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Regional Inspector General for Audit
San José, Costa Rica

**Audit of RDO/C's
St. Vincent Infrastructure Project Activities
Managed by the Ministry of Communications and Works
and the Central Water and Sewerage Authority
August 28, 1987 to September 30, 1993**

**Audit Report No. I-538-95-13-N
July 26, 1995**



Financial 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.



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
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July 26, 1995

MEMORANDUM

TO: RDO/C Director Acting, Paul Bisok

FROM: RIG/A/San José Acting, Wayne Watson

SUBJECT: Audit of RDO/C's St. Vincent Infrastructure Project Activities, Managed by the Ministry of Communications and Works and the Central Water and Sewerage Authority, August 28, 1987 to September 30, 1993

This report presents the results of a financial audit of the St. Vincent Infrastructure Project activities, RDO/C Project No. 538-0138-07, managed by the Ministry of Communications and Works and the Central Water and Sewerage Authority (the Ministry and the Authority), for the period August 28, 1987 to September 30, 1993. The accounting firm of KPMG/Peat Marwick prepared the report dated December 11, 1993.

The project consisted of engineering services, construction services, related commodities, and technical assistance to assist the Government of St. Vincent and the Grenadines to rehabilitate and maintain selected roads to help create an infrastructure environment that will stimulate investment and productive activity in St. Vincent.

The objectives of the audit were: (1) to express an opinion on whether the fund accountability statement for the project present fairly, in all material respects, the project's revenues received and costs incurred for the audit period, (2) to evaluate and obtain a sufficient understanding of the internal control structures of the Ministry and the Authority, assess control risk, and identify reportable conditions, including material internal control weaknesses, and (3) to perform tests to determine whether the Ministry and the Authority complied, in all material respects, with agreement terms, memoranda of understanding, and applicable laws and regulations.

The scope of the audit included an examination of the Ministry's and the Authority's activities and transactions to the extent considered necessary

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to issue a report thereon for the period audited. The audit included coverage of \$2,936,327 of RDO/C disbursements to the project during the audited period.

KPMG/Peat Marwick was of the opinion that the fund accountability statements present fairly, in all material respects, the receipts and expenditures made with grant funds under the project, during the period audited, in accordance with the terms of the grant agreement.

With respect to internal control structure, the auditors identified three material weaknesses related to the Ministry and three material weaknesses related to the Authority. The weaknesses identified for the Ministry were: (1) absence of supporting documentation for disbursements made, (2) absence of a system for the receiving and issuing of spare parts, and (3) absence of regular reconciliations between the Ministry's records and the Treasury. The weaknesses identified for the Authority were: (1) absence of supporting documentation for disbursements made, (2) absence of reconciliations between accounts payable subledger and the control account in the general ledger, and (3) instances of the non-cancellation of paid invoices.

Regarding compliance with agreement terms and applicable laws and regulations, the auditors noted three material instances of noncompliance related to the Ministry: (1) separate books of account were not maintained for recording accounting transactions of the project, (2) a separate and distinct project management unit was not established, and (3) absence of USAID display signs. The absence of display signs also pertained to the authority.

The draft report was discussed with representatives from RDO/C and the Ministry and the Authority who were in complete agreement with the findings presented.

The project ended September 30, 1993, and according to RDO/C officials, the Mission does not plan to use the Ministry or the Authority as an implementing entity in the future. Therefore, we are not recommending any action to correct procedural deficiencies identified by the auditors with respect to the Ministry's or the Authority's internal control structure and compliance.

This final audit report is being transmitted to you for your information.

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**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of RDO/C's
St. Vincent Infrastructure Project Activities
Managed by the Ministry of Communications and Works
and the Central Water and Sewerage Authority
August 28, 1987 to September 30, 1993**

**Audit Report No. 1-538-95-13-N
July 26, 1995**

ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138-07

**Managed by the Ministry of Communications and Works
and the
Central Water and Sewerage Authority**

August 28 1987 to September 30, 1993

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ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138-07

Managed by the Ministry of Communications and Works
and the
Central Water & Sewerage Authority

August 28, 1987 to September 30, 1993

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KPMG Peat Marwick

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December 11, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U.S. Agency for International Development
800 Metros al Norte de la Embajada Americana
Rohrmoser
San Jose, Costa Rica
Central America

Dear Mr. Gothard:

This report presents the results of our financial audit of the USAID St. Vincent Infrastructure Project managed by the Ministry of Communications and Works (MCW) and by the Central Water and Sewerage Authority (CWSA) for the period from August 28, 1987 to September 30, 1993.

BACKGROUND

Description of the Program

Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Infrastructure Expansion and Maintenance Systems Project was authorized on May 6, 1986 and amended on September 16, 1986 and on June 23, 1987. On May 28, 1987, that authorisation was further amended to give origin to the St. Vincent Infrastructure Project. The Project Assistance Completion Date (PACD) of the Project is September 30, 1993.

Under the Project Agreement (loan No. 538-k-0131 B), which was signed on August 28, 1987, the Government of St. Vincent and the Grenadines was loaned US\$2,000,000 by the Government of the United States of America through the United States Agency for International Development (USAID). This project consisted of engineering services, construction services, related commodities and technical assistance to assist the Government to rehabilitate and maintain selected roads to help create an infrastructure environment that will stimulate investment and productive activity in St. Vincent. The roads selected were Francoise to South Leeward, Vermont/Paradise to South Leeward, Welcome/Fenton to West St. George, Campden Park Leeward Highway to South Leeward, Questelles/Land Settlement to South Leeward, Welcome/Hawkshill to West.

December 11, 1993

Mr. Coinage N. Go'hard
Regional Inspector General for Audit

St. George, Rosehall/Troumaca to North Leeward, Diamond/Mt. Grenan to South Central Windward and Greenhill/Fenton to West St. George.

Further amendments to the Agreement provided for a grant of US\$433,000 to be utilised on the road rehabilitation component and US\$567,000 to be utilised on the provision of an interim water supply for the Diamond Hill Industrial Estate. The grant element was finally adjusted to US\$940,031, allocated US\$509,344 for the road rehabilitation component and US\$430,687 for the interim water supply, with the later re-allocation of uncommitted loan funds to road maintenance and further equipment procurement.

The road rehabilitation component was managed by the Ministry of Communications and Works and the Diamond Hill Water Supply by the Central Water and Sewerage Authority.

Under the agreement the Government's counterpart contribution amounted to US \$50,000. At September 30, 1993, the Government of St. Vincent and the Grenadines had contributed the required amount.

Audit Objectives and Scope

We performed a financial audit of the USAID St. Vincent Infrastructure Project for the period August 28, 1987 to September 30 1993 the Project Assistance Completion date.

The objectives of the audit were:

- to express an opinion on whether the fund accountability statement for the A.I.D. funded project presents fairly, in all material respects, project revenues received and costs incurred for the period in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including cash receipts and disbursements basis and modifications of the cash basis;

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Mr. Coinage N. Gothard
Regional Inspector General for Audit

- to evaluate and obtain a sufficient understanding of the internal control structures of the Ministry of Communications and Works and the Central Water and Sewerage Authority, assess control risk, and identify reportable conditions, including material internal control weaknesses;
- to evaluate and obtain a sufficient understanding of the internal control structures of the Ministry of Communications and Works and of the Central Water and Sewerage Authority, assess control risk, and identify reportable conditions, including material internal control weaknesses;
- to perform tests to determine whether the Ministry of Communications and Works and the Central Water and Sewerage Authority complied, in all material respects, with agreement terms, memoranda of understanding, and applicable laws and regulations and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of noncompliance and all indications of illegal acts should be identified.
- to determine whether adequate corrective action has been taken on any prior audit report or RDO/C financial review recommendations that could have an effect on the current audit objectives.

Our examination was performed in accordance with generally accepted auditing standards, and the United States Controller General's "Government Auditing Standards" (The Yellow Book). Accordingly, our audit included such tests of the accounting records as we considered necessary in the circumstances.

The scope of our work consisted of the following:

- Review of vote books, general and cost ledgers, cash disbursements, cash receipts and project records
- Establishment of the allowability of costs charged to the project
- Establishing that programs met criteria of the agreement
- Review and testing of internal controls over cash disbursements and cash receipts.

A vote book is a government departmental record of individual disbursements against an amount authorised for expenditure under a named account called a head.

December 11, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

RESULTS OF AUDIT

Fund Accountability Statement

We have audited the accompanying fund accountability statement of the USAID St. Vincent Infrastructure Project managed by the Ministry of Communications and the Works and by the Central Water and Sewerage Authority for the period August 28, 1987 to September 30, 1993.

In our opinion, the fund accountability statement examined by us presents fairly, in all material respects, the financial situation of the USAID St. Vincent Infrastructure Project managed by the Ministry of Communications and Works and by the Central Water and Sewerage Authority for the period August 28, 1987 to September 30, 1993.

Internal Control Structure

We evaluated the internal control structures of the Ministry of Communications and Works and of the Central Water and Sewerage Authority in regard to the USAID St. Vincent Infrastructure Project, for the period August 28, 1987 to September 30, 1993 in order to assess control risk and to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement, and not to provide assurance on these internal control structures taken as a whole.

December 11, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

Our evaluation of the Ministry of Communications and Works' internal control structure disclosed the following reportable conditions that we consider to be material weaknesses:

- Instances of absence of supporting documents for disbursements made. (Refer to finding 1.1 page 21)
- Absence of a system for the receiving and issuance of equipment spares. (Refer to finding 1.2 page 22)
- Absence of documentation for reconciliations between the Ministry's votebook and the Treasury. (Refer to finding 1.3 page 22)

Our evaluation of the Central Water and Sewerage Authority's internal control structure disclosed the following reportable conditions that we consider to be material weaknesses:

- No evidence of reconciliations between accounts payable subledger and the control account. (Refer to finding 1.5 page 24)
- Instances of absence of supporting documents for disbursements made. (Refer to finding 1.4 page 23)
- Instances of the non-cancellation of paid invoices. (Refer to finding 1.6 page 25)

Prior Audit Recommendations

We reviewed the status actions taken by Ministry and the Central Water and Sewerage Authority on prior audit recommendations that could have an effect on the current audit objectives, in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement.

The results of our tests did not reveal any findings and recommendations from previous audits which required corrective action.

December 11, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

Compliance with Agreement Terms and Applicable Laws and Regulations

We evaluated compliance by the Ministry of Communications and Works and the Central Water and Sewerage Authority with agreement terms and applicable laws and regulations in regard to the USAID - St. Vincent Infrastructure Project as part of the audit to express an opinion on the fund accountability statement of the Project for the period August 28, 1987 to September 30, 1993, and not to provide assurance on the Ministry's or the Authority's overall compliance with such provisions.

Our evaluation of the Ministry's compliance with agreement terms and applicable laws and regulations disclosed the following material instances of noncompliance:

- Separate books of account were not maintained for recording accounting transactions of the Project (Refer to finding 2.3 page 31)
- Non-establishment of a separate and distinct Project Management Unit. (Refer to finding 2.1 page 29)
- Absence of suitable display signs indicating the participation by the United States in the Project. (Refer to finding 2.2 page 30)



December 11, 1993

Mr. Coinage N. Gothard
Regional Inspector General for Audit

The results of our tests indicate that with respect to items tested, except for the instances of noncompliance mentioned in the preceding paragraph, the Ministry of Communications and Works and the Central Water and Sewerage Authority complied, in all material respects, with agreement terms and applicable laws and regulations. In regard to items not tested, nothing came to our attention that causes us to believe that the Ministry of Communications and Works and the Central Water and Sewerage Authority had not complied in all material respects, with those provisions.

Management's Comments on the Findings of the Independent Auditors

Management of the Central Water and Sewerage Authority and of the St. Vincent Ministry of Communications and Works were informed of our findings and are in complete agreement therewith.

Yours truly,

PEAT MARWICK

A handwritten signature in black ink, appearing to read 'David A. Millington', written over a horizontal dotted line.

DAVID A. MILLINGTON

cc: USAID-RDO/C

ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138-07

**Management by the Ministry of Communication and Works
and the
Central Water and Sewerage Authority**

August 28, 1987 to September 30, 1993

Independent Auditor's Report

We have audited the accompanying fund accountability statement of the USAID - St. Vincent Infrastructure Project managed by the Ministry of Communications and Works and by the Central Water and Sewerage Authority, for the period August 28, 1987 to September 30, 1993. The fund accountability statement is the responsibility of the project's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as mentioned in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of the "Government Auditing Standards" since no such quality review program is offered by professional organizations in Barbados. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Klynveld Peat Marwick Goerdeler (KPMG) worldwide internal quality control program which requires the KPMG-Barbados office to be subjected, every three years, to an extensive quality control review by partners and managers from KPMG offices.

In our opinion, the fund accountability statement referred to above, presents fairly, in all material respects, the project receipts and disbursements for the period August 28, 1987 to September 30, 1993 in conformity with the basis of accounting described in Note 1.

Peat Marwick

Chartered Accountants
Bridgetown, Barbados
December 11, 1993

ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138 -07

Managed by the Ministry of Communications and Works and the
Central Water and Sewerage Authority

FUND ACCOUNTABILITY STATEMENT
(United States Dollars)

for the period August 28 1987 to September 30 1993

	BUDGET	ACTUAL	QUESTIONED INELIGIBLE	COSTS UNSUPPORTED	REFERENCE TO NOTES
REVENUE					
Grant No. 1	\$ 509,344	509,344			
Grant No. 2	430,687	430,687			
Loan	<u>2,000,000</u>	<u>1,996,296</u>			
Total	\$ <u>2,940,031</u>	<u>2,936,327</u>			
EXPENDITURES					
Equipment procurement (3)					
Loan	\$ <u>443,711</u>	<u>443,711</u>			
	<u>443,711</u>	<u>443,711</u>			
Road Rehabilitation (Schedule 1)					
Grant No. 1	509,344	509,344	-	-	(5)
Loan	<u>1,390,000</u>	<u>1,387,685</u>	<u>-</u>	<u>-</u>	(6)
	<u>1,899,344</u>	<u>1,897,029</u>	<u>-</u>	<u>-</u>	
Technical assistance (4)					
Loan	<u>45,465</u>	<u>45,468</u>	<u>-</u>	<u>-</u>	
	<u>45,465</u>	<u>45,468</u>	<u>-</u>	<u>-</u>	
Maintenance					
Loan	<u>120,821</u>	<u>117,117</u>	<u>-</u>	<u>-</u>	
	<u>120,821</u>	<u>117,117</u>	<u>-</u>	<u>-</u>	
Water Supply System (3)					
Grant No. 2	<u>430,687</u>	<u>430,687</u>	<u>-</u>	<u>-</u>	(5)
	<u>430,687</u>	<u>430,687</u>	<u>-</u>	<u>-</u>	
Total Expenditure	\$ <u>2,940,031</u>	<u>2,934,012</u>	<u>-</u>	<u>-</u>	
Balance		\$ <u>2,315</u>			
Represented by:					
Balance on Project per vote books		\$ <u>2,315</u>			(6)

The accompanying notes form an integral part of the fund accountability statement

ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138-07

**Managed by the Ministry of Communications and Works and the
Central Water and Sewerage Authority**

**FUND ACCOUNTABILITY STATEMENT
(United States Dollars)**

for the period August 28 1987 to September 30 1993

Expenditure -Road rehabilitation

	<u>Amount Budgeted</u>	<u>Actual</u>
Rosehall Troumaca Road	\$ 302,563	302,470
Vermont Paradise Road	260,825	260,825
Francois Road	199,632	199,360
Questelles Road	156,257	156,172
Campden Park Road	189,160	187,295
Welcome Hawkshill Road	142,144	142,144
Welcome Fenton Road	195,167	195,167
Greenhill Fenton Road	220,852	220,852
Diamond Mt. Grenan Road	<u>232,744</u>	<u>232,744</u>
	<u>\$ 1,899,344</u>	<u>1,897,029</u>

The accompanying notes form an integral part of the fund accountability statement.

1. Summary of Significant Accounting Policies

(a) Books

Accounting transactions relating to the Project are recorded as follows:

Ministry of Communications and Works

- Disbursements relating to costs for the roads funded
 - Separate account books are not maintained for recording accounting transactions. However, these transactions are assigned to specific heads in the Ministry's vote book.
- Receipt of funds from USAID
 - Separate records were not maintained in the Ministry. However, there was sufficient detail and other information to ascertain those amounts. Project receipts represent reimbursable expenditure in respect of both the loan and grant elements of the Project which were reported to and approved by USAID during the period.
- Advances were made to the GOSVG in respect of the rehabilitation of the following roads: Francois Road, Campden Park Road, Questelles Road, Vermont/Paradise Road and Posthall/Troumaca Road. Reimbursements under fixed amount reimbursement agreements (FAR), were claimed after expenses were incurred.

Central Water and Sewage Authority

- Disbursements relating to costs for provision of an interim water supply at the Diamond Hill Industrial Estate.
 - Separate account books were not maintained for recording accounting transactions. However, these transactions were assigned to specific heads in the Authority's books.

- **Receipt of funds from USAID**

Separate records were not maintained in the Authority. However, there was sufficient detail and other information to ascertain those amounts. Project receipts represent reimbursable expenditure in respect of the grant for this segment of the Project which were reported to and approved by USAID during the period.

(b) *Disbursements*

Disbursements are recognised in the period to which they relate.

(c) *Reporting period*

The reporting period of the Project (loan No. 538-K-0131 B) is August 28 1987 to September 30, 1993.

(d) *Translation of local currency*

Local currency (EC\$) is translated to United States currency (US\$) at the rates of US\$1=EC\$2.6882 to May 29, 1991 and US\$1=EC\$2.70 thereafter.

(e) *Basis of Preparation*

The accompanying Fund Accountability Statement is prepared on a cash basis which is a departure from generally accepted accounting principles.

2. Loan and Grant funds

The Project agreement initially provided for a loan of US\$2,000,000, of which the road rehabilitation component was US\$1,390,000. The Project was subsequently amended to include a grant of US\$509,344 for the road rehabilitation component and a grant of US\$430,687 for the Diamond Hill Water Supply. The Project Assistance Completion Date (PACD) is September 30, 1993. A subsequent re-allocation of uncommitted funds resulted in the September 30 1993 position:

	CWSA	MCW	TOTAL
Grant funds			
-Road rehabilitation \$	-	509,344	509,344
-Diamond Hill Water Supply	<u>430,687</u>	<u>-</u>	<u>430,687</u>
	<u>430,687</u>	<u>509,344</u>	<u>940,031</u>
Loan funds			
-Equipment procurement		443,711	443,711
-Technical assistance		45,468	45,468
-Road rehabilitation	-	1,390,000	1,390,000
-Road maintenance	<u>-</u>	<u>120,821</u>	<u>120,821</u>
	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
	<u>\$430,687</u>	<u>2,509,344</u>	<u>2,940,031</u>

3. Equipment procurement

Of the loan funds allocated to equipment procurement, only \$10,000 was actually received by the Ministry. The balance of \$433,711 was paid direct to the suppliers by USAID on the instructions of and on behalf of the Government of St. Vincent.

Of the grant funds allocated to the Diamond Hill Water Supply System \$314,362 was received by the Central Water and Sewerage Authority, the balance of \$116,325 being paid to overseas suppliers by USAID on the instructions of and on behalf of the Authority.

4. Technical Assistance

The technical assistance component of the project was directly funded by USAID.

5. Fixed amount Reimbursement Agreement

All construction and maintenance work was performed under Fixed Amount Reimbursement (FAR) Agreements.

Under a FAR Agreement, reimbursement is based on completion of pre-agreed specified outputs. AID reviews the estimates of input costs and, based on their reasonableness, approves them. This means that:

- i) Grantees and borrowers may claim reimbursements based upon certified completion of the specified outputs;
- ii) Although the payments to borrowers/grantees cannot be questioned on cost alone, they can however be questioned if the output does not conform to the requirements of the project agreement.

Costs charged to various sub-projects included some costs, whilst not questionable as costs alone under the agreement, were worthy of mention:

- Expenditure incurred, invoices for which were not available at the time of the audit. 13,923
- Overheads charged to the Diamond Hill Water Supply Project using an application rate of 118% of labour charges without justification for the rate applied. The audit should be encouraged to develop or refine its system to allow the computation of a justified overhead rate. 41,852
- Other costs charged to the Diamond Hill Water Supply Project at amounts incorporated in the budget as the CWSA accounting system did not provide for the allocation of these costs. 95,766
The system should be modified to facilitate the allocation of such costs if required under such a project in the future.

6. Expenditure-Road Rehabilitation

As reimbursement under the Fixed Amount Reimbursement agreements are based on pre-agreed measures of output, any cost savings achieved is for the account of the borrower/grantee. Similarly, any cost over-runs are to be borne by the borrower/grantee. The expenditures on the road sub-projects therefore includes cost savings achieved on selected roads totaling \$2.315.

7. Counterpart Contributions

Under the Project agreement the Government of St. Vincent had agreed to commit US \$50,000 as counterpart contributions. Representatives of the St. Vincent Ministry of Communications and Works and the Central Water and Sewage Authority have indicated that these contributions were made as indicated below and a notional value of US \$50,000 was assigned.

- (i) Provision of office accomodation to the project .
- (ii) Assignment of full time technical personnel to the project office.
- (iii) The provision of ongoing administrative support to the project office by the Ministry of Communication and Works and the Central Water and Sewage Authority.

ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138-07

**Managed by the Ministry of Communications and Works
and the
Central Water and Sewerage Authority**

August 28, 1987 to September 30, 1993

Independent Auditor's Report on Internal Control Structure

We have audited the fund accountability statement of the USAID St. Vincent Infrastructure Project managed by the Ministry of Communications and Works and by the Central Water and Sewerage Authority for the period August 28, 1987 to September 30, 1993 and have issued our report thereon dated December 11, 1993.

Except for not conducting an external quality review by an unaffiliated audit organization as further explained in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the USAID St. Vincent Infrastructure Project, we considered the internal control structures of the Ministry of Communications and Works and of the Central Water and Sewerage Authority 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 Ministry of Communications and Works and of the Central Water and Sewerage Authority are responsible for establishing and maintaining internal control structures. 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 the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in Note 1 to the Fund Accountability Statement. 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.

- Organizational controls
- Cash receipts
- Cash disbursements
- Recording of vote book transactions
- Purchasing and procurement procedures

The vote book is a government departmental record of individual disbursements against an amount authorised for expenditure under a named account called a head.

For all of the internal control structure categories listed above, we obtained an understanding of the design of the 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 internal control structure that in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

The reportable conditions identified are as follows:

Ministry of Communications and Works:

- Instances of the absence of supporting documents for disbursements made. (Refer to finding 1.1 page 21)
- Absence of a system for the receiving and issuance of spare parts. (Refer to finding 1.2 page 22)
- Absence of regular reconciliations between the Ministry's records and the Treasury. (Refer to finding 1.3 page 22)

Central Water and Sewerage Authority

- Instances of the absence of supporting documents for disbursements made. (Refer to finding 1.4 page 23)
- Absence of reconciliations between accounts payable subledger and the control account in the general ledger. (Refer to finding 1.5 page 24)
- Instances of the non-cancellation of paid invoices. (Refer to finding 1.6 page 25)

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more 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. We believe the reportable conditions described above are material weaknesses.

This report is intended for the information of the management, and others within the Ministry of Communications and Works, the Central Water and Sewerage Authority and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Peat Mannick

Chartered Accountants
Bridgetown, Barbados
December 11, 1993

Findings on Internal Control Structure

MINISTRY OF COMMUNICATIONS AND WORKS

1.1 Absence of supporting documentation

Condition:

- We were unable to sight and so review payment vouchers and suppliers' invoices to support some disbursements made.

Criteria:

- All disbursements should be supported by approved payment vouchers.
- Payment vouchers should be adequately supported by suppliers' invoices
- All supporting documentation should be filed and stored to facilitate easy retrieval where necessary.

Cause:

- Some documentation had been removed for government audit purposes and not been properly re-filed.

Effect:

- Project could have been charged with ineligible expenditure.

Recommendations:

- We recommend that:
 - all supporting documentation be filed with relevant payment vouchers.
 - filing should be performed in a manner such as will facilitate easy access and retrieval.

1.2 Absence of a system for the receiving and issuance of equipment spares

Condition:

- We were unable to vouch the receipt and issue of spares purchased for the equipment used on the project.

Criteria:

- All spare parts received into stock should be recorded on bin cards, supported by goods received notes.
- All spare parts should be issued only on the authority of signed requisition forms.

Cause:

- No system was set up for the receiving and issuing of equipment spares.

Effect:

- Equipment spare parts removed from stock could have been utilised for purposes other than those solely related to the Project.

Recommendations:

- We recommend that:
 - all equipment spares delivered to the storeroom be recorded by way of a goods received note.
 - bin cards be maintained for each item.

1.3 Documentation of vote book reconciliations

Condition:

- We were unable to determine whether expenses unrelated to the project were excluded.

Criteria:

- There should be monthly reconciliations between the Ministry's vote books and the Treasury's monthly accounting printout.

Cause:

- No written reconciliations were supplied.

Effect:

- Expenses unrelated to the project could have been included, while valid expenses could have been excluded.

Recommendations:

- We recommend the documentation of the reconciliations between the vote books and the Treasury's monthly accounting printout and between the accounts payable subledger and the control account in the Water Authority's books.

CENTRAL WATER AND SEWERAGE AUTHORITY

1.4. Absence of supporting documentation

Condition:

- We were unable to sight and so review payment vouchers and suppliers' invoices to support some disbursements made.

Criteria:

- All disbursements should be supported by approved payment vouchers.
- Payment vouchers should be adequately supported by suppliers' invoices
- All supporting documentation should be filed and stored to facilitate easy retrieval where necessary.

Cause:

- Some documentation may have been lost or mis-filed when the Authority moved premises.

Effect:

- Ineligible costs could have been allocated to the Project.

Recommendations:

- We recommend that:
 - all supporting documentation be filed with relevant payment vouchers.
 - filing should be performed in a manner such as will facilitate easy access and retrieval.

1.5 Documentation of supplier reconciliations

Condition:

- We were unable to determine whether expenses unrelated to the project were excluded.

Criteria:

- There should be monthly reconciliations between supplier statements and the accounts payable subledger and between the accounts payable subledger and the control account in the general ledger.

Cause:

- No written reconciliations were supplied.

Effect:

- Expenses unrelated to the Project could have been included while valid expenses could have been excluded.

Recommendations:

- We recommend the documentation of the reconciliations between supplier statements, the accounts payable subledger and the control account in the Authority's general ledger.

1.6 Non-cancellation of paid invoices

Condition:

- We observed instances of paid invoices not being cancelled.

Criteria:

- All paid invoices should be cancelled at time of payment.

Cause:

- Internal control procedures regarding the cancellation of paid invoices were breached.

Effect:

- There is the possibility of payment being made in respect of invoices already paid for.

Recommendations:

- We recommend that all invoices be cancelled at time of payment.

ST. VINCENT INFRASTRUCTURE PROJECT

USAID/RDO/C PROJECT NO. 538-0138-07

**Managed by the Ministry of Communications and Works
and the**

Central Water and Sewerage Authority

August 28, 1987 to September 30, 1993

Independent Auditor's Report on Compliance

We have audited the fund accountability statement of the USAID St. Vincent Infrastructure Project managed by the Ministry of Communications and Works and by the Central Water and Sewerage Authority as of and for the period August 28, 1987 to September 30, 1993, and have issued our report thereon dated December 11, 1993.

Except for not conducting an external quality review by an unaffiliated audit organization as further explained in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the USAID St. Vincent Infrastructure Project is the responsibility of the Ministry of Communications and Works and the Central Water and Sewerage Authority. As part of the obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests on the compliance by the Ministry of Communications and Works and the Central Water and Sewerage Authority' with certain provisions of agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements.

The results of our tests of compliance disclosed the following material instances of non-compliance:

- Separate books of account were not maintained for recording accounting transactions of the Project;
- Non-establishment of a separate and distinct Project Management Unit;
- Absence of suitable display signs indicating the participation by the United States in the Project.

Except for the instances of non-compliance mentioned in the preceding paragraph, the results of our tests of compliance indicate that, with respect to the items tested, the Ministry of Communications and Works and the Central Water and Sewerage Authority complied, in all material respects, with the provisions of agreement terms and applicable laws and regulations of the USAID St. Vincent Infrastructure Project. With respect to items not tested, nothing came to our attention that caused us to believe that the Ministry of Communications and Works and the Central Water and Sewerage Authority had not complied, in all material respects, with those provisions.

This report is intended for the information of the management, and others within the Ministry of Communications and Works, the Central Water and Sewerage Authority and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Peat Marwick
Chartered Accountants
Bridgetown, Barbados
December 11, 1993

Findings on Compliance with Agreement Terms and Applicable Laws and Regulations

2.1 Non-establishment of a Project Management Unit

Condition:

- We noted that a separate and distinct Project Management Unit was not established to administer the Project. However, the auditee asserts that as an alternative the St. Vincent Ministry of Communication and Works assigned an engineer full-time to the project, as well as a complement of clerical and support staff considered adequate to satisfy this condition. The accounting function remained with MCW's general operations. The auditee maintained that the approach was taken on the basis of cost effectiveness.

Criteria:

- The Government was to have established and maintained a Project Management Unit, supported by necessary office furniture and equipment to sustain the technical and financial management of the roads funded by the loan.

Cause:

- The Government chose to administer the Project within the structure of the Ministry of Communications and Works.

Effect:

- The Project may have inherited internal control defects existing within the Ministry structure.

Recommendations:

- GOSV should be informed that prior approval should be sought and obtained in writing for the variation of any condition or agreement term.

2.2 Absence of USAID display signs

Condition:

- USAID participation in the project was not evidenced by signs etc.

Criteria:

- Project construction sites and other project locations should have been identified by display signs indicating participation by the United States in the project.

Cause:

- No system was established to ensure that all elements of the agreement were adhered to.

Effect:

- Participation by the United States in the project was not advertised.

Recommendations:

- The Ministry of Communications and Works and the Water and Sewerage Authority should erect display signs which indicate participation by the United States.

2.3

Condition:

- Separate books of account were not maintained for recording transactions of the Project.

Criteria:

- The Government was to maintain or cause to be maintained, in accordance with generally accepted accounting principles, books and records relating to the Project, adequate to show the receipt and use of goods and services acquired under the Assistance.

Cause:

- Transactions of the Project were recorded in the books of account of the Ministry of Communications and Works.

Effect:

- The Government failed to comply with the provisions of the agreement terms and applicable laws and regulations.

Recommendations:

- Prior approval should be sought and obtained in writing for the variation of any condition or agreement term.

Summary of Report Recommendations

Internal Control Structure

- All supporting documentation be filed with relevant payment vouchers.
- Filing should be performed in a manner such as will facilitate easy access and retrieval.
- All equipment spares delivered to the storeroom to be recorded by way of a goods received note.
- Bin cards be maintained for each item.
- The documentation of the reconciliations between the vote books and the Treasury's monthly accounting printout.
- The documentation of the reconciliations between the accounts payable subledger and the control account in the Water Authority's general ledger.
- All invoices to be cancelled at time of payment.

Compliance with agreement terms and applicable laws and regulations

- A Project Management Unit should have been established or prior approval obtained for variation.
- The Ministry of Communications and Works and the Water and Sewerage Authority should erect display signs which indicate participation by the United States.
- Prior approval should be sought and obtained in writing for the variation of any condition or agreement term.

ST. VINCENT INFRASTRUCTURE PROJECT

Management's Comments on Exceptions

August 28, 1987 to September 30, 1993

Management has been appraised of all exceptions noted in the report and are in complete agreement therewith.