quoted for supply by sea freight as per details below:

Bash (UK) Stg.f24,627.53 or	\$39,404.04
Toyota Japan	\$21,351.00
Crusader Generators	\$27,800.00

Despite our decision to order supply by airfreight, Bash (UK) supplied the parts by seafreight after five months. Their bill was settled for the quoted price for sea freight in pounds sterling. As the exchange rate for dollars against pounds changed we were forced to pay a total amount of \$45,316.60. CARE was compelled by circumstances beyond its control to settle this bill at a higher amount than was originally anticipated due to changes in exchange rate and the desire to have the parts to ensure project operations and to provide the means of transport for project staff to be able to evacuate by road either to Zaire or Kampala.

The alternative of rejecting the supply of parts by Bash would have led to prolonged litigation which may have cost the project considerable amounts in legal expenses as well as halting project implementation due to grounding of project vehicles. Considering the foregoing, CARE requests USAID Kampala to accept this expense as an appropriate charge to the grant.

(3) June 1988 NCT 3-06-23                      \$23,201.00

This expense includes cost of parts purchased for 5 Daihatsu Rocky vehicles. At this time only two Rocky Daihatsus were used by West Nile Project. Charging the entire invoice amount to West Nile project's USAID Grant was an error in our accounting. We are in the process of reworking the allocation of costs for this combined order for parts. After working out the details CARE will credit the amount to West Nile Project's USAID Grant. We expect approximately \$12,000 to \$14,000 to be reduced from the expenses reported against USAID grant as a result of this adjustment. We will make this adjustment in our August 1989 financial reporting period.

(b) Misallocated Costs

These costs have been allocated to the wrong cost category. They in fact represent personnel costs. They are allowable items of expenditure, however we recommend reallocation of these costs for reporting purposes.

Auditees Reponse

-----  
This represents rent for the Guest House in Arua. Since the Guest House is not used by a specific staff member, CARE has treated this as office rent. The auditors term this as wrong category. In view of our explanation above we request you to accept this as part of our office rent expenses.

(11) Disallowed

(a) Spare parts for Mitsubishi \$2,019.13

This is a CARE vehicle in Kampala and as such spares costs should not be allocated to the West Nile Project as a direct cost. This cost should be charged to mission management costs and a proportion charged to the project.

Auditees Response  
-----

CARE has corrected this error through an adjusting Journal Entry in our December 1988 Financial Report. The amount of \$2,019.13 has been credited to USAID Grant and corresponding debit (expensing) has been made to Kampala fixed costs (PN 85).

(b) Purchase of Spares 2,600.00

These spares were purchased for another CARE project and as such are not allocable to the West Nile Project.

Auditees Response  
-----

This expense has been erroneously charged to West Nile USAID Grant. CARE has credited this amount to USAID Grant and transferred the expense to our Farm Forestry project (PN 20).

(c) Purchase of Jack for Minibus 235.00

Again this is a mission management vehicle and as such spares costs are not fully allocable to the project.

Auditees Response  
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We accept this as a wrong charge and will be crediting this amount to USAID Grant in our August 1989 Financial Report.

Disallowed operations costs \$5,054.13  
-----

2.2. PROCUREMENT  
-----

(b) Internal Delivery  
-----

(i) Questioned

Payments for unloading vehicles \$458.78

We noted three payments totalling this amount which were made without what we considered appropriate documentation. The payments were acknowledged as received by the porters on a rough scrap of paper. We are not able to express an opinion on the propriety of the payment, as we do not have information as to the appropriate rate for such labor, or how much work was involved.

It is acknowledged that some payment would be appropriate for such services, but there is inadequate documentation for the assessment of the reasonableness or otherwise of these payments.

Auditees Response  
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The trucks bringing materials at times arrive after office hours. The three payments mentioned by the Auditors relate to these after office hours work. CARE has introduced procedures for obtaining proper receipts for this kind of payments to laborers, and staff are instructed to follow this strictly. In view of the fact that the amount involved is less than \$500 for three different transactions and the fact that the payments were made in local currency which may appear excessive when converted to dollars, CARE requests that this expense be accepted as a proper charge to the Grant.

(ii) Disallowed

Purchase of refrigerators \$5,763.95

This represents the purchase of 6 refrigerators which were incorrectly coded to the West Nile Project. They were purchased for use on another project being run by CARE International in Uganda.

CARE are to adjust for this expenditure in their June 1989 accounts.

Auditees Response  
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The actual amount of purchase of 6 refrigerators was for another project and erroneously charged to USAID grant West Nile project was \$5,753.95. As this payment was effected through our New York to credit this amount to USAID Grant and charge the expense to our Community Health Services Project. (PN 26).

### 3. PERSONNEL COSTS

-----

Personnel costs include salaries for locally engaged personnel paid externally and other benefits, CARE International staff salaries and benefits, including relocation allowances, R&R, posting adjustment and other benefits, and a proportion of the EIL costs.

In general, personnel costs in relation to Ugandan nationals are not met from USAID funds. Wherever possible these are met from Uganda shillings funds available, and paid by CARE. Where Uganda shillings funds are not available, USAID funds are utilized, and the cost charged to the USAID funding source.

#### VERIFICATION

- 
1. Positive identification of expatriate staff.
  2. Selection of payments charged to the salaries and benefits accounts in New York and Kampala and ;
    - determining that payments are in relation to project personnel;
    - salary and benefit rates are in accordance with allowable rates;
    - where personnel are engaged in mission management only an appropriate percentage is allocated to the West Nile Project;
    - ensuring that personnel expenditures to date had not exceeded the amount allocated for personnel costs in the grant agreement;
    - determining that any direct personnel costs are not included in the overhead "pool" for allocation of indirect costs.

#### RESULTS

- 
1. We were unable to positively identify the following, due to his absence at the time of our visit:-
    - (a) Mr. Harold Silcox (retired).
  2. No items that we selected were not allowable, allocable or reasonable.
  3. Personnel costs are within the obligations set down in Grant Amendment No.1.

#### CONCLUSION

-----

We consider that personnel costs of \$715,241 should be accepted.

## OPERATIONS

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### Operations costs include:

- Office supplies
- Communications
- Office rent
- Utilities, maintenance and repairs
- Vehicle maintenance and repairs
- Travelling
- Depreciation
- Insurance
- Consultants costs
- Bank charges

## VERIFICATION

-----

1. Select payments allocated to operations costs under the various categories and agree them to supporting documentation, ensuring that costs are:
  - allowable
  - allocable
  - reasonable
2. Determine that total expenditure is within the parameters set down in Grant Amendment No.1.

## RESULTS

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- (a) Included in vehicle costs were some \$68,517.60 which have been questioned on the basis of price and quantity ordered. These costs are discussed in Footnote 2.1(i).
- (b) Included in office rent were costs of \$468.75 relating to rent of staff housing. This is a personnel cost and as such should be reallocated to that category of expenditure.
- (c) Costs totalling \$5,054.13 have been recommended as disallowed costs as they are not allocable to the West Nile Project. These items are detailed in Footnote 2.1(ii).
- (d) Apart from the items noted in paragraphs (a) and (b), all other costs selected for testing were, in our opinion, allowable, allocable and reasonable.
- (e) Expenditures to date are within the obligations set out in Grant Amendment No.1.

**CONCLUSION**

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In our opinion, operations costs of \$234,994 are allowable, allocable and reasonable and should be accepted.

Costs of \$5,054.13 should not be accepted as project costs. We are unable to give an opinion on costs of \$68,517.60. These costs should be followed up by USAID - Kampala to determine whether they are appropriately treated.

Costs of \$468.75 have been incorrectly allocated to Operations, but are allowable as personnel costs. No further action is required in respect of these costs.

**Auditees Responses**

-----

The auditees responses to our findings are detailed in Footnote 2.1.

## 5. PROCUREMENT

-----

Procurement costs include all purchases of furniture, fixtures and equipment, vehicles, transport charges and other materials purchased for project activities.

### VERIFICATION

- 
1. Select payments allocated to Procurement costs under various categories and agree them to supporting documentation, ensuring that costs are allowable, allocable and reasonable.
  2. Determine that total expenditures are within the parameters set in Grant Amendment No.1.

### RESULTS

- 
- (a) We noted expenditures of \$458.78 which have been questioned on the basis of lack of appropriate documentation. These payments are discussed in Footnote 2.2(i).
  - (b) Costs of \$5,763.95 had been incorrectly allocated to the project and should be disallowed. These payments are discussed in Footnote 2.2(ii)
  - (c) Although delivery charges within Uganda were very high, we understand that this is a "fact of life" when operating in Uganda, particularly in respect of deliveries to Northern Uganda.
  - (d) All other procurement costs appeared to be of a type which were allowable, allocable and reasonable.
  - (e) Costs to date are within the revised expenditure obligations set out in Grant Amendment No.1.

### CONCLUSION

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We consider that procurement costs of \$858,439 should be accepted. Costs of \$5,763.95 should not be accepted as project costs. Costs of \$458.78 have been questioned, but are not of a size to warrant further action.

### Auditees Response

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The auditees responses fo our findings are detailed in Footnote 2.2.

## 6. MISSION MANAGEMENT COSTS

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Mission management costs include a proportion of the costs of operating the CARE International in Uganda Office in Kampala. The costs apportioned include communications, accounting and administration, staff costs, procurement control, directorate and office and warehouse rental.

Under the agreement with USAID, mission management costs are set at 17.1%. Currently the mission management cost obligation represents 13.4% of the total obligation.

### VERIFICATION

- 
1. Select a sample of payments allocated to mission management costs and determine that such items are allowable, allocable and reasonable.
  2. Determine that mission management costs are within the parameters set in Grant Amendment No.1.

### RESULTS

- 
- (a) For mission management costs, we found that costs allocated to USAID excluded items disallowed under the Grant (e.g. entertainment, purchases from prohibited source).
  - (b) The proportion of costs allocated to the USAID grant was for all items tested considered reasonable.
  - (c) No items selected appeared unreasonable as to price, quantity, etc.
  - (d) Costs incurred to date were within the obligation set in Grant Amendment No.1.

### CONCLUSION

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Based on the results of our testing, we consider that mission management costs of \$377,934 should be adopted.

## 7. CARE HEADQUARTERS INDIRECT RECOVERY

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This represents the proportion of the costs of operating the CARE International office in New York which are able to be allocated to projects.

Under an agreement between USAID - Washington and CARE New York, the indirect recovery rate is set on an annual basis.

Currently the rate is set at 9.19% of all other project costs. As stated in Footnote 1(b) to the Statement of Revenues and Expenditures, the figure of \$208,327 represents the CARE International in Uganda estimate of the cost and therefore may not be the precise figure allocated by CARE - New York.

### VERIFICATION

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1. Determine by observation and enquiry that the "overhead pool" excludes costs which USAID are unable to fund (e.g. entertainment, prohibited country of origin, etc.).
2. Compute overhead recovery and determine that percentage is in agreement with the rate set in Grant Amendment No.1.
3. Determine that indirect recovery is within the financial obligation set in Grant Amendment No.1.

### RESULTS

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- (a) We found that the "overhead pool" included no items which should have been excluded under AID regulations.
- (b) The indirect recovery was in accordance with the agreement (i.e. 9.19% of all other costs). However, the indirect recovery will be in excess of the allowed percentage after adjusting for disallowed costs.

Any amounts in excess of 9.19% would therefore be disallowable.

Any questioned costs which are disallowed will also cause the amount of indirect costs recovered to be in excess of 9.19% and therefore disallowable.

- (c) Indirect overhead recovery currently is within the financial obligation laid down in Grant Amendment No.1.

### CONCLUSION

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Subject to paragraph (b) above and Footnote 1(d) to the Statement of Revenues and Expenditures, we recommend that indirect costs of \$208,327 be adopted.

WEST NILE AGRICULTURAL REHABILITATION PROJECT  
-----

AUDIT REPORT ON INTERNAL ACCOUNTING CONTROL  
-----

We have examined the Statement of AID Revenues and Expenditures on the West Nile Agricultural Rehabilitation Project by CARE International in Uganda for the period ended September 30, 1988, and have issued the report thereon dated June 17, 1989. As part of our examination we made a study and evaluation of CARE International in Uganda's system of internal control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the US General Accounting Office's Standards for Audit of Government Organizations, Programs, Activities and Functions (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls in the following categories:-

US New York Expenditure

Stores Procurement

Stores Issues

Cash Payments

Cash Receipts

Petty Cash

Payroll

Our study included all of the control categories listed above except that we did not evaluate the accounting controls over New York expenditure because this was not considered part of our assignment. CARE International in New York is subject to a separate audit under the laws of the United States of America.

We understand that the independent auditors of CARE International report to USAID on an annual basis in respect of internal accounting control within the CARE New York office.

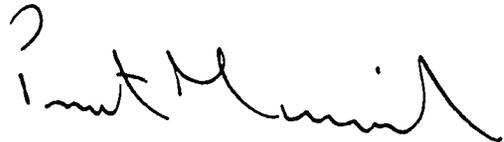
The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the project's Statement of Revenues and Expenditures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of CARE International in Uganda is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of CARE International in Uganda taken as a whole or any of the categories of controls identified in the first paragraph. Our study and evaluation disclosed the weaknesses noted in Schedule I to this report. We did not note any other conditions which we believe to be material weakness.

Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of CARE International in Uganda or the Agency for International Development and should not be used for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI  
-----

Date: June 17, 1989.  
-----

WEST NILE AGRICULTURAL REHABILITATION PROJECT  
-----

AUDIT REPORT ON INTERNAL ACCOUNTING CONTROL  
-----

INTERNAL ACCOUNTING CONTROL WEAKNESSES NOTED  
-----

1. DATA BACK-UP  
-----

(a) Observation  
-----

Back-up copies of EDP data and program files were not maintained off site. In the event of a disaster, such as fire, flood or major EDP breakdown, processing would be seriously disrupted due to a need to resurrect program and data files.

(b) Recommendation  
-----

We recommend that back-up copies of program and data files be maintained "off-site" at, for example, the Director's home or at the CARE International's bank in Kampala.

(c) Management Response.  
-----

CARE-Uganda will adopt the procedure of storing back up copies in the office's fireproof safe effective July 1989.

2. **BANK RECONCILIATION**  
-----

(a) **Observation**  
-----

Certain checks on the bank reconciliation had been outstanding for more than six months, and were therefore out of date. Failure to cancel and reverse these checks means expenditures will be overstated and the cash position understated.

(b) **Recommendation**  
-----

Out of date items on bank reconciliations should be cancelled and reversed.

(c) **Management Response**  
-----

Checks outstanding on the Bank Reconciliation for more than six months are being cancelled and amounts expensed through these checks are being credited. All these will be cleared in August 1989. For our Citibank A/C in New York Bank Statements are received one or two months late. CARE-Uganda Finance Staff have been instructed to strictly follow the procedures of cancelling checks outstanding for more than six months from the date of issue.

3. CHECK PAYMENTS  
-----

(a) Observation  
-----

Kampala operated accounts only require one signatory on checks. We consider that two signatories provide a cross-check of check accuracy.

(b) Recommendation  
-----

Checks should be signed by two persons. This will probably require the creation of additional signatories, who should be subject to authorization limits.

(c) Management Response  
-----

CARE's standard operating procedures worldwide, as approved by the CARE's Board of Directors, approve overseas missions operating bank accounts by authorised signatories singly. Given our staffing level, the two authorised signatories who are expat staff may not be available in the mission at all times. Our financial procedures require check requests to be recommended by Finance Section Head based on which an authorised person signs checks singly. Thus it may not be possible for the mission to follow this suggestion. CARE USA has insurance policy to cover any mishandling of finances by authorised signatories and this policy will restore losses to the organisation as a result of mishandling by authorised signatories.

## STORES SECURITY

### (a) Observation

Stores recording functions are being performed by the storeman, who is also responsible for the custody of the stores materials. We consider that these duties should be segregated. This will reduce the likelihood of unauthorized stores movements being recorded in the stock records.

### (b) Recommendation

Stock records should be maintained independently by the accounts department in Arua. These can then be matched to physical quantities on a regular basis.

### (c) Management Response

All issues from stores are being approved by the project manager or Activity manager through stock release orders. Entries in stock cards are to be made by the storekeeper based on stock release order and corresponding dispatch advice recording issue from store. Since the physical location of stores and project office are different maintaining inventory stock cards at main office will not be feasible. CARE is following the procedure of project manager and senior staff manager reviewing stores inventory records periodically to reduce the likelihood of unauthorised stores movement in the stock cards. CARE will also follow its standard operating procedures of carrying out semi-annual physical counts to further reduce the likelihood of unauthorised stores movement.

5. STORES RECORDING

(a) Observation

Stock records were not being maintained in a satisfactory manner from March 30, 1988 to June 9, 1988. This was due to the storeman not performing his duties as required by his employment contract. It is possible that unauthorized movement of stores may have occurred in this period.

(b) Recommendation

CARE International in Uganda made appropriate and prompt response to the breakdown in controls. The person who failed to maintain the records correctly was dismissed from the staff and records were subsequently maintained in a proper manner. Prior to the period mentioned above stock records were maintained in a satisfactory manner.

No further action is recommended.

(c) Management Response

No response is considered necessary.

WEST NILE AGRICULTURAL REHABILITATION PROJECT  
-----

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS  
-----

We have examined the Statement of AID Revenues and Expenditures on the West Nile Agricultural Rehabilitation Project by CARE International in Uganda for the period ended September 30, 1988 and have issued our report thereon dated June 17, 1989. Our examination was made in accordance with generally accepted auditing standards; the provisions of "Standards for Audit of Government Organizations, Programs, Activities and Functions" (1981 Revision) promulgated by the U.S. Comptroller General, as they pertain to financial and compliance audits; and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The management of CARE International in Uganda is responsible for CARE International in Uganda's compliance with laws, regulations, and terms and conditions of the Federal Award Agreements.

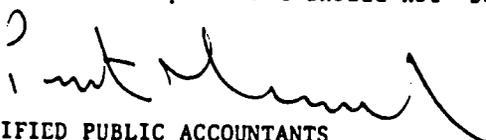
In connection with our examination, we found that for the items tested which are identified in Schedule I of this report, CARE International in Uganda complied with laws, regulations and the terms and conditions of the Federal Award Agreements.

We found that the organization was not complying with the terms and conditions of the agreement in respect of those items in Schedule II of this report.

Further, with respect to the items not tested by us, nothing came to our attention to indicate that CARE International in Uganda had not complied with laws, regulations, and the terms and conditions of the Federal Award Agreements. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of non-compliance with such requirements, terms and conditions.

In our opinion, except for the items noted in paragraph 3 of this report, CARE International in Uganda have complied with laws, regulations and the terms and conditions of the Federal Award Agreements.

Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. This report is intended solely for the use of management of CARE International in Uganda or the Agency for International Development and should not be used for any other purpose.

  
CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: June 17, 1989.

WEST NILE AGRICULTURAL REHABILITATION PROJECT

AUDIT REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

ITEMS OF COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS

1. Spending levels for each line item in the budget were in accordance with the terms and conditions of Grant Amendment No.1.
2. No cost on any line item was in excess of the provisions of the Grant Amendment.
3. Specific Provisions complied with:-

(a) CARE/EIL Contributions

CARE International in Uganda (CARE) and Experiment in International Living (EIL) are contributing funds to the project from their own resources as follows:-

CARE	\$ 666,667
EIL	333,333
	-----
	\$ 1,000,000
	-----

Based on contributions to date and budgeted further contributions it appears that CARE and EIL will meet their funding commitments in accordance with the requirements of Grant Amendment No.1.

(b) Mission Management Costs

Mission management costs are within the Grant limit of 17.1%.

(c) Indirect Cost Recovery

The headquarters indirect recovery rate of 9.19% has been applied for the purpose of calculating the indirect cost recovery to date.

(d) Project Activities  
-----

The project continues to pursue activities compatible with achieving the overall objectives of the program.

(e) Reporting  
-----

(i) CARE International New York have submitted trimesterly reports on technical matters to USAID in Washington.

(ii) CARE International New York have submitted quarterly Financial Status Reports to USAID in Washington.

(f) Accounting, Audit and Records  
-----

(i) Financial data is reported in the accrual form for the purposes of CARE year end reporting at June 30 each year.

(ii) The accounting records adequately identify the application of funds for AID sponsored activities.

(iii) Except for the items noted in Schedule I to the report on Internal Accounting Control, effective control and accountability is maintained over all funds, property and other assets, except for the items noted in the above-named Schedule.

(iv) Actual outlays are compared with budget amounts for the grant.

(v) Procedures are in place to minimize the time elapsing between transfer of funds from the US Treasury and the disbursement by the recipient whenever funds are advanced by the Federal Government.

(vi) Procedures are in place for determining the reasonableness, allowability and allocability of costs in accordance with the provisions of the applicable Federal cost principles and the terms of the grant.

(vii) Accounting records are supported by documentation that identifies, segregates, accumulates and records all costs incurred under the grant, and fully disclose:

(1) the amount and disposition by CARE of AID funds;

(2) the total costs of the project on which the grant has been utilized;

(3) details of costs funded by non-AID sources and

(4) other records as will facilitate an effective audit.

(viii) Examinations in the form of audits are made by qualified individuals that are sufficiently independent of those that authorize the expenditure of AID funds, to produce unbiased opinions, conclusions or judgements.

(ix) A systematic method of ensuring timely and appropriate resolution of audit findings and recommendations is in place.

(x) The grantee has made available records for examination and audit by Peat Marwick as AID'S representatives.

(g) Refunds  
-----

(i) As the grant period is still current, the question of unremitted funds does not yet apply.

(ii) No costs have been disallowed prior to this report, so no refunds have been made.

(h) Ineligible Countries  
-----

We are not aware of any funds being expended for costs incurred in countries ineligible for assistance under the Foreign Assistance Act 1961 as amended, or under Acts appropriating funds for foreign assistance.

(i) Non-discrimination in Federally Assisted Programs  
-----

We are not aware of any person being excluded from participation in or denied the benefits of, or otherwise subjected to discrimination under any program or activity funded by this grant on the basis of race, color, national origin, age, handicap or sex.

(j) US Officials Benefit  
-----

We are not aware of any member of or delegate to the US Congress or Resident US Commissioner being admitted to any share or part of this grant or to any benefit that may arise therefrom.

(k) Contingent Fees  
-----

We are not aware of any person or selling agency having been employed or retained to solicit or secure this grant upon an agreement or understanding for a commission, percentage, brokerage or contingent fee except bona fide employees or bona fide established commercial or selling agencies established by the grantee for the purpose of securing business.

(l) Air Travel and Transportation  
-----

The grantee has complied with the grant agreement provisions in respect of air travel and transportation except for the matter noted in paragraph 2 of Schedule II to this Report.

(m) Ocean Shipment of Goods  
-----

The grantee has complied with the grant agreement provisions in respect of ocean shipment of goods except for the matter noted in paragraph 3 of Schedule II to this Report.

(n) Procurement of Goods and Services  
-----

The grantee has complied with the grant agreement provisions and the AID eligibility rules for the procurement of goods and services except for the matter noted in paragraph 4 of Schedule II to this Report.

(o) Sub-Agreements  
-----

We are not aware of any breach of the requirements of the grant agreement in respect of sub-agreements by the grantee.

(p) Local Cost Financing with US Dollars  
-----

We are not aware of any breach of the requirements of the grant agreement in respect of local cost financing with US Dollars by the grantee.

(q) Publications  
-----

We are not aware of any breach of the requirements of the grant agreement in respect of publications by the grantee.

(r) Negotiated Indirect Cost Rates

We are not aware of any breach of the requirements of the grant agreement in respect of indirect cost rates by the grantee.

(s) Regulations Governing Employees

We are not aware of any breach of the requirements of the grant agreement in respect of regulations governing employees by the grantee.

(t) Title to and Use of Property (Grantee Title)

We are not aware of any breach of the requirements of the grant agreement in respect of title to and use of property (grantee title) by the grantee.

(u) Title to and Use of Property (Co-operating Country Title)

We are not aware of any breach by the grantee of the requirements for the grant agreement in respect of the title to and care of property (co-operating country title).

(v) Cost Sharing (Matching)

We are not aware of any breach by the grantee of the requirements of the grant agreement in respect of cost sharing (matching).

(w) Use of Pouch Facilities

We are not aware of any breach by the grantee of the requirements of the grant agreement in respect of the use of pouch facilities.

(x) Conversion of United States Dollars to Local Currency

We are not aware of any breach by the grantee of the requirements of the grant agreement in respect of the conversion of United States dollars to local currency.

WEST NILE AGRICULTURAL REHABILITATION PROJECT  
-----

AUDIT REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS  
-----

NON-COMPLIANCE WITH LAWS, REGULATIONS AND PROGRAMS  
-----

1. Reporting  
-----

Trimesterly financial status reports (SF 269) have not been submitted by CARE International to USAID - Washington. This is because of a contradiction in the grant agreement. Under paragraph E of attachment 1, SF 269 should be submitted trimesterly. However, under paragraph (c)(1) of attachment 3, SF 269 should be submitted quarterly. CARE International have been complying with the latter requirement.

We recommend that CARE be exempted from complying with the trimesterly requirement. We also recommend that CARE provide some form of financial data to AID-Kampala on a quarterly basis.

Management Comment  
-----

In addition to SF 269 CARE Uganda will follow the procedure of submitting monthly expenditure summary by account category (computer print outs) to USAID Kampala.

2. Air Travel and Transportation  
-----

Disbursement vouchers in respect of air travel and transport did not include a "certification of unavailability of US Flag air carriers" as required by the grant agreement.

Apart from the above, we are not aware of any breach of the requirements of the grant agreement in respect of air travel and transportation.

We recommend that a blanket "certification of unavailability of US Flag air carrier" be granted in respect of flights ex-Kampala and Nairobi and that certification be obtained in respect of flights to the US where US carriers are not used.

Management Comment  
-----

No comment has been received from the USAID mission.

3. Ocean Shipment of Goods

Items procured by the West Nile Agricultural Rehabilitation Project are purchased on a "CIF" basis. Choice of vessel is therefore of the discretion of the supplier, and as such CARE International has no power to ensure goods are shipped on US carriers.

We do not consider that 50% of the tonnage or freight revenue was carried and paid to US-owned shipping lines.

No determination of non-availability of US-flagged freighters was recorded on file.

We recommend that determinations of non-availability of US-flagged freighters be recorded as applicable in future.

Management Comment

No comment has been received from the USAID mission.

4. Procurement of Goods and Services

The grantee has purchased motor vehicles and agricultural equipment with no written authorization from the grant officer other than approval of the budget. This contravenes "AID Eligibility Rules for Goods and Services" paragraph (a)(3).

We recommend that written authorization be obtained for any future acquisition of this type.

Management Comment

No comment has been received from the USAID mission.

AUDIT OF  
WEST NILE AGRICULTURAL REHABILITATION

APPENDICES

## UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. A.I.D. MISSION TO UGANDA

UNITED STATES POSTAL ADDRESS  
 USAID/KAMPALA  
 AGENCY FOR INTERNATIONAL DEVELOPMENT  
 WASHINGTON, D C 20520

INTERNATIONAL POSTAL ADDRESS  
 PO BOX 7007  
 KAMPALA UGANDA

## MEMORANDUM

DATE: August 1, 1989

TO: Richard C. Thabet, RIG/A/Nairobi

FROM: Fred Winch, Acting Mission Director

SUBJECT: Report on the financial and compliance Audit of West Nile Agricultural Rehabilitation Project  
 Grant No. 617-0109-G-00-60001-00

References: A. Correspondence from CARE in regards to questions raised in the Audit

The following constitutes the response of USAID/Kampala to the subject Audit Report. CARE as used here unless otherwise explained refers to CARE/Uganda.

2.1.(a)(i)(a) Purchases of Toyota Spares	\$43,803.18
Check Nos. 349 and 403	\$ 1,513.42
	<u>\$45,316.60</u>

Mission agrees with auditor's observations that the cost of spare parts for the nine project Toyotas at \$7,000 per vehicle is excessive. Better management of the order on the part of CARE/Uganda might have significantly reduced costs, especially if the spares had been ordered with the vehicles. The justification for sending the parts air-freight is understandable even though the shipment eventually arrived by sea-freight, because of the security situation in the country at that time. The choice of Bash U.K. as the supplier was based on their quotation for air-freight shipments not sea-freight. Presumably, they paid the air-freight rate plus the exchange rate difference before shipment was made by sea-freight. Rather than contest the shipment when it arrived by sea-freight some 5 months later, CARE/Uganda took delivery of the spare parts.

	Sea-freight	Air-freight
Bash (U.K)	39,404.00 (£24,627.50)	41,289.20 (£25,805)
Toyota Japan	21,351.00	54,620.00
Crusader Generator	27,800.00	50,059.00

In light of the entire scenario, that is the security situation in Uganda at the time, the fact that most of the parts have been used up, and also that it appears this was not a deliberate attempt by any individual at CARE to misuse US government funds, the Mission recommends that this cost be allowed. Furthermore, the individuals who worked on the original transaction are no longer in Uganda, and also CARE/Uganda assured us that steps have been taken to prevent a recurrence

2.1.(a)(i)(a)(cont.) Purchase of Daihatsu Spares:  
NCT 3-06-23 June 1988 \$23,201.00.

The expense as claimed was for the purchase of spare parts for five Daihatsu vehicles. CARE/Uganda has reported to us that only two of these vehicles were used by the West Nile Project. They are in the process of reviewing this combined order for parts and re-allocating costs. According to CARE/Uganda approximately \$14,000 of the questioned costs should be credited against the USAID Grant. The Mission feels that the amount charged to the Grant should be no more than 40% of the cost, or \$9,280, unless CARE can document the exact quantity and type of spare parts that were used on the Grant vehicles. An adjustment will be made in their August 1989 Financial Reporting Period.

2.1.(a)(i)(b) Misallocated Costs:  
Office Rent \$468.75

CARE/Uganda has included expenses for renting a guest house at Arua under office rent because the facility is not used by a specific staff member. The Mission does not see the logic in this and will explore a suitable line-item under which to charge this cost. It appears to be an allowable project expense.

2.1.(a)(ii)(a) Disallowed cost of spare parts for Mitsubishi. The amount of \$2,019.13 has been credited to the USAID Grant and corresponding debit has been made to Kampala fixed costs (PN85). A copy of the non cash transaction memo is attached to the CARE response.

2.1.(a)(ii)(b) Disallowed cost \$2,800. CARE has credited this amount to the USAID grant and transferred the expense to their farm forestry project (PN20): A copy of the non cash transaction memo is attached.

2.1.(a)(ii)(c) Disallowed cost \$235 CARE has accepted this as a wrong charge and will credit the total amount against the grant in their August 1989 Financial Report.

2.2.(b)(i) Questioned cost \$458.78. CARE/Uganda has instituted measures to ensure that in future proper documentation is made for such transactions. Even though the Mission agrees that in terms of procedure this was not good financial accounting, we recommend that this questionable cost be accepted as a proper charge to the grant. This decision is based on CARE/Uganda's explanation and actions taken. The amount involved appears to be reasonable.

2.2.(b)(ii) Disallowed cost \$5,963.95. CARE/Uganda has accepted this. This payment was effected through Care's New York office and they have since sent a request to the Accounts Director in this office asking that that amount be credited to the Grant and charged to their Community Health Service project

3.1. Personnel Costs: Mission is aware of the presence of Bill Smith and not Bill Williams as indicated in draft. This is being mentioned since at the time of the Audit Bill Williams had already departed from Uganda (he departed December 1988). Mr. Silcox was the Uganda Country Director. The current Country Director is Peter Heffron.

4.2. Operations: Mission will follow-up on CARE actions to re-allocate and credit charges to the Grant upon submission of their August 1989 Financial Report.

5.2. Procurement: Mission will follow-up on CARE actions to re-allocate and credit charges to the Grant before and upon submission of their August 1989 Financial Report.

6.2. Mission Management Costs: Missions accepts the auditor's conclusions.

7.3. CARE Headquarters Indirect Recovery: Mission is in agreement that indirect recovery for overhead costs will be adjusted along with the crediting of charges to the Grant in their August 1989 Financial Report.

Schedule I.1.(b) Data Back-up: Internal accounting control weaknesses are noted. CARE has already taken steps to implement this recommendation. Mission has no further response.

Schedule I.2.(b) Bank Reconciliation: Mission supports this recommendation.

Schedule I.3.(b) Check payments: This matter has been discussed with Care who has pointed out that because of the small size of the office in Uganda it is impractical. Mission supports this recommendation and asks that it be part of the final report.

Schedule I.4.(b) Stores Security: Mission supports this recommendation.

Schedule I.5.(b) Stores Recording: Mission notes the steps taken by CARE.

-42-

NO. 9, BANDALI RISE, BUGOLOBI  
P. O. BOX 7280  
KAMPALA, UGANDA

TELEPHONE: 221857, 220641  
TELEX: 61128 'CARE UGA'

Ref. #6312

4 August, 1989

Dr. Al Agard,  
Program Officer,  
USAID,  
Kampala.

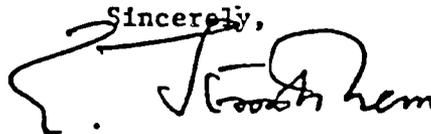
SUB: West Nile Audit

REF: Peat Marwick Audit Report Draft

Dear Dr. Agard:

Enclosed please find our draft preliminary response to Auditors  
Comments.

Sincerely,



E. Krishnan  
Asst. Country Director

CARE-UGANDA

2 August, 89

SUB : Draft Preliminary Response to Auditors  
Comments

REF : Draft Report on the Financial & Compliance  
Audit of West Nile Agricultural Rehabilitation  
Project.

Grant No. 617-0109-G-00-6001-00

Auditors Comment

Page 11, Questioned costs: Repairs and Maintenance

1. March 1988 chq 349	\$13,803.18
May 1988 chq 403	\$ 1,513.12

Quotations for supply of Toyota parts for maintaining project vehicle were invited from three different suppliers in May. Since Arua security situation was very critical with frequent threats to project personnel, Mission management considered keeping the project's fleet of vehicles in reliable functioning condition for enabling project staff to evacuate/escape from Arua at all times as a major priority. Given the paramount importance of security of project personnel, Mission decided to order the parts by airfreight considering that getting parts by sea freight will entail the following disadvantages.

1. Parts would have arrived after six months from the date of confirmation of order.
2. Since parts have to arrive through Nombasa port and by road from Nombasa to Kampala, the risk of losing the consignment in Nombasa port and enroute to Kampala by road was very high due to the serious security situation prevailing in Uganda during 1986/87.
3. The loss of consignment would have lead to a situation of the project's fleet of vehicles, which comprised 9 Toyota vehicles, becoming inoperable for want of parts. This would have halted the project implementation for extended periods as well as jeopardized possibility of project staff evacuating by road in case of deterioration of security situation in West Nile.

Thus the decision to order the parts by air freight was made.

Following air freight quotes were received.

Bash (UK)	Pounds 25805 or	\$41,289.20
Toyota Japan		\$54,620.00
Crusader Generator (UK)		\$50,039.00

The same suppliers quoted for supply by sea freight as per details below:

Bash (UK)	Pds.24,627.53 or	\$39,404.04
Toyota Japan		\$21,351.00
Crusader Generators		\$27,800.00

Despite our decision to order supply by airfreight, by Bash (UK) supplied the parts by seafreight after five months. Their bill was settled for quoted price for sea freight in Pds. As the ex rate for \$ against Pds changed we were forced to pay a total amount of \$45,316.60. CARE was compelled by circumstances beyond its control to settle this bill at a higher amount than was originally anticipated due to changes in exchange rate and the desire to have the parts to ensure project operations and to provide the means of transport to project staff to be able to evacuate by road either to Zaire or Kampala.

The alternative of rejecting the supply of parts by Bash would have lead to prolonged litigation which may have cost the project considerable amounts in legal expenses as well as halted the project implementation due to grounding of project vehicles. Considering the foregoing CARE requests USAID Kampala to accept this expense as an appropriate charge to the grant.

Page 11

1.a

June 1988 NCT 3-06-23

\$23,201.00

This expense includes cost of parts purchased for 5 nos Daihatsu Rocky vehicles. At this period, only two Rocky Daihatsu were used by West Nile Project. Charging the entire invoice amount to West Nile project's USAID Grant was an error in our accounting. We are in the process of reworking the allocation of costs for this combined order for parts. After working out the details CARE will credit the amount to West Nile Project's USAID Grant. We expect approximately \$12,000 to \$14,000 to be reduced from the expenses reported against USAID grant as a result of this adjustment. We will make this adjustment in our August 89 financial reporting period.

45

Page ii. 1 (b)  
Misallocated Costs \$468.75

This represents rent for the Guest house rent in Arua. Since Guest House is not used by a specific staff member, CARE has treated this as office rent. The auditors term this as wrong category. In view of our explanation above we request you to accept this as part of our office rent expenses.

Page 13. (ii) Disallowed.

Spare parts for Mitsubishi \$2,019.13

CARE has corrected this error through an adjusting Journal Entry in our December 88 Financial Report. The amount of \$2,019.13 has been credited to USAID Grant and, corresponding debit (expensing) has been made to Kampala fixed costs (PN 85). A copy of our Non Cash Transaction memo evidencing this is attached.

Page 13: ii Disallowed

Purchase of spares \$ 2,800.00

This expense has been erroneously charged to West Nile USAID Grant. CARE has credited this amount to USAID Grant and transferred the expense to our Farm Forestry project (PN 20). The Non Cash Transaction memo is attached.

Page 13 (ii) Disallowed

Purchase of Jack for minibus \$235

We accept this as a wrong charge and will be crediting this amount to USAID Grant in our Aug. 89 Financial Report.

Page 14. Internal Delivery  
(i) Questioned.

Payments for unloading vehicles \$458.78

The trucks bringing materials at times arrive after office hours. The three payments mentioned by the Auditors relate to these after office hour work. CARE has introduced procedures for obtaining proper receipts for this kind of payments to laborers and staff are instructed to follow this strictly. In view of the fact that the amount involved is less than \$500. For three different transactions and the fact that the payments were made in

local currency which may appear excessive when converted to Dollars CARE requests that this expense be accepted as a proper charge to Grant.

Page 14. ii Disallowed

Purchase of Refrigerators \$5,763.95

The actual amount of purchase of 6 refrigerators <sup>was</sup> for another project and erroneously charged to USAID grant West Nile project was \$5,753.95. As this payment was effected through our New York office we have sent request to our Accounts Director in New York to credit this amount to USAID Grant and charge the expense to our Community Health Services Project. (PN 26). Copies of our request is enclosed for your ready reference.

Page 16. Personnel Costs.

page 16 Results.

1. Bill Williams (on field work)  
Comment: This should be Bill Smith Construction Manager. Bill Williams was Water Driller and he left Mission in December 88.

Page 25.

1. Data back up.  
CARE-Uganda will adopt the procedure of storing back up copies in the offices fire proof safe effective July 89.

Page 26.

Bank Reconciliation.

Checks outstanding on the Bank Reconciliation for more than six months are being canceled and amount expenses through these checks are being credited. All these will be cleared in August 89. For our Citibank A/C in New York Bank Statements are received one or two months late. CARE-Uganda Finance Staff are once again instructed to strictly follow the procedure of canceling checks outstanding for more than six months from the date issue.

Page 27.

3 check payments.  
CARE's standard operating procedures world wide, as approved by the CARE's Board of Directors, approve overseas missions operating bank accounts by authorised signatories <sup>SINGLY</sup>. Given our staffing level, two authorised signatories who are expat staff may not be available in the mission at all times. Our financial

procedures require check requests to be recommended by Finance Section Head based on which authorised person signs checks singly. Thus it may not be possible for the mission to follow this suggestion. CARE USA has insurance policy to cover any mishandling of finances by authorised signatories and this policy will restore losses to the organisation as a result of mishandling by authorised signatories.

Page 28.  
Stores Security.

All issues from stores are being approved by the project manager or Activity manager through stock release orders. Entries in stock cards are to be made by the storekeeper based on stock release order and corresponding dispatch advice recording issue from store. Since the physical location of stores and project office are different, maintaining inventory stock cards at main office will not be feasible. CARE is following the procedure of project manager and his senior staff reviewing stores inventory records periodically to reduce the likelihood of unauthorised stores movement in the stock cards. CARE will also follow its standard operating procedure of carrying out semi annual physical counts to further reduce the likelihood of unauthorised stores movement.

page 36. Schedule II

1. Reporting

In addition to SF 269 CARE Uganda will follow the procedure of submitting monthly expenditure summary by A/C category (computer print outs) to USAID Kampala.



E. Krishnan  
Asst. Country Director



DATE  
ACCOUNTING PERIOD

25 December  
December 1988

Explanation Error correction of cost of  
vehicle spares wrongly charged  
to PN 29 instead of PN 20  
ref. cost 503

FC	CN	PN	CODE	SPEC. ID.	DEBIT	CREDIT
4528	72	20	4560	X	2800.00	
4518	72	29	4560	X		2800.00
TOTAL					2800.00	2800.00

PREPARED BY  
ENTERED BY

ADDED BY  
ON

APPROVED BY

ADJUSTING JOURNAL ENTRY

TO BE PROCESSED BY CHQ

COUNTRY NAME UGANDA

COUNTRY NUMBER 072

ENTRY NUMBER MWS05043-14

DATE 30 JUNE 1988

EXPLANATION REVERSAL OF CO. OF 6 ELECTROL

REFRIGERATORS FROM WEST NILE REHABILIT

PROJECT TO COMMUNITY HEALTH SERVICES

PROJECT REF: EAR 3 MAY 1988

ACCOUNT CODE DISTRIBUTION

DEBIT  
AMOUNT

CREDIT  
AMOUNT

4514 72 26 4570 PD 072-13461 5753.95

4518 72 29 4570 PD 072-13461 5753.95

TOTAL

5753.95

5753.95

PREPARED BY: Ketty Luskardi

APPROVED BY: [Signature]

DEBIT MUST ALWAYS EQUAL CREDITS

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RIG/A/T	1
RIG/A/W	1