

**Regional Inspector General for Audit
Dakar**

**Audit of USAID's Grant to the Government of
Cape Verde under the Export Development Services
Project (No. 655-0014)
from September 1, 1990 through March 31, 1994**

**Audit Report No. 7-655-96-001-N
October 16, 1995**



**INSPECTOR
GENERAL**

REGIONAL INSPECTOR GENERAL FOR AUDIT

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

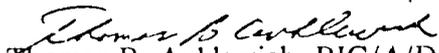
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October 16, 1995

MEMORANDUM

To: Lawrence J. Abel, Acting USAID/Cape Verde Representative

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

Subject: Audit of USAID's Grant to the Government of Cape Verde Under the Export Development Services Project (No. 655-0014), from September 1, 1990 to March 31, 1994; (Audit Report No. 7-655-96-001-N)

The attached report, prepared by the non-Federal audit firm, KPMG Peat Marwick, Banjul, presents the results of a financial audit of USAID's Grant to the Government of Cape Verde under the Export Development Services Project (No. 655-0014), for the period September 1, 1990 to March 31, 1994.

On August 28, 1989, the United States Agency for International Development (USAID) and the Government of Cape Verde (GOCV) signed the Export Development Services project under which USAID is to provide a total grant of \$4 million to the GOCV with the goal to increase the ability of the GOCV to earn foreign exchange through both an export-led growth strategy and by increasing private sector participation in the economy. The USAID grant was subsequently increased to \$4.7 million and the GOCV contribution was to be not less than \$0.8 million. The GOCV's contribution was to be spent on salary and other related personnel costs, while the USAID funds were for all other budget line items. The purpose of the project was to provide support to the GOCV's private sector by mitigating constraints to export-oriented production and trade in order to increase foreign exchange and local employment, and also to develop the human resources capacity in the GOCV through training initiatives. To accomplish these objectives, the Center for Investment and Export Promotion (PROMEX) was created, to provide assistance and to attract clients; and also to provide help to both investors and government agencies. The project completion date is September 1996.

KPMG Peat Marwick of Banjul performed the financial audit of the \$421,764 in expenditures made by PROMEX in accordance with U.S. Government Auditing Standards

to determine whether the Fund Accountability Statement for the period September 1, 1990 to March 31, 1994 was fairly presented and whether PROMEX 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 PROMEX's internal accounting controls over the USAID funds to plan the audit and to determine the nature, timing and extent of tests to be performed.

KPMG Peat Marwick found that the Fund Accountability Statement was fairly presented. The audit did, however, identify questioned costs amounting to \$16,695 which consisted of \$8,434 in ineligible salary payments, and \$8,261 in unsupported expenditures. In obtaining an understanding of the internal control structure, the auditor found non material weaknesses such as the failure of PROMEX to prepare bank reconciliations regularly, and the commingling of donor expenditures. Finally, in testing for compliance with applicable laws, regulations and agreements, the auditor stated that PROMEX complied in all material respects; however, contrary to the project agreement, PROMEX paid taxes on fuel purchased for project activities.

In its response to the draft audit report, the Mission generally agreed with the auditor's findings and recommendations and stated that it has already taken actions to resolve the questioned costs.

The non-Federal audit report contains ten findings and ten recommendations which should be implemented by USAID/Cape Verde and PROMEX. The following recommendations have been included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Cape Verde resolve the questioned costs of \$16,695 (\$8,261 unsupported) and recover those costs determined to be unallowable or unsupported.

Recommendation No. 1 is considered resolved since USAID/Cape Verde stated in its response to the draft report that the amount questioned have been reimbursed to USAID. This recommendation will be closed when USAID/Cape Verde provides RIG/A/Dakar with copies of the deposit slips and the bank statements evidencing that the amounts questioned have been deposited in the USAID account.

Recommendation No. 2: We recommend that USAID/Cape Verde:

2.1 ensure that the project stops paying fuel taxes with USAID funds; and

2.2 ensure that the amount of taxes paid on fuel to date is quantified and refunded to the project.

Recommendation No. 2.1 is unresolved. It can be resolved when 1) USAID/Cape Verde agrees to ensure that the project ceases paying fuel taxes with USAID funds; or 2) USAID/Cape Verde provides justification that this recommendation is not needed and in that case, the recommendation can also be closed. If the Mission agrees to implement the action requested, Recommendation No. 2.1 can be closed when RIG/A/Dakar receives documentary evidence that the requested action has been implemented.

Recommendation No. 2.2 is resolved since USAID/Cape Verde stated in its response to the draft audit report that it has requested the reimbursement of taxes paid on fuel from the GOCV. Recommendation No. 2.2 will be closed when RIG/A/Dakar receives documentary evidence that the amount determined to be ineligible has been reimbursed to USAID.

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

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
CAPE VERDE**

**AUDIT OF USAID'S GRANT TO THE GOVERNMENT OF
CAPE VERDE UNDER THE EXPORT
DEVELOPMENT PROJECT (NO: 655 - 0014)
FOR THE PERIOD SEPTEMBER 1, 1990 TO MARCH 31, 1994**

 **Peat Marwick**

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Our Ref:

Your Ref:

16 August 1995

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

Dear Mr Anklewich :

United States Agency For International Development, Cape Verde. Audit of USAID'S grant to the Government of Cape Verde under the Export Development Services (EDS) Project (no. 655 - 0014), from September 1, 1990 to March 31, 1994.

In accordance with your instructions dated October 31, 1994 (IQC no. 624-999-1-2024-00, Delivery Order No. 11) this report presents the results of our financial audit of the grant to the Government of Cape Verde under Export Development Services (EDS) Project (no.655 - 0014), from September 1, 1990 to March 31, 1994.

Total disbursements for the period September 1, 1990 to March 31, 1994 amounted to \$451,430 of which \$421,764 was audited by us. The unaudited balance of \$29,666 relates to expenditures incurred out of Government of Cape Verde funds. This has been explained in detail under finding 3.2.7 on page 22 of the report.

CONTENTS		Page
Transmittal letter		2
1. SUMMARY		
1.1	Background	4
1.2	Audit objectives and scope	6
1.3	Summary of Audit results	8
1.3.1	Financial	8
1.3.2	Internal Controls	8
1.3.3	Compliance	9
1.4	Synopsis of Management Comments	9
2. FINANCIAL SECTION		
2.1	Independent Auditors' report	10
2.2	Fund Accountability Statement	11
2.3	Notes to Fund Accountability Statement	12
3. INTERNAL CONTROL STRUCTURE		
3.1	Independent Auditors' report	14
3.2	Findings	16
4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS		
4.1	Independent Auditors' report	25
4.2	Findings	26
5. APPENDICES		

1. SUMMARY

1.1 Background

In a bid to increase the ability of Cape Verde to earn foreign exchange through both an export led growth strategy and by increasing private sector participation in the economy, an agreement was signed between the United States Agency for International Development (USAID) and the Government of Cape Verde (GOCV) on August 28, 1989. This agreement, the Export Development Services (EDS) Project, committed USAID to a grant totalling \$4 million to be paid in instalments. The value of this grant was increased to \$4.7 million within the audit period. Furthermore, the GOCV were required to commit not less than \$0.522 million, this was again subsequently increased to \$0.757million within the audit period.

Purpose and Objectives of the Project

The purpose of the project is to provide support to Cape Verde's private sector by mitigating constraints to export orientated production and trade which can increase significantly foreign exchange and local employment. In order to achieve this the project will provide for;

- (i) The creation of the Centre for Investment and Export Promotion (CIEP).
- (ii) The creation of a Promotion and Marketing Division to provide assistance and to attract potential clients.
- (iii) The creation of an Advising Services Division to provide help to both investors and the agencies of Government.
- (iv) The project is to provide assistance in the form of a reliable database kept within PROMEX. This would be used to aid export promotion and marketing to a wide variety of investors to enable promotion efforts to be targeted more effectively.
- (v) The project is to develop the human resources capacity of Cape Verde through the undertaking of training initiatives which would include a review of current needs, training activities in the US, cooperation with other US training facilities within Cape Verde and the inherent opportunities in seminars, etc run by the Project.

It is expected that by the completion of the Project that a self financing mechanism will have been found and that the Project will be self sustainable either through the charging of its services or through the ability to attract further sources of funds.

In 1993 an interim review was carried out on the progress of the project. The results of the review were largely favourable but two major points came out of it.

Firstly, partly due to over optimism at the inception of the Project and partly through the slow start to the project due to unforeseen political factors and recruitment problems it was considered that the objectives could not be satisfied by the initial completion date of September 1994. To counter this Amendment 5 to the Grant Agreement was signed. This extended the life of the Project to September 1996 and provided a further \$0.7million of USAID funds and \$0.235 million (or its equivalent) of GOCV contributions.

Secondly, following the passing of the Financial Year 1993 Foreign Appropriations Act, in the US, further consideration needed to be given to the types of funding allowable by the Project. It was found that the activities of the Project did not infringe the Act but in order to enter into the " spirit of the Act " further funding prohibitions were included within Amendment 5. These included a prohibition on incentives to US enterprises to relocate in Cape Verde and on establishing or developing an export zone in Cape Verde.

Use Of Grant

The contributions made by both USAID and the GOCV are quite specific in their direction. All of the GOCV contribution is spent on salary and other related personnel costs and the USAID grant is to be spent on all other budget line items.

Following the final Amendment the budgeted line items for the USAID grant were classified as follows;

Project Component	Budget (revised) \$'000
Technical Assistance	2,895
Commodities	500
Training	400
Other	745
Evaluation	100
Audit	60
Total	<u>4,700</u>

1.2 *Audit Objectives and Scope*

The objectives of this financial audit are to:

- (i) Express an opinion on whether the Centre for Investment and Export Promotion (CIEP) fund accountability statement for the USAID grant presents, project revenues received and disbursements made for the audit period in conformity with generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- (ii) Evaluate and obtain a sufficient understanding of PROMEX's internal control structure related to the USAID funded project, assess control risk, and identify reportable conditions, including material internal control structure weaknesses.
- (iii) Perform tests to determine whether PROMEX complied in all material respects, with agreement terms and applicable laws and regulations related to the USAID funded program and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of non compliance and all indications of illegal acts should be identified. Such tests will include the compliance requirements related to required counterpart contributions.

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

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

- Review of the project grant agreement, project implementation letters and other related project documents and identify those laws and regulations which, if not observed, could have a direct and material effect on the fund accountability statement;
- Review of previous financial evaluations and reports;
- Determination, understanding, documentation and evaluation of PROMEX's organisational structure with respect to the local operating account in order to determine the extent to which established procedures and controls are functioning as intended and documented;
- Identification and assessment of the level and nature of control risk and design of substantive tests;
- Review and testing of expenditures made out of the local operating account by PROMEX for goods and services to determine whether they were allowable, reasonable, properly classified and recorded, relevant to project activities and supported by adequate documentary evidence;

- Determination, documentation and evaluation of the procedures for the control of funds, reconciliation of the movement in funds for the local operating account for the period under review including reconciliation of PROMEX's recorded revenues and expenditures with bank records;
- Compilation of the fund accountability statement and agreement to the underlying records of PROMEX for the local operating account for the period under review;
- Determination of whether advances and reimbursements were made in accordance with agreement terms and reconciling advances and reimbursements per USAID's accounting system with those amounts reported by PROMEX as receipts from USAID;
- Evaluation of PROMEX's physical and accounting controls over USAID financed commodities and the determination of their proper use, maintenance and custody;
- Determination as to whether PROMEX is in compliance with applicable laws, regulations and agreements by evaluating PROMEX's internal control system and substantive testing of recorded revenues and expenditures for the period under review;
- Planning of the audit so as to devise steps to identify instances or indications of fraud, abuse or illegal acts and reporting any such instances or indications to RIG/A/Dakar.

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

Our audit work was carried out on site at PROMEX and USAID/Cape Verde. At the beginning and end of the field work, respectively, an entrance and exit conference were held to formally advise Project management and USAID/Cape Verde of the audit objectives and scope and results. Prior to the exit conference, we discussed the key findings of our audit with USAID/Cape Verde and PROMEX personnel.

1.3 *Summary of Audit Results*

1.3.1 **Summary of Audit Results - Financial**

We found that the Fund Accountability Statement showing the receipts and disbursements made by PROMEX in connection with USAID's grant to PROMEX under the Export Development Services Project was presented fairly. However, our testing of the Fund Accountability Statement found that PROMEX incurred questioned ineligible costs of CVE.645,000 (\$8,434). This expenditure is discussed in the findings in Section 4.2, summarised in the fund accountability statement detailed in section 2.2 and explained in the notes to the fund accountability statement..

In addition we noted an amount of CVE 688,699 (US\$ 8,261) being net balance owing to PROMEX from The GOCV which is unsupported. We have recommended that this amount be questioned and recovered from PROMEX to the extent that the balance is either non recoverable or unsupported. This balance is discussed in section 3.2.7.

1.3.2 **Summary of Audit Results - Internal Control**

We have assessed the overall internal control environment of PROMEX as satisfactory. This was based on the outcome of tests on the components of the project's control environment which are assessed as follows:

- Control consciousness - satisfactory
- Segregation of duties - unsatisfactory
- Management override - satisfactory
- Competence of personnel - satisfactory
- Protection of assets and records - satisfactory

The following specific weaknesses were noted.

- Lack of Competitive Tendering (finding 3.2.1)
- Lack of Budgetary Control (finding 3.2.2)
- Segregation of Duties within the Accounting and Cash Function (finding 3.2.3)
- Regularity of Bank Reconciliations (finding 3.2.4)
- Control over Fuel and Vehicle Usage (finding 3.2.5)
- Lack of verification of Fixed Assets (finding 3.2.6)
- Commingling of Donor Expenditures (finding 3.2.7)

- **Monthly Reports on the Liquidation of Advances (finding 3.2.8)**

1.3.3 Compliance

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

- **Project Grant Agreement**
- **Project Implementation letter**
- **The Laws of Cape Verde**

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

- **Payment of Salaries out of USAID funds (finding 4.2.1)**
- **Excise Duty paid on Fuel (finding 4.2.2)**

1.4 *Synopsis of Management Comments*

Management comments are included within the relevant section of our findings and verbatim in appendix 5.3 of this report.

Management have made two sets of comments on some points. Both comments have been shown in the appendix, whereas only the later comment has been incorporated into this report.

2. FINANCIAL SECTION

2.1 *Independent auditor's report on the Fund Accountability Statement*

We have audited the Fund Accountability Statement showing the expenditures of PROMEX under the Export Development Services (EDS) Project for the period September 1, 1990 to March 31, 1994. The Fund Accountability Statement is the responsibility of PROMEX management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and United States Government Auditing Standards issued by the Comptroller General of The United States, except that we did not have an external quality control review by an unaffiliated organisation as required by section 3.4.6. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by project management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As part of our examination and as described in the schedule of Questioned Costs we found Questioned ineligible costs totalling CVE 645,000 (\$8,434) and Questioned unsupported expenditures amounting to CVE 688,699 (US\$ 8,261). These costs are to be resolved by USAID/Cape Verde.

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, advances received and expenditures charged by PROMEX for the period in conformity with the basis of accounting described in note 1 of the Fund Accountability Statement (section 2.2)

K. P. S. P. S. M. M. M.

Chartered Accountants
Banjul, The Gambia.

Date: *16 August 1994*

2.2 *Fund Accountability Statement*

Budget Category	Budget CVE	Actual CVE	Actual \$	Questioned Costs CVE	Questioned Costs \$	Notes
Receipts						
Advances	47,460,000	17,340,207	229,540			
Reimbursements		5,786,252	68,717			
Direct payments		8,025,229	109,211			
TOTAL RECEIPTS	<u>47,460,000</u>	<u>31,151,688</u>	<u>407,468</u>			
Expenditure						
Rental	17,010,000	11,412,610	149,233			
Utilities	700,000	775,375	10,139			
Telecommunications	2,450,000	7,071,686	92,471			
Professional services	2,100,000	6,679,617	87,344	645,000	8,434	2
Office supplies	350,000	438,232	5,730			
Vehicle operation	700,000	865,911	11,322			
In country travel	1,400,000	185,348	2,424			
Vehicle rental	350,000	3,147,078	41,151			
Per diem/lodging	7,350,000	3,067,525	40,111			
Transportation	8,050,000	4,070	53			
Institutional materials	1,750,000	461,492	6,034			
Honorariums	1,400,000	227,400	2,973			
Miscellaneous	700,000	480,485	6,283			
Exchange Differences	-	-	(3,838)			
Tuition & fees	3,150,000	-	-			
	<u>47,460,000</u>	<u>34,816,829</u>	<u>451,430</u>	<u>645,000</u>	<u>8,434</u>	<u>6</u>
Outstanding Balance		(3,665,141)	(43,962)			
Represented by:						
Bank		30,520	366			5
Creditors		(1,911,070)	(22,923)			4
Contribution from the GOCV		(2,473,290)	(29,666)			3
Debtors/prefinance		688,699	8,261	688,699	8,261	8
		<u>(3,665,141)</u>	<u>(43,962)</u>	<u>1,333,699</u>	<u>16,695</u>	

2.3 Notes to the Fund Accountability Statement

- (1) The Project maintained its accounting records on an accrual basis which is a basis of accounting in accordance with generally accepted accounting principals.

- (2) Questioned costs

Professional Services - CVE.645,000 (\$8,434)

The December 1993 payroll was paid out of USAID funds. The payment of payroll expenditure from USAID funds is strictly disallowed in the Grant Agreement. Per this Agreement the funds should come from the GOCV and therefore the sum must be ineligible. (See finding 4.2.1)

- (3) Government of Cape Verde - CVE.2,473,290 (\$29,666)

The accounting system operating during the course of the audit period commingled the funds of the contributors such that funds received from the GOCV were spent on those budget line headings for which they were not intended and have resulted in a series of debtor and creditor balances between the two. (See finding 3.2.7) .

- (4) Local creditor balances outstanding of CVE 1,911,070 (\$22,923).

See appendix 5.1

- (5) Bank Balance

This amount was satisfactorily reconciled with the balance at bank. The balance at bank was confirmed.

- (6) Total disbursements represent payments from USAID and GOCV funds. (finding 3.2.7). Disbursements were identified as having been made from the following sources:

USAID Bank accounts	22,932,469
Direct rental payments to USAID	7,500,000
Expenditures accrued (see note 4)	1,911,070
Other payments (GOCV)	2,473,290
	<hr/>
Total expenditures as per ledger accounts	34,816,829
	<hr/>

Our testing was based on total expenditures made out of the USAID bank accounts. We were also able to verify rental paid directly by USAID of CVE 7.5million.

(7) Currency Translation

Where necessary, currency translations have been performed using the Temporal method. That is, expenditures have been translated at the average rate for the period, based in this case on REDSO/Abidjan month end translation rates and year end balances at the closing rate. Receipts are based on the actual rate at the time the cash was received. The exchange rates used are as follows;

Average	CVE 76.475	to \$1
Closing	CVE 83.37	to \$1

(8) Unsupported expenditure

To the extent that this balance is not recoverable from The GOCV either in cash or by set off or cannot be supported we have recommended that USAID recover this amount from PROMEX. (Finding 3.2.7)

3. INTERNAL CONTROLS

3.1 *Independent Auditors' Report on Internal Controls*

We have audited the Fund Accountability Statement showing the revenues and expenditures of PROMEX under the EDS project for the period September 1, 1990 to March 31, 1994 and have issued our report thereon dated August 16, 1995.

We conducted our audit in accordance with generally accepted auditing standards and United States Government Auditing Standards Issued by the Comptroller General of the United States except that we did not have an external quality control review by an unaffiliated organisation as required by section 3.4.6 of the aforementioned statements. 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 PROMEX project we considered its internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of PROMEX project is responsible for establishing and maintaining an internal control structure for the project. In fulfilling this responsibility, estimates and judgements by project management are required to assess the expected benefits and related costs of the internal control structure, policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with the basis of accounting described in note 1 to the Fund Accountability Statement (section 2.2). Because of the inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Procurement cycle
- Disbursement cycle
- Inventory and fixed assets control cycle
- Recording and reporting cycle.

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

We noted 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 specific deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect PROMEX's ability to record, process, summarise and report financial data consistent with the assertions of management in the Fund Accountability Statement.

In summary, the reportable conditions are as follows:

- Lack of Competitive Tendering (finding 3.2.1)
- Lack of Budgetary Control (finding 3.2.2)
- Segregation of Duties within the Accounting and Cash Functions (finding 3.2.3)
- Regularity of Bank Reconciliations (finding 3.2.4)
- Control over Fuel and Vehicle Usage (finding 3.2.5)
- Lack of verification of Fixed Assets (finding 3.2.6)
- Commingling of Donor Expenditures (finding 3.2.7)
- Monthly Reports on the Liquidation of Advances (finding 3.2.8)

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the Internal Control Structure and its operation that we reported to management of PROMEX in a separate letter dated January 9, 1995.

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

KPMG Peat Marwick

Chartered Accountants
Banjul, The Gambia

Date: *12 August.* 1995

3.2 Findings

3.2.1 Disbursements Cycle: Lack of Competitive Tendering

Observation

Project Implementation Letter 2 states that all purchases must be competitively tendered for, the USAID Procurement Handbook No.14 provides detail as to how this should be carried out. All purchases less than \$2,500 must be bought through a list of approved suppliers. Purchases between \$2,501 and \$25,000 must be purchased with reference to a list of approved suppliers and to three proforma invoices. Any purchases made by the project over \$25,000 must be tendered for. There has been no evidence that any purchases made by the project since its inception have been made in the required manner.

Implication

In the first instance the current system for making purchases and selecting suppliers is contrary to the regulations and so the Project runs the risk of making questionable payments.

Secondly, there is an increased risk that payments may be made which are greater than can be achieved elsewhere in the market, hence using project funds in an inefficient manner and reducing funds available for expenditure in other areas

Recommendation

Procedures should be put in place to compile a listing of approved suppliers and to obtain proforma invoices on relevant purchases as part of their accounting system, thereby improving the purchasing efficiency of the Project.

Management comments

The finding is sustained. Significant purchases for PROMEX (office furniture, equipment, vehicles etc) are done by USAID/Cape Verde and they have been subject to competitive bidding. However, Mission will assure that for purchases done by PROMEX, a system of approved suppliers for larger orders be put in place and competitive tendering observed.

3.2.2 Procurement Cycle: Lack of Budgetary control

Observation

We observed significant variances between actual and budgeted expenditures. In the case of the budget heading 'Professional Services' actual expenditures exceed budgeted by 218%. In two other instances budget was exceeded by over 100%.

We also understand that the Project prepares an annual budget within which it operates but this budget could not be reconciled to the budget as approved by the PILs.

Implication

From a regulatory position budget headings must not be exceeded by 15% without prior consent. However as liquidations were still being made it must be assumed that USAID had authorised such expenditure through their actions even though there was no documentary evidence to support this.

The budget as produced through the PILs is deemed to be the most efficient way of achieving the objectives of the Project. When this budgeted limit is breached it implies an inefficient use of the resources allocated to it and ineffective budgetary control as expenditures are allowed to exceed budget without any corrective action being taken.

Recommendation

The budget should be reviewed on a regular basis so as to ensure that the aims and objectives of the Project are being met with the most efficient use of available resources. Where this does not appear to be the case and expenditures begin to move significantly against budget headings then corrective action should be taken in the appropriate way, that is through the PILs.

Management comments

The finding is sustained. PROMEX has set-up a three-year business plan (1995-1997), with detailed budget items broken down by year. Additionally, PIL 15 describes PROMEX administrative, training and promotional visits expenses until PACD (June 30, 1996)

The two existing planning documents will facilitate periodic follow-ups on PROMEX's expenditures and the introduction of corrective actions when needed.

3.2.3 Disbursements Cycle: Segregation of duties within the Accounting and Cash Functions

Observation

The Director of Administration and Finance has many duties within the Accounting and Cash function. He is responsible for authorising invoices and cash transactions, drawing the check and is a signatory to the bank account and finally performs, without review, the bank reconciliation and updates the records on the computer. He is the only person that performs these tasks and is neither supervised nor overlooked. In effect he is in total control of the function and is able to process a whole transaction.

Furthermore, within the petty cash function there is no segregation of duties between the authorisation and payment. An updated printout of the petty cash position is not maintained and no evidence of cash counts performed so that checks can be made between the actual cash held and the expected holdings. Finally no imprest system exists so it is not possible to calculate what the total value of cash and vouchers should be, indicating a further lack of control.

Implication

The ability of one person to complete and process an entire transaction, reduces the level of control and checking as well as increasing the likelihood of error, irregularity and defalcation. There is a potential risk of the misappropriation of USAID funds through both false invoices and dummy suppliers and while matters remain unchanged the present accounting system can be considered ineffective in controlling funds.

Recommendation

Although we are aware that the accounting function is small we believe that the ability for one person to process a complete transaction should be stopped. The introduction of two different people responsible for delivery orders and check requisitions would improve the situation; however an additional person within the cash function, whether to overview the system or be overviewed would be considered prudent.

Management comments

The finding is sustained. A PROMEX based Accounting Assistant will be hired in May/June, 1995, to perform as a cashier and implement an efficient, double entry computerized accounting system to better track and report on expenditures. The Administrative and Finance Director will supervise and be involved in the process, which will be designed to better segregate the functions of cash transactions from other accounting approval and disbursement functions. This will reduce the likelihood of internal control weaknesses occurring.

3.2.4 Disbursements Cycle: Regularity of Bank Reconciliations

Observation

During the course of our audit we discovered that the bank reconciliations were not carried out in a timely and regular manner but rather when the time and information became available. At the time of our audit, in November 1994, no reconciliation had been performed on either account for the period end bank balance, indeed the most recent reconciliation was carried out for December 1993.

Implication

The bank reconciliation is the most fundamental internal control in any accounting system. Not only does it help to satisfy the entity as to the completeness of the cash receipts and payments but also of the integrity of the purchases and receipts cycle. If this is not carried out in a regular and timely manner errors may go undetected and it may facilitate the misappropriation of funds.

Recommendation

Arrangements should be made with the Banco Commercial de Atlantico to provide the Project with bank statements within two weeks of the period end, whether or not there have been movements on the account. Based on these documents an official of the Project should perform the bank reconciliation and this should be checked and reviewed by a senior official.

Management comments

This finding is sustained. USAID/Cape Verde will take the necessary steps to assure that bank reconciliation is done every month. It should be noted that the Mission has been experiencing some problems lately with the local commercial bank not being able to provide bank statements in a timely manner.

3.2.5 Inventory and Fixed Asset Control Cycle: Control over Fuel and Vehicle Usage

Observations

During our review of vehicle usage we made the following observations over fuel and vehicle controls;

- A log is kept in the utility vehicle (ST 74) and the details filled in but authorisation is neither provided for each trip nor is the log itself reviewed by an official of the Project.
- Although information is collected on vehicle usage, fuel used and cash paid there is no attempt to assess the reasonableness of the expenditure on fuel.

Implication

For each of the above observations the following risks arise;

- The non review of this utility vehicle may enable the driver or other person to use the vehicle for non PROMEX business, and hence misuse the vehicle.
- If no analysis is performed on the vehicle usage or fuel paid then this may facilitate misappropriation by, for instance, selling fuel purchased.

Recommendation

For all vehicles the following controls should be introduced.

- Each vehicle should have a log which must be filled in on every trip giving, distance, location, authorised passenger signature and nature of trip (i.e. business or private).
- At periodic intervals each log should be reviewed by an official of the Project to consider entries for reasonableness.
- An official of the Project should calculate kilometres/litre on each vehicle and compare it not only against previous periods but also against other vehicles. Significant variances should be explained by those responsible.

Management comments

The finding is sustained. Some control is performed on the usage of vehicles, and each one has a log. However, periodically, Mission will review the use of vehicles purchased under the EDS Project.

3.2.6 Inventory and Fixed Assets Control Cycle: Lack of physical verification of fixed assets

Observations

From the inception of the Project to the end of the audit period only one physical verification of fixed assets has been performed. Furthermore, the fixed assets register was last updated in December 1992 and is not maintained on the basis of new additions or disposals.

Implication

The directors of the Project have a duty to maintain and safeguard the assets of the Project. If the register is not updated on a regular basis or if the inventory of the fixed assets is not performed on a regular basis, then the directors run the risk of neglecting their duty, as assets - especially if they are desirable and portable - may go missing or be misappropriated if adequate control is not kept.

Recommendation

The Directors should implement a program to control and safeguard their fixed assets. This should include the updating on the computer of every asset purchased or disposed of and the reconciliation of that printout, at the end of each accounting period, with a physical verification.

Management comments

This finding is not sustained, since all fixed asset items have a special code designed by the Mission, and a special recommendation to PROMEX on the issue has been made.

Auditor comment

We presume that the actions specified were taken after the date of or audit and therefore at the time of our audit exercise the findings were sustained.

3.2.7 Recording and Reporting Cycle: Commingling of Donor Expenditures

Observation

Throughout the period under review we noted that the Project commingled the funds of USAID and the GOCV for expenditure on budget headings. Furthermore, in the accounting records no attempt was made to differentiate each source of expenditure between the two donors. This resulted in there being a year end creditor balance in the USAID accounts of CVE.2,473,290 (\$29,399) due to the GOCV.

Also during the period under review, payments were made on behalf of the GOCV out of the USAID account and vice versa. Failure to reconcile the two accounts resulted in a net balance of CVE 688,699 (\$8,261) being owed by the GOCV account to the USAID account. (see appendix 5.2).

Because no attempt was made to differentiate these expenditures no adequate audit trail existed such that although the budget headings had been expended it was not possible to discover what the purchase was for when it related to GOCV funds.

Implication

Although it is not against the regulations in a multi donor environment for the other donors funds to be used in the purchase of USAID assets, the lack of an audit trail meant that we were unable to validate the reasonableness or acceptability of those expenditures. Also, because of the nature of the system we were not able to satisfy ourselves as to the completeness of such expenditures.

Since it was not possible to vouch GOCV expenditures to supporting documentation we consider the balance of expenditures made by USAID of CVE 688,699 (US\$8,261) owing from the GOCV as unsupported.

Recommendation

In general the Project should only use the appropriate funds for the appropriate expenditure or risk the questioning of certain costs.

However, the Project should attempt to analyse separately the source of the expenditures from the two donors such that each one can be reported upon individually. Also the audit trail should be sufficient to allow for sight of the documentation of the GOCV for relevant expenditures.

Computer software exists which enables these records to be kept separately yet will allow for consolidation to allow the decision maker to view the Project as a whole, we would suggest the purchase of such software.

We recommend that USAID determine the recoverability of the amount of CVE 688,699 (US\$ 8,261). To the extent that this amount is not recoverable either in cash or set off, we recommend that USAID either obtain supporting documentation for the expenditures or recover this amount from the Project.

Management comments

PROMEX has deposited the questioned amount of CVE 688,699.00 into the USAID/PROMEX account number 165372-01-02-00 on August 11, 1995.

3.2.8 Recording and Reporting Cycle: Monthly Reports on the Liquidation of Advances

Observation

Project Implementation Letter 2 requires the Liquidations of Advances Report to be carried out on a monthly basis. This was seldom done. In at least 2 cases the delays in justifying advances were over 6 months.

Implication

The Project is in direct contravention of Project Implementation Letter 2 and risks severe cash flow problems if the reports are not filed on a timely basis.

Recommendation

The project should adhere to all liquidation regulations of the grant agreement.

Management comments

PROMEX has been requested to monthly submit to USAID/Cape Verde for further processing, the liquidation vouchers; however, the delays are due to the failure of the local bank in timely issuing bank statements for its customers, including PROMEX.

4. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS

4.1 *Independent auditor's report on compliance of PROMEX with applicable laws and regulations*

We have audited the Fund Accountability Statement representing the revenues and expenditures of PROMEX under the Export Development Services (EDS) Project (No: 655 - 0014) for the period September 1, 1990 to March 31, 1994 and have issued our report thereon dated August 16, 1995.

We conducted our audit in accordance with generally accepted auditing standards and United States Government Auditing Standards issued by the Comptroller General of the United States except that we did not have an external quality control review by an unaffiliated organisation as required by section 3.4.6 of the aforementioned statements. 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 Project is the responsibility of PROMEX Management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement we performed tests of PROMEX's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly we do not express such an opinion.

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

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

K. Paul Marston

Chartered Accountants
Banjul, The Gambia

Date:

16 August 1995

4.2 Findings

4.2.1 Payment of salaries out of USAID funds

Observation

In contravention of Project Implementation Letter 2, USAID funds of CVE.645,000 were used to pay salaries for PROMEX staff. This occurred on the December 1993 payroll.

Implication

The payment of salaries is the responsibility of the GOCV and as such is not permitted to come from USAID funds and as a result must be questioned.

Recommendation

The questioned salary cost of CVE 645,000 should be refunded immediately to USAID.

Management comments

PROMEX has deposited the questioned amount of CVE 645,000.00 into the USAID/PROMEX account number 165372-01-02-00 on May 5, 1995.

4.2.2 Tax paid on fuel

Observation

In our audit testing of purchases made by the Project we became aware of tax being paid on the purchase of fuel yet not refunded from the GOCV.

We understand that a sales tax of between US\$ 0.06 - 0.10 per litre as levied on the purchases of gasoline and US\$ 0.02 per litre on diesel during 1993/94. We have been unable to quantify the number of litres purchased by the Project during the period.

Total fuel purchases during the period were approximately CVE 427,484 (US\$ 5,590).

Implication

Under Section D.4, Annex II, to the Project Agreement and under Section 5I of PIL 2 any assistance provided under the agreement will be free from '...any taxation or fees imposed under the laws in effect in the territory ...'. As such the payment of duty and other taxes are not allowable under the agreement and must be questioned.

Recommendation

We recommend that USAID review the fuel purchases of the Project to determine the amount of tax paid on fuel purchases and obtain the refund at this amount from the GOCV.

Management comments

A letter dated May 25, 1995 was addressed to the Ministry of Economic Coordination (MEC) requesting the reimbursement of excise taxes paid on fuel; now, the MEC is in the process of quantifying and repaying the questioned amount.

Appendix 5.1

List of Creditors outstanding at period end March 31, 1994.

Account No.		Amount CVE
002	Papelaria Central	313,805
004	Cab Tur	Nil
005	Praia Tur	427,820
006	CTT - EP	480,246
007	Hotel Belo Horizonte	119,530
008	Aparthotel Avenida	5,900
009	Hotel Marisol	93,070
012	Various Suppliers	74,099
013	Sat. Electronica	Nil
014	Alfredo Veiga Ida	390,000
015	Hotel Porto Grande	6,600
016	Claudio Freitas	Nil
	Total creditors as at March 31, 1994	1,911,070

Appendix 5.2

Reconciliation of inter - account payments

Date	Vr no	Chq no	Details	CVE	CVE
USAID receipts on behalf of GOCV					
31.10.92	031	n/a	Received from China Rising Co.	1,303,810	
31.12.92	036	n/a	GOCV funds deposit	600,000	
					1,903,810
Less USAID payments on behalf of GOCV					
30.11.92	147	289428	Payment for China Rising Co	227,335	
21.12.92	035	n/a	USAID advance deposited directly into GOCV a/c	550,890	
31.1.93	002	289441	Transfer to GOCV account	1,076,585	
30.4.93	041	289447	Payment for China Rising Co	460,338	
31.8.93	081	46127	Payment for China Rising Co	250,000	
					(2,565,148)
			Difference		(27,361)
Net amount refundable to the USAID account				CVE	(688,699)

United States Government
MEMORANDUM

Date: Praia, May 9, 1995 Ref. 077/EDS.014/95
Reply to
Attn of: Steven K. Dosh, Acting USAID Representative 
Subject: Audit of USAID's Grant to the Government of Cape Verde Under the Export Development Services Project (655-0014), for the Period September 1, 1990 to March 31, 1994
To: Walter E. Shepherd, Acting RIG/A/Dakar

The Mission has reviewed the draft subject audit report of the Center for Investment and Export Promotion (PROMEX) under the Export Development Services Project. Our comments provided below are intended to address the findings and recommendations as you requested in your memorandum dated March 30, 1995.

This is the first accounting, financial, and administrative audit of PROMEX. It covered the period September 1, 1990 to March 31, 1994. According to the audit report, PROMEX received \$407,468 from USAID funds, while the financial audit performed covers \$421,764 of expenditures from the same source. KPMG Peat Marwick may wish to offer insights into the \$14,296 (\$421,764 - \$407,468) difference. The Mission assumes that this money came from GOCV funds; however some clarification would be helpful from the auditing firm.

I. RIG Recommendations.

1. Resolve the questioned costs of \$16,695, (\$8,261 unsupported) and recover those costs determined to be unallowable or unsupported).

USAID/Cape Verde offers the following comments on the questioned costs of \$16,695:

1.1. Unallowable Cost.

Comment: Ineligible cost of \$8,434 is not sustained. Per USAID/Cape Verde's request, PROMEX has already deposited CVE 645,000.00 (\$8,434) in the USAID/PROMEX's account number 165372010200 (see deposit stub attached). A bank statement will be submitted to RIG by the Mission during the second half of May.

1.2. Unsupported Cost.

Comment: Unsupported cost in the amount of \$8,261 (CVE 688,699) is sustained. There have been two separate export pre-finance operations in the total amount of CVE 718,338, made to INDUPESCA in the name of China Rising Co., accounted as debtors/prefinance; supporting documents are attached. USAID/Cape Verde will claim reimbursement of these funds from PROMEX.

2.1. Stop paying excise taxes on fuel purchased with USAID funds for PROMEX vehicles.

Comment: Not sustained. GOCV Law No. 65/IV/92 dated December 30, 1992 introduced the charging of excise tax on all oil products consumed by road transportation and states that: *"The purchase of fuel and lubricants is considered to be done in domestic market, and as such it is not duty/tax-free when imported"* (Provision I. 1). However, Section D.4, Annex II of the Project Agreement, combined with Section 5I of the Project Implementation Letter No 2 specifically states: *"Any assistance provided under the agreement will be free from any taxation or fees imposed under the laws in effect in the Grantee's territory."* The mission feels that the only way that PROMEX would be able to receive fuel and lubricants excise tax free is if, 1) they are authorized to import fuel products directly, or 2) as an organization, they are granted diplomatic, duty free status. The GOCV routinely pays excise tax on the fuel products they use for their own official government vehicles. Only cars belonging to diplomatic personnel and international organizations, with CD plates, are entitled to excise tax exemption (US\$ 0.01/l gas).

2.2. Ensure that the amount of tax paid on fuel to date is quantified and refunded to the project.

Comment: Not sustained. As noted previously, PROMEX uses regular business vehicle licensing procedures (i.e., they don't have CD plates) and is therefore not entitled to excise tax exemption. The Mission estimates that a total of \$400-\$458 was paid in excise tax during the auditing period. USAID/Cape Verde will ascertain the exact amount of excise tax paid on fuel, and will provide RIG with this information as soon as possible, no later than May 30, 1995.

31

II. KPMG Audit Findings and Recommendations.

3.2.1. Lack of Competitive Tendering.

Comment: The finding is sustained. Significant purchases for PROMEX (office furniture, equipment, vehicles, etc.) are done by USAID/Cape Verde and they have been subject to competitive bidding. However, Mission will assure that for purchases done by PROMEX, a system of approved suppliers for larger orders be put in place and competitive tendering observed.

3.2.2. Lack of Budgetary Control.

Comment: The finding is sustained. PROMEX has set-up a three-year business plan (1995-1997), with detailed budget items broken down by year. Additionally, PIL 15 describes PROMEX administrative, training, and promotional visits expenses until PACD (June 30, 1996).

The two existing planning documents will facilitate periodic follow-ups on PROMEX's expenditures and the introduction of corrective actions when needed.

3.2.3. Segregation of Duties within the Accounting and Cash Function.

Comment: The finding is sustained. A PROMEX based Accounting Assistant will be hired in May/June, 1995, to perform as a cashier and implement an efficient, double entry computerized accounting system to better track and report on expenditures. The Administrative and Finance Director will supervise and be involved in the process, which will be designed to better segregate the functions of cash transactions from other accounting approval and disbursement functions. This will reduce the likelihood of internal control weaknesses from occurring.

3.2.4. Regularity of Bank Reconciliation.

Comment: This finding is sustained. USAID/Cape Verde will take the necessary steps to assure that bank reconciliation is done every month. It should be noted that the Mission has been experiencing some problems lately with the local commercial bank not being able to provide bank statements in a timely manner.

3.2.5. Control Over Fuel and Vehicle Usage.

Comment: The finding is sustained. Some control is performed on the usage of vehicles, and each one has a log. However, periodically, Mission will review the use of vehicles purchased under the EDS Project.

3.2.6. Lack of Physical Verification of Fixed Assets.

Comment: This finding is not sustained, since all fixed asset items have a special code designed by the Mission, and a special recommendation to PROMEX on the

32

issue has been made.

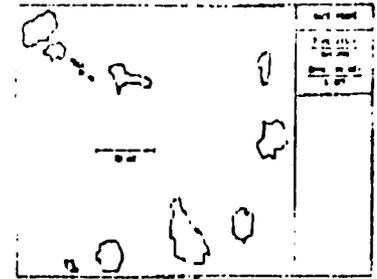
3.2.7. Monthly Reports on the Liquidation of Advances.

Comment: This finding is not sustained. There have been several cases of PROMEX delaying submitting liquidation advances to USAID. Necessary measures have been taken by the Mission to correct such events and prevent them from occurring in the future such as: (1) institution of a requirement to submit quarterly advance requests one month before the end of the current quarter; and (2) putting in place a requirement for PROMEX to submit monthly liquidation vouchers on the expenditures incurred. Mission would also kindly request RIG/A to contact the Financial Analyst and Project Accountant services sections at REDSO/WCA/WAAC to gain further insight into the many efforts USAID has made to assure that PROMEX liquidation of Advances Report submissions are completed on a monthly basis.

33

USAID/Cape Verde

tel (238) 615-616
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page 5 of 6

fax t r a n s m i t t a l

to: **Mr. P. C. Burrow, Banjul, The Gambia**

fax #: **220/22-81-40**

from: **Benvindo Rodrigues, EDS Project Administrator** *[Signature]*

Clearance: **Lawrence J. Abel, Acting USAID Representative to Cape Verde** *[Signature]*

date: **August 10, 1995**

re: **Re: Audit of USAID's Grant to the GOCV under EDS Project (655-0014), 09/01/90-03/01/94**

pages: **3, including this cover sheet**

Dear Mr. Burrow:

Replying to your fax dated July 7, 1995 on the above mentioned subject, USAID/Cape Verde is pleased to inform KFMG Peat Marwick the status of iraplementation of the requested four recommendations of the audit report:

1.1. Unallowable Cost

Please find attached a copy of May/95's bank statement reflecting the amount of CVE 645,000.00 credited to USAID/PROMEX account No 165372-01-02-00 as reimbursement for USAID's funds used.

34

2.1 and 2.2. Paying of Excise Taxes on Fuel Purchased with USAID's funds.

A letter dated May 25 was addressed to the Ministry of Economic Coordination (MEC) requesting the reimbursement of excise taxes paid on fuel; now, the MEC is in the process of quantifying and repaying questioned amount.

3.2.7. Co-Mingling of Donor Expenditures.

PROMEX has deposited the questioned amount of CVE 688,699.00 into the USAID/PROMEX account No 165372-01-02-00, and a bank statement and deposit slip will be sent as soon as they are available.

3.2.8. Monthly Reports on Liquidation of Advances.

PROMEX has been requested to monthly submit to USAID/Cape Verde for further processing, the liquidation vouchers; however, the delays are due to the failure of the local bank in timely issuing bank statements for its customers, including PROMEX.

Regards.

