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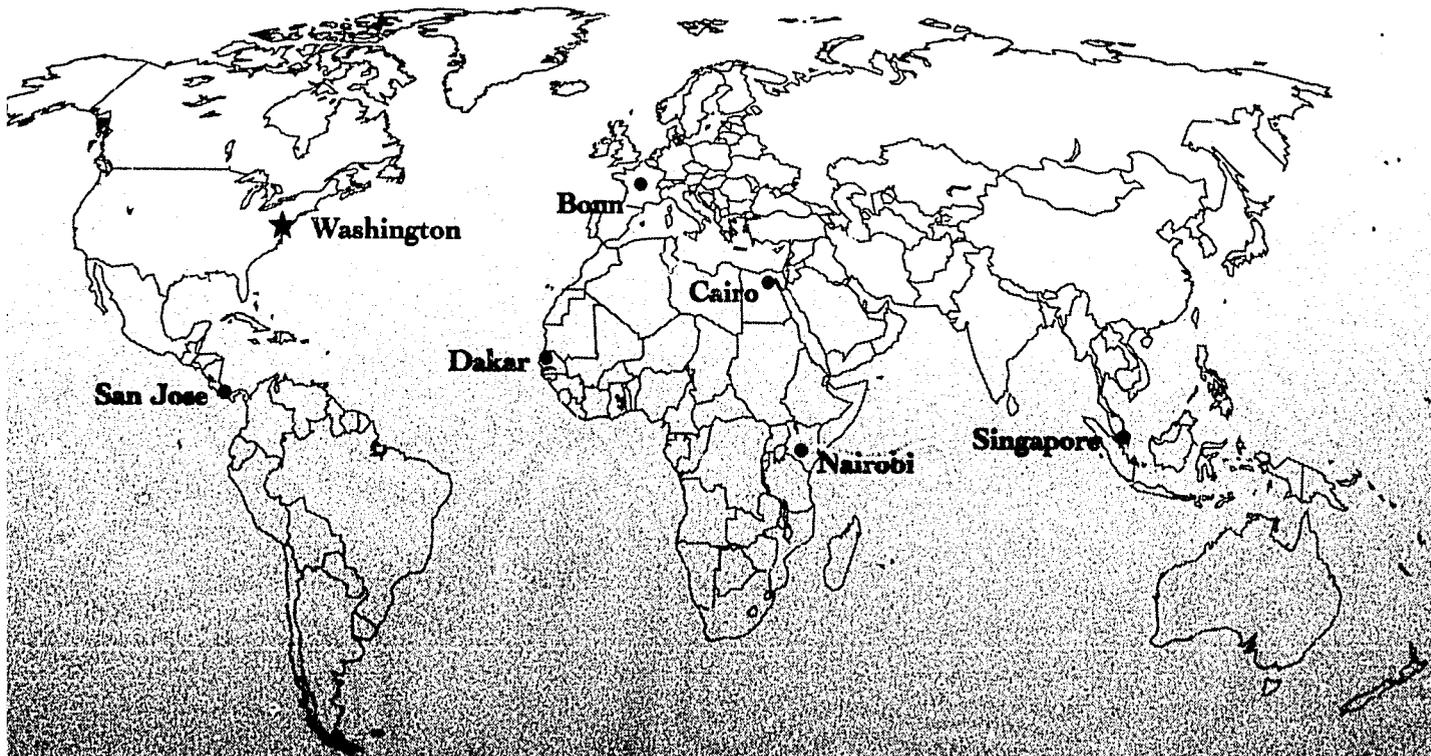
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**Audit of USAID'S Grant to the Government of Chad under  
the Support to Development Ministries IV Program  
(No.677-0061), from October 1993 to June 1994**

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**Audit Report No. 7-677-95-011-N  
April 11, 1995**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

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April 11, 1995

**MEMORANDUM**

To: Richard Fraenkel, Director, USAID/Chad

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

Subject: Audit of USAID's Grant to the Government of Chad under the Support to Development Ministries IV Program (No. 677-0061), from October 1993 to June 1994; (Audit Report No. 7-677-95-011-N)

The attached report, prepared by the non-Federal audit firm, Deloitte and Touche of Abidjan, presents the results of a financial audit of USAID's grant to the Government of Chad under the Support to Development Ministries IV Program from October 1993 to June 1994.

On July 8, 1989, the U.S. Agency for International Development (USAID) and the Government of Chad (GOC) signed the Support to Development Ministries (SDM) IV Program grant agreement, which was designed to help the GOC face budget deficits and maintain a minimum acceptable level of public services by paying salaries and other operating expenses of civilian administrative units and ministries. With three amendments, the initial grant of \$8 million was increased to \$10.9 million, all of which has been fully disbursed. The budget support provided under the grant was to be released in three tranches upon completion of specified conditions precedent to disbursement. The cash transfers and any interest earned thereon were to be used for payroll expenses of the selected administrative units and ministries. A previous audit performed during the period September 1989 through August 1990 covered the first two cash transfers of \$8 million. That audit reported unutilized balances of FCFA 189.4 million (\$631,461) from the current program and FCFA 51.6 million (\$171,904) from a previous program (SDM III). The third cash transfer was \$2.9 million. This audit, however, covered only \$294,195 in expenditures incurred during the period October 1993 to June 1994 — the expenditures for which USAID/Chad provided records at the time of the audit.

Deloitte and Touche performed the financial audit in accordance with U.S. Government Auditing Standards to determine whether the Fund Accountability Statement was fairly presented and whether the GOC complied with applicable laws, regulations, and agreements

Deloitte and Touche performed the financial audit in accordance with U.S. Government Auditing Standards to determine whether the Fund Accountability Statement was fairly presented and whether the GOC 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 GOC's internal accounting controls over the USAID funds to plan the audit and to determine the nature, timing and extent of tests to be performed.

Deloitte and Touche found that the Fund Accountability Statement fairly presented the expenditures incurred by the GOC except for questioned costs of \$31,705 (\$30,496 unsupported) which consisted of various ineligible and unsupported expenditures. In obtaining an understanding of the GOC's internal control structure, the auditor reported on two material weaknesses which were, 1) the lack of adequate segregation of duties, and 2) the lack of bank reconciliations, and failure to record accounting transactions readily. Finally, in testing for compliance with applicable laws, regulations, and agreements, the auditor reported one material instance of noncompliance, an unauthorized withdrawal of funds from the project bank account by the GOC. The amount of the withdrawal still outstanding is included in the questioned costs.

In responding to the draft audit report, USAID/Chad resolved \$30,846 of the \$31,705 as not sustained because it has received adequate justification or reimbursement for these costs. The Mission is yet to make a determination on \$760 in taxes charged to the project and accepted the remaining \$99 as sustained. The auditor, however, maintained its position regarding the \$31,705 questioned since the mission did not provide documentary evidence to support its position.

The non-Federal audit report contains six findings and six recommendations. Since the Mission is scheduled to close in 1995, only the monetary recommendation will be included in the Office of the Inspector General's recommendation follow-up system.

**Recommendation No. 1:** We recommend that USAID/Chad resolve the questioned costs of \$31,705 (\$30,496 unsupported) and recover those costs determined to be unallowable or unsupported.

Although USAID/Chad has made a determination on \$30,945 of the questioned costs, Recommendation No. 1 is considered unresolved because USAID/Chad has not made a determination on the sustainability of the \$760 in tax payments. To resolve this recommendation, USAID/Chad will have to advise RIG/A/Dakar of its official determination regarding the sustainability of the \$760 in tax payments. Regarding the \$30,846 determined to be not sustained, RIG/A/Dakar will close that portion of the recommendation upon receipt of documentary evidence to support the Mission's determination. For any amounts relating to the \$760 tax payments which USAID/Chad determines to be not sustained, RIG/A/Dakar will close that portion of the

recommendation upon receipt of the Mission's determination and any evidence required to support the position taken. For those amounts which the Mission determines to be sustained, that portion of the recommendation will be closed when such questioned costs are billed for collection or recovered by USAID/Chad and the evidence thereof is provided to RIG/A/Dakar. Such evidence may include a copy of: a bill for collection, a document showing reimbursement, or a document showing that the amount questioned was offset against amounts due by SAID.

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

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**Audit of USAID Grant to the Government of Chad  
under the Support to Development Ministries  
(SDM IV) Program  
(No. 677-0061)  
From October 1993 to June 1994**

<p><b>Audit of USAID Grant to the Government of Chad under the Support to Development Ministries (SDM IV) Program (No. 677-0061) From October 1993 to June 1994</b></p>
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**I. TRANSMITTAL LETTER AND SUMMARY**

December 1, 1994

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

Dear Mr. Anklewich,

This report presents the results of our audit of USAID's Grant to the Government of Chad under the Support to Development Ministries (SDM IV) Program (No. 677-0061) from October 1993 to June 1994.

*A. Background*

On July 8, 1989, the United States Agency for International Development (USAID) and the Government of Chad (GOC), signed the Support to Development Ministries (SDM) IV Program Grant Agreement, which was designed to help the GOC face budget deficits and maintain a minimum acceptable level of public services by paying salaries and other operating expenses of civilian administrative units and ministries. With three amendments to the grant agreement, the initial grant of \$8 million was increased to \$10.9 million, all of which has been fully disbursed.

The budget support provided under the grant was to be provided in three tranches upon completion of specified conditions precedent to disbursement. The cash transfers and any interest earned thereon were to be used for payroll expenses of the selected administrative units and ministries. The cash transfers were to be managed using the "Chad Model" which requires USAID to account for the ultimate use of cash transfer dollars by the first non-fiduciary recipient which is the Ministry of Finance and Data Processing (MOF) for the salaries line item. The disbursement mechanism of the "Chad Model" is described below:

- (1) After the conditions precedent have been met by the GOC, USAID/Chad requests RAMC/Paris to make a dollar disbursement of the current trench.
- (2) RAMC/Paris converts the dollars to CFA and deposits them in a USG-owned RAMC bank account in Paris.
- (3) RAMC/Paris electronically transfers the CFA funds to a separate, interest-bearing, non-commingled GOC account at a commercial bank.
- (4) The Ministry of Finance presents a detailed list of payroll due to USAID for approval.
- (5) Once the payroll due is approved, cash payments to employees are made in the premises of local bank branches of BLAT and BTCDD in N'Djamena, Moundou, Sarh and Abeche by representatives of the Ministries of Finance and Data Processing, with the oversight of USAID.

A non-federal financial audit (RIG/A/Dakar audit report No. 7-677-92-04-N) was performed after the first two cash transfers of \$8 million. That audit reported unutilized balances of FCFA 189,408,608 from the current program, and FCFA 51,571,229 from a previous program (SDM III). The audit also reported material internal control weaknesses relating to bank statements and payment orders of the Special Account.

The financial audit under this scope of work covers the remaining funds as of October 1993 and the related expenditures of the MOF. The total funds available for expenditures amounts to FCFA 82,374,669.

## ***B. Audit Objectives and Scope***

We performed a financial and compliance audit of USAID's Grant to the Government of Chad under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994 in accordance with generally accepted auditing standards, US Government Audit Standards as set forth in the Comptroller General's Government Auditing Standards, and guidelines contained in the Office of the Inspector General's Guide for Financial Audits Contracted by the Agency for International Development, except that we did not have an external quality review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional auditing organizations in Côte d'Ivoire. We believe that the effect of this departure from financial audit requirement of Government Auditing Standards is not material because we participate in the Deloitte Touche Tohmatsu International internal quality control program which requires Deloitte & Touche in Côte d'Ivoire to undergo a periodic quality control review by partners and managers from other Deloitte & Touche offices. In addition we did not fully meet the continuing education auditing standard. During the last two years, we have not maintained sufficient documentation evidence of meeting the minimum 80 hours of continuing education requirement or the requirement to have 24 hours in subjects related to the Government environment. However, we do not believe that this departure from Government Auditing Standards has any impact on the results of this audit and we are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

The objective of this engagement is to conduct a financial audit of USAID's Grant to the Government of Chad under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994.

The financial audit shall be performed in accordance with U.S. Government Auditing Standards and guidelines contained in the Office of the Inspector General's Guide for Financial Audits Contracted by the Agency for International Development and accordingly include such tests of the accounting records as deemed necessary under the circumstances.

The specific objectives of the audit are to:

- 1) Express an opinion on whether GOC's Fund Accountability Statement presents fairly, in all material respects, recurrent costs incurred for the audit period in conformity with the cash basis of accounting,
- 2) Evaluate and obtain a sufficient understanding of GOC's internal control structure related to the USAID funded program, assess control risk, and identify reportable conditions, including material internal control structure weaknesses,
- 3) Perform tests of GOC's compliance with applicable laws, regulations, binding policies and procedures, and the grant agreement and express positive assurance on those items tested and report on the results of compliance testing.

The major audit procedures during our work consisted of:

- (a) reviewing the grant agreement and project implementation letters between USAID and GOC,
- (b) studying and evaluating GOC's internal control structure relative to USAID's grant in order to assess the control risks and to determine our audit procedures,
- (c) examining supporting documentation for selected expenditures incurred and performing tests for reasonableness, allowability and propriety in compliance with the terms of the Grant Agreement, applicable laws and regulations,
- (d) reviewing bank statements, reporting and reconciliation procedures,
- (e) determining whether the project has complied with applicable laws and regulations, the grant agreement terms and being alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures.

### C. *Summary of audit results*

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

#### 1. *Financial*

We have qualified our opinion on the Fund Accountability Statement since we are questioning expenditures of FCFA 9,329,492 (\$31,705), representing 11 percent of total receipts. These questioned costs are attributable to the following items:

	<u>FCFA</u>	<u>Finding No.</u>
<i>Unsupported expenditures</i>		
Payments made to an employee whose employment was not determined	76,125	1
Unauthorized withdrawal by GOC	8,197,300	4
An unreconciled bank difference	<u>595,586</u>	2
Total	<u>8,869,011</u>	
<i>Ineligible costs</i>		
Payments made to 2 deceased employees	108,421	1
Undue payment of Chad taxes	4,917	5
Overtime of bank employees	<u>138,989</u>	6
Total	<u>252,327</u>	

We also identified adjustments of FCFA 208,154 of taxes unduly levied by the bank used by the Program.

## **2. *Internal control***

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

- a) An insufficient segregation of duties as a result of the lack of joint signatures on the bank account and the concentration of functions within USAID who provides assistance to the GOC on the Program
- b) Lack of bank reconciliations and accounting records

We also found an insufficient control over the listings of employees to be paid. This was not considered to be a material weakness.

## **3. *Compliance***

Our testing of transactions and records selected disclosed a material instance of noncompliance. An unauthorized withdrawal of FCFA 68,197,300 (\$243,561) was made from the Central bank account by the Ministry of Finance of Chad. As of the time of our audit field work, FCFA 8,197,300 (\$29,276) had not been returned to the account.

The following immaterial instances of noncompliance were identified:

- a) the payment of unrelated Program items such as the overtime of bank employees
- b) the undue payment of Chad tax included in the bank service charge and on interest received

## **D. *Synopsis of management comments***

In their response to the draft report, USAID/Chad made some comments that were addressed by the auditors in the lines below:

**Finding No. 1. Insufficient review of the GOC treasury list of employees**

During the course of the audit, the auditors discovered that payments were made to employees who were deceased or who had no file with the project. The auditors believed that a scrutiny of the list provided by the treasury would have avoided such cases.

In their audit response, USAID/Chad said that the Ministry of Health has contacted the Ministry of Finance and Information to discuss improvements in the method used. Consequently the auditors reworded the first part of the recommendation.

Moreover, USAID/Chad thinks that due to the difficulty to recover the money from the recipient's family, the recommendation should be removed.

The auditors do not believe it appropriate to write off the amounts as a result of the debtors' failure to meet their obligations. The amount should be collected from the Government of Chad as a cosignor of the grant agreement.

The auditors believe however, that if it is the GOC policy to pay three months of salary as a form of death benefit to the employee's inheritors, the amount of 108,421 should be reduced to 54,210 if the mission can provide them with a copy of the policy. Regarding the employee without file, USAID Chad responded that they received proper documents ascertaining that the employee is a bona fide employee of the Ministry of Health since 1987.

The auditors will agree to remove this finding provided the supporting documentation are sent to them or to RIG/A/D for verification.

**Finding No. 2 Lack of bank reconciliation and accounting records**

The auditors found that no bank reconciliations were prepared. Moreover, there was an unreconciled bank difference of FCFA 595,586 (\$1,082) as of June 30, 1994.

In their response, USAID/Chad said that bank reconciliations have been prepared for the period in question and that the above difference is due to outstanding checks.

The first part of the recommendation is maintained as bank reconciliations should be prepared once the bank statement is received. Regarding the second part of the recommendation, the auditors will agree to remove it provided that USAID/Chad furnish them or alternatively, RIG/A/D with evidence that these were outstanding checks that cleared the bank after completion of the audit. Evidence expected includes the following: copy of the bank statement, name of the payee, amount, description of the transaction, etc.

The finding is maintained until the above documentations are received.

**Finding No. 3      Lack of segregation of functions**

The auditors questioned an unauthorized withdrawal of FCFA 8,197,300 (\$29,276) made by the GOC Treasury out of the special account. The mission responded that the amount has been reimbursed and subsequently disbursed.

In view of the magnitude of the amount, the auditors believe it appropriate to maintain this finding until adequate evidence of reimbursement is provided to them or alternatively to RIG/A/D.

**Finding No. 5      Undue payment of Chad taxes**

The auditors noted that taxes were included in the bank service charges and that the interest received is a net amount after a withholding tax was assessed.

Refer to Appendix 2 for details.

**Finding No. 6      Unrelated Program payments financed under the grant**

The auditors found that the grant funds were used to pay overtime to bank employees who were asked by the project to work longer hours in order to fasten payment of the project staff salaries. As a consequence of this undue overtime, the auditors questioned a total amount of FCFA 138,989 (\$252).

USAID/Chad responded that the grant agreement was amended by a PIL to include normal and reasonable costs incurred in connection with disbursements.

As the mission's response does not satisfy the auditors, this finding is maintained. Alternatively, necessary supporting documentation should be sent to them or to RIG/A/D for verification, in due course.

**Finding No. 7      Payroll and social security tax liability**

The auditors noted that there was a tax and social security liability of FCFA 3,156,499 (\$11,272) due to the fact that no salary and social security tax was withheld from salaries paid to employees.

UASID/Chad responded that the situation was corrected subsequently. In view of this explanation, the auditors removed the finding.

## II. FINANCIAL SECTION

### A. *Independent auditor's report*

We have audited the accompanying Fund Accountability Statement of USAID's Grant to the Government of Chad (GOC) under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994. This Fund Accountability Statement is the responsibility of the GOC's management. Our responsibility is to express an opinion on this Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, except that we did not have an external quality control review by an unaffiliated organization nor did our audit staff complete the minimum continuing education as required by Sections 3.46 and 3.6 respectively of the aforementioned standards. Those standards require that we plan and perform the audit to obtain reasonable assurance on whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall Fund Accountability Statement presentation. We believe our audit provides a reasonable basis for our opinion.

Our audit revealed audit adjustments of FCFA 208,154 (\$743) and questioned costs of FCFA 9,121,338 (\$30,969) representing 11 percent of total receipts. As no bank reconciliations were prepared during the period examined, we are not able to determine the magnitude of unrecorded expenditures.

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

In our opinion, except for the effect, if any, of the points described in Paragraph 3 above, the Fund Accountability Statement referred to above presents fairly, in all material respects the financial position of the GOC's for costs financed by the USAID's Grant under the Support to Development Ministries Program in conformity with the basis of accounting described in Note 1 to the Fund Accountability Statement.

*Deloitte & Touche*  
*Deloitte & Touche*  
*September 26, 1994*

**B. Fund accountability statement**

For the period from October 1993 to June 1994  
Amounts are stated in FCFA

	<u>Receipts/ disburs Actual</u>	<u>Adjustments</u>	<u>Questioned costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<b>RECEIPTS</b>					
Advances	60,000,000				
BMT Sarh	13,345,249				
MBT N'Djamena	<u>41,326</u>	10,456			2
Interest	73,386,575				
	790,794	197,698			2
ADD: Interest from Oct. 93 to June 94	<u>8,197,300</u>	_____			
Amount withdrawn by the GOC Treasury					
Total receipts	82,374,669	208,154			
<b>EXPENDITURES</b>					
Salaries	53,930,022		108,421	76,125	3
Social charges	5,002,441				
Overtime/Bank Employees	138,989		138,989		3
Bank charges	32,778		4,917		3
GOC Treasury	<u>8,197,300</u>			8,197,300	3
Total disbursements	67,301,530				
<b>CASH IN BANKS</b>					
N'Djamena	3,895,812				
Sarh	<u>10,581,741</u>				
	14,477,553				
<b>UNRECONCILED BANK DIFFERENCE</b>	595,586			595,586	3
Total outstanding balances	<u>15,073,129</u>	_____	_____	_____	
Total disbursements and outstanding balance	<u>82,374,669</u>	<u>208,154</u>	<u>252,327</u>	<u>8,869,011</u>	

### C. Notes to the Fund Accountability Statement

#### *Note 1: Accounting Principles*

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

In this report, we used two exchange rates. All transactions that occurred prior to January 1994 and that were identified as such were valued at US\$1 for FCFA 280.

Transactions that took place after January 1994 were valued at US\$1 for FCFA 550.

#### *Note 2: Adjustments*

As described in Finding No. 5, the bank used by the Program unduly levied taxes on interest earned on the bank account. The adjustment of FCFA 208,154 represents the amount of tax withheld.

#### *Note 3: Questioned costs*

Questioned costs represent the following:

	<u>FCFA</u>	<u>Finding No.</u>
<i>Unsupported expenditures</i>		
Payments made to an employee whose employment was not determined	76,125	1
Unauthorized withdrawal by GOC	8,197,300	4
An unreconciled bank difference	<u>595,586</u>	2
Total	<u>8,869,011</u>	
<i>Ineligible costs</i>		
Payments made to 2 deceased employees	108,421	1
Undue payment of Chad taxes	4,917	5
Overtime paid to bank employees	<u>138,989</u>	6
Total	<u>252,327</u>	

### **III. INTERNAL CONTROL STRUCTURE**

#### ***A. Independent auditor's report***

We have audited the Fund Accountability Statement of USAID's Grant to the Government of Chad under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994 and have issued our report thereon dated September 26, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States except that we did not have an external quality review by an unaffiliated organization nor did our staff complete the minimum continuing education as required by section 3.46 and 3.6 respectively of the aforementioned standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of GOC's Fund Accountability Statement under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of the GOC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of a Fund Accountability Statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Accounting procedures
- Salary preparation and disbursement

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

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

These reportable conditions include the need to strengthen internal control procedures such as:

- improving supervisory reviews of accounting and administrative records
- the segregation of functions among individuals involved in the financial and administrative aspects of the salary payments
- the preparation of accounting records and the performance of monthly 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. Material weaknesses noted in the internal control structure relate to the lack of bank reconciliations and accounting records, and the inadequacy of segregation of functions.

This report is intended for the information of the management and GOC and USAID. However, this report is a matter of public record and its distribution is not limited.

*Deloitte & Touche*  
*Deloitte & Touche*  
*September 26, 1994*

## ***B. Findings***

### **1. Insufficient review of the GOC Treasury list of employees**

#### **Condition**

We noted that the Program paid employees from the listing established by the GOC Treasury without exercising all necessary checks. Indeed, two employees who were deceased were on the payroll and were credited with salary payments.

Also, during our investigation, the director of personnel of the ministry was unable to locate the files of one employee who received salaries.

Refer to Appendix 1 for detail.

Given the large number of salary payments made, these instances are not considered to be significant.

#### **Criteria**

The ministry should be able to demonstrate that all employees paid are currently employed or are entitled to receive payment.

#### **Cause**

The ministry does not adequately update the list of employees to be paid.

#### **Risk/Effect**

Payment to deceased employees of FCFA 108,421 are considered as ineligible expenditure under the Program.

The amount of FCFA 76,125 that was paid to an employee for whom no file was available was questioned as unsupported.

#### **Recommendation**

We recommend that the listing of the employees of the Ministry of health be reviewed frequently and updated by the appropriate personnel divisions.

The ineligible costs of FCFA 108,421 (\$197) should be reimbursed to the Program.

If no file is found to justify the payment to the employee referred to above for FCFA 76,125 (\$138), the amount should also be reimbursed to the Program.

## 2. Lack of bank reconciliation and accounting records

### Condition

We noted during the course of our audit that no bank reconciliations were prepared. This was essentially due to the lack of accounting records. At the end of the salary payment process, the disbursement vouchers are not compiled in order to determine the total amount disbursed.

Our audit identified an unreconciled bank difference of FCFA 595,586 (\$1,082) as of June 30, 1994.

### Criteria

Section 5.2. of the grant agreement requires that books and records relating to the disbursement account and the special account be maintained. Sound internal controls recommend that bank reconciliations be prepared monthly and accounting transactions recorded promptly.

### Cause

At the beginning of the Program, the level of responsibility between USAID accountants and the personnel of ministry regarding the program expenditures accountability was not clearly defined. USAID considers that it was providing temporary assistance to the Program and was not responsible for the accounting function.

### Risk/Effect

There is a risk that the Fund Accountability Statement does not reflect an accurate position of expenditures as they relate to the ministries payroll.

An unreconciled item of FCFA 595,586 (\$1,082) is questioned as unsupported.

### Recommendation

We recommend that bank reconciliations be prepared on a monthly basis and accounting transactions recorded as soon as possible in the books.

The bank difference of FCFA 595,586 (\$1,082) should be investigated and reconciled to the accounting records.

### **3. Lack of Segregation of functions**

#### **Condition**

From the listing of the GOC Treasury, the USAID accounting department prepares a new listing and the necessary checks for salaries payment. Two USAID employees, the chief accountant and the deputy chief accountant, are allowed to sign individually and without limit on the account.

#### **Criteria**

Sound internal control procedures require a joint signature on the disbursement accounts.

It also requires a segregation of functions among the individuals who have access to records and who :

- authorize the transactions
- record the transactions
- control the transactions

#### **Cause**

USAID staff are considered as secondary signatories on the bank account and are instructed to sign only in the absence of primary signatories; that is, the ministry officials.

#### **Risk/effect**

Fraudulent transactions could go undetected especially in circumstances where there are no accounting records and no bank reconciliations.

#### **Recommendation**

The Program should consider establishing and implementing an adequate segregation of functions to reinforce internal controls over the USAID funds. The USAID accounting department could exercise a separate control over transactions. Joint signature on the accounts should be instituted.

## **IV. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS**

### ***A. Independent auditor's report***

We have audited the Fund Accountability Statement of USAID's Grant to the GOC under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994 and have issued our report thereon dated September 26, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States, except that we did not have an external quality review by an unaffiliated organization nor did our staff complete the minimum continuing education as required by section 3.46 and 3.6 respectively of the aforementioned standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations contracts and grants applicable to GOC is the responsibility of the GOC's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of the GOC's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instance of noncompliance.

In November 1991 and March 1992, the Ministry of Finance of Chad improperly appropriated an amount of FCFA 68,197,300 (\$243,561) without the authorization of USAID. Subsequent to the discovery of this withdrawal, the Ministry reimbursed an amount of FCFA 60,000,000, leaving a remaining FCFA 8,197,300 outstanding as of the date of our audit.

We considered this material instance of noncompliance in forming our opinion on whether the Fund Accountability statement of USAID's grant to the Government of Chad under the Support to Development Ministries (SDM IV) Program from October 1993 to June 1994 is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated September 26, 1994 on the Fund Accountability Statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the GOC complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the GOC had not complied, in all material respects, with those provisions.

This report is intended for the information of the management of the GOC and USAID. However, this report is a matter of public record and its distribution is not limited.

*Deloitte & Touche*  
*Deloitte & Touche*  
*September 26, 1994*

## **B. Findings**

### **4. Unauthorized withdrawal of funds**

#### **Condition**

The GOC Treasury withdrew FCFA 68,197,300 from the special account at the Central bank without prior written approval of USAID. The withdrawals were made on November 7, 1991 for FCFA 60,000,000 and by various transfers for FCFA 8,197,300 in the second half of March 1992.

An amount of FCFA 60,000,000 was subsequently returned to the account on December 13, 1993, leaving an unreimbursed withdrawal of FCFA 8,197,300.

#### **Criteria**

Article 2b of the grant agreement states that funds in the special account may be used to defray budget salary expenses and for such other purposes as are mutually agreed upon by USAID and the grantee.

#### **Cause**

The bank employees did not read the agreement governing the operation of the special account.

The transaction went unnoticed by USAID for a long period due to the lack of bank reconciliations.

#### **Risk/Effect**

This is an instance of material non compliance with the grant agreement. As of June 30, 1994, FCFA 8,197,300 (\$29,276) had not been recovered by USAID, not including the lost interest.

#### **Recommendation**

We recommend that the Program should recuperate the FCFA 8,197,300 (\$29,276) plus accrued interest from the GOC Treasury.

## 5. Undue payment of Chad taxes

### Condition

We noted that the bank has levied two sorts of taxes on the special account : a turnover tax ("taxe sur le chiffre d'affaires") was included by the bank in its service charges and a withholding tax was levied on all interest credited on the account. The detail amount of said taxes is as follows:

	<u>FCFA</u>
Ineligible tax on interest received	208,154
Ineligible tax on interest paid	<u>4,917</u>
Total	<u>213,071</u>

### Criteria

Section 5.4. of the grant agreement states that the "agreement and the special account will be free from any taxation, duties or fees imposed under laws in effect in Chad".

### Cause

The accountants were not aware that a tax was included in the bank service charge or that the interest received was reduced by a withholding tax.

### Risk/effect

The total amount of FCFA 213,071 is questioned as ineligible expenditures under the terms of the grant.

### Recommendation

Ineligible costs of FCFA 213,071 (\$ 760) must be reimbursed to the Program.

The program should communicate its tax status to all parties with which it will maintain business relationship.

## **6. Unrelated Program payments financed under the grant**

### **Condition**

The Program paid a total amount of FCFA 138,989 to bank employees in order to compensate them for overtime incurred in connection with its staff salaries payment.

### **Criteria**

Article 2b of the grant agreement states that "funds in the special account may be used to defray budget salary expenses and other costs of the civil ministries and for such other purposes as are mutually agreed upon by USAID and the grantee".

### **Cause**

In order to facilitate the encashment of the checks by Ministry of Health employees and avoid a long queue at the banks that could create a bad publicity for USAID, the mission accepted to compensate some bank employees for overtime incurred in connection with the program staff salaries payment.

### **Risk/Effect**

The total amount of FCFA 138,989 (\$252) is questioned as ineligible and in non-compliance with the grant agreement.

### **Recommendation**

The Program must comply with the agreement and the various PILs which amplify the agreement.

The amount questioned of FCFA 138,989 (\$252) should be reimbursed to the Program.

## APPENDIX I

**Salary paid to employee without file**

<u>Matricule</u>	<u>Name</u>	<u>Salary</u>	<u>Tax</u>	<u>Total unsupported cost</u>
4411	Tonalta Colette	67,955	8,170	76,125

**Salary paid to deceased**

<u>Matricule</u>	<u>Name</u>	<u>Date of death</u>	<u>Salary from April to June</u>	<u>Salary of July</u>	<u>Salary from August to Dec. 93</u>	<u>Total ineligible cost</u>
4406	Ndanga Gode	1993	45,675	0	30,450	76,125
26822	Ngoidé Ngondel	1993	<u>0</u>	<u>32,296</u>	<u>0</u>	<u>32,296</u>
Total			<u>45,675</u>	<u>32,296</u>	<u>30,450</u>	<u>108,421</u>

## APPENDIX 2

**Computation of the turnover and withholding taxes****1. Determination of total interest credited to the account**

Since we did not have all the bank statements for the period, we determined the interest credited to the account as follows, based on discussions with the chief accountant who told us that only two transfers were made from the accounts during this period:

**Account 362 80167 X BIAT**

	<u>FCFA</u>
Balance in the account as of October 31, 1991	71,981,603
Balance in the account as of October 30, 1993	<u>8,772,397</u>
Difference	<u>63,209,206</u>

The difference is explained by:

Transfer on 5-11-1991 to the Central bank account 41206	60,000 000
Transfer on 6-3-1992 to the Central bank	4,000,000
Interest credited to the account for the period	<u>( 790,794)</u>
	<u>63,209,206</u>

**1.1. *Total interest credited to the account***

Interest as determined above	790,794
Interest credited on 20-5-94 on account No. 36280167 X with BIAT	<u>41,826</u>
	<u>832,620</u>

Per discussion with Mr. Al Hadj Saad A., Director of marketing and deputy director of BIAT at the time of our visit, interest credited to the account is a net amount since there is a withholding tax of 20% which was first deducted before payment.

As a mathematical rule, if 20% is withheld before arriving at the net amount, we can derive the amount withheld by taking 25% of the net amount.

Tax on interest credited:  $25\% \times 822,620 = 208,154$ .

*1.2. Ineligible tax on interest paid*

Bank service charge on No. 36280138 M as at 30-6-94	16,189
Bank service charge	<u>16,589</u>
	<u>32,778</u>

According to the Chadian tax law and as ascertained by Mr. Al Hadj Saad A., 17,65% tax called "taxe sur le chiffre d'affaires" (turnover tax) is levied on the amount of services performed for third parties.

As a mathematical rule, if 17.65% is added to an amount to obtain the gross amount, we can derive the amount which is added by taking 15% of the gross amount.

The tax on turnover included in the above bank service charge is computed as follows:

$$15\% \times 32,778 = 4,917$$

*1.3. Summary of taxes unduly paid*

<u>FCFA</u>
208,154
+ <u>4,917</u>
<u>213,071</u>

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AIDAC USAID

NDJAMENA 00965

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

DISTRIBUTION: AID  
 CHARGE: AID

VZCZCDKO387  
 PP RUEHDK  
 DE RUTAND #0965/01 0521400  
 ZNR UUUUU ZZH  
 P 211400Z FEB 95  
 FM AMEMBASSY NDJAMENA  
 TO RUEHDK/AMEMBASSY DAKAR PRIORITY 0080  
 INFO RUEHAB/AMEMBASSY ABIDJAN 0690  
 RUEHC/SECSTATE WASHDC 2550  
 BT  
 UNCLAS SECTION 01 OF 02 NDJAMENA 000965

AIDAC

E.O. 12356: N/A  
 SUBJECT: NFA DRAFT AUDIT REPORT OF USAID GRANT TO THE  
 GOVERNMENT OF CHAD UNDER THE SUPPORT TO DEVELOPMENT  
 MINISTRIES (SDM IV) - 677-0061, FROM OCTOBER 1993 TO  
 JUNE 1994

REF: SUBJECT DRAFT AUDIT REPORT

1. PRESENTED BELOW ARE USAID/CHAD'S RESPONSES TO THE  
 DRAFT AUDIT REPORT'S RECOMMENDATIONS.

2. RECOMMENDATION NO. 1(A) - THE MINISTRY OF HEALTH  
 HAS CONTACTED THE MINISTRY OF FINANCE AND INFORMATION  
 TO DISCUSS IMPROVEMENTS IN INFORMATION SHARING VIS-A-  
 VIS PERSONNEL ACTIONS (HIRING, FIRING, PROMOTING AND  
 NOTIFICATION OF DEATH). USAID/CHAD REQUESTS THIS  
 RECOMMENDATION BE REMOVED FROM THE FINAL REPORT.

3. RECOMMENDATION NO. 1(B) - THE INELIGIBLE COSTS OF  
 108,421 FCFA SHOULD BE REDUCED TO 54,210 FCFA TO  
 REFLECT THE GOC POLICY OF PAYING THREE MONTHS OF  
 SALARY AS A FORM OF DEATH BENEFIT TO THE EMPLOYEE'S  
 INHERITORS/ GIVEN THE DIFFICULTY OF RETRIEVING THE  
 54,210 FCFA FROM THE RECIPIENTS (THE COST OF LOCATING  
 THE RECIPIENTS AND COLLECTING THE FUNDS), USAID/CHAD  
 RECOMMENDS THAT COLLECTION OF THE REDUCED INELIGIBLE  
 COSTS BE WAIVED.

4. RECOMMENDATION NO. 1(C) - THE MINISTRY OF HEALTH  
 HAS PROVIDED SUFFICIENT DOCUMENTATION TO USAID/CHAD  
 THAT THE EMPLOYEE IN QUESTION IS IN FACT A BONAFIDE  
 EMPLOYEE OF THE MINISTRY OF HEALTH SINCE 1987.  
 USAID/CHAD REQUESTS THIS RECOMMENDATION BE REMOVED

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FROM THE FINAL REPORT.

5. RECOMMENDATION NO. 2(A) - BANK RECONCILIATIONS HAVE BEEN COMPLETED FOR THE PERIOD IN QUESTION. USAID/CHAD DOES NOT ACCEPT THE RECOMMENDATION TO HIRE AN OUTSIDE ORGANIZATION TO PERFORM ALL ADMINISTRATIVE AND ACCOUNTING WORK. USAID/CHAD REQUESTS THIS RECOMMENDATION BE REMOVED FROM THE FINAL REPORT.
6. RECOMMENDATION NO. 2(B) - THE BANK DIFFERENCE OF 595,586 FCFA IS DUE TO TIMING; THE AMOUNT REPRESENTS OUTSTANDING CHECKS THAT HAD NOT CLEARED/PRESENTED TO THE BANK ACCOUNT AT THE TIME OF THE AUDIT FIELD WORK. THE CHECKS HAVE SUBSEQUENTLY CLEARED THE BANK ACCOUNT. USAID/CHAD REQUESTS THIS RECOMMENDATION BE REMOVED FROM THE FINAL REPORT.
7. RECOMMENDATION NO. 3 USAID/CHAD DETERMINED THAT IT IS IN THE BEST INTERESTS OF THE U.S.G. AND U.S. TAXPAYERS TO SAFEGUARD FUNDS TO THE MAXIMUM EXTENT POSSIBLE; HENCE THE NEED FOR DIRECT USAID/CHAD OVERSIGHT IS DEEMED APPROPRIATE. THE GOC AND USAID/CHAD JOINTLY REVIEW THE DOCUMENTATION PRIOR TO DISBURSEMENT. THE AUDIT FIELD WORK DID NOT DISCOVER ANY FRAUDULENT TRANSACTIONS RELATED TO THE CHECK ISSUANCE OR TO HAVING A SINGLE SIGNATOR ON THE CHECKS. DUE TO THE INTENSE OVERSIGHT OF USAID/CHAD, WE DO NOT BELIEVE THAT APPLYING THIS RECOMMENDATION IS NECESSARY. FURTHERMORE, ALL FUNDS, AT THIS POINT IN TIME, HAVE BEEN DISBURSED. USAID/CHAD DOES NOT ACCEPT THE RECOMMENDATION TO HIRE AN OUTSIDE ORGANIZATION TO PERFORM ALL ADMINISTRATIVE AND ACCOUNTING WORK. USAID/CHAD REQUESTS THIS RECOMMENDATION BE REMOVED FROM THE FINAL REPORT.
8. RECOMMENDATION NO. 4 - THE 8,197,300 FCFA HAS BEEN REIMBURSED TO THE ACCOUNT AND SUBSEQUENTLY DISBURSED. USAID/CHAD REQUESTS THIS RECOMMENDATION BE REMOVED FROM THE FINAL REPORT.
9. RECOMMENDATION NO. 5(A) - USAID/CHAD REQUESTS A DETAILED EXPLANATION OF THE INELIGIBLE TAXES PURPORTED TO HAVE BEEN CHARGED AGAINST THE ACCOUNT, IN THE AMOUNT OF 213,071. WE HAVE NO KNOWLEDGE OF THE SOURCES OF THESE TAXES OR THE BASIS OF THIS FINDING.
10. RECOMMENDATION NO. 5(B) - GOC TAXING AUTHORITIES DO NOT ISSUE TAX EXEMPTION DOCUMENTS TO USAID. OUR TAX-EXEMPT STATUS IS INCLUDED IN THE BILATERAL AGREEMENT AND REFERENCED TO IN SUBSEQUENT INDIVIDUAL PROJECT/PROGRAM GRANT AGREEMENTS. USAID/CHAD SHALL ADVISE THE COMMERCIAL BANK OF ITS TAX-EXEMPT STATUS. USAID/CHAD REQUESTS THIS RECOMMENDATION BE REMOVED

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FROM THE FINAL REPORT.

11. RECOMMENDATION NO. 6  
- THE GRANT AGREEMENT HAS  
BEEN AMENDED BY IMPLEMENTATION LETTER TO INCLUDE  
NORMAL AND REASONABLE COSTS INCURRED IN THE OPERATION  
OF DISBURSING FUNDS. USAID/CHAD REQUESTS THAT THIS  
RECOMMENDATION BE REMOVED FROM THE FINAL REPORT.

12. RECOMMENDATION NO. 7 - USAID/CHAD HAS PAID THE

~~AMOUNT IN QUESTION TO THE APPROPRIATE CHADIAN TAX  
AUTHORITIES.~~ USAID/CHAD REQUESTS THAT THIS

POPE

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