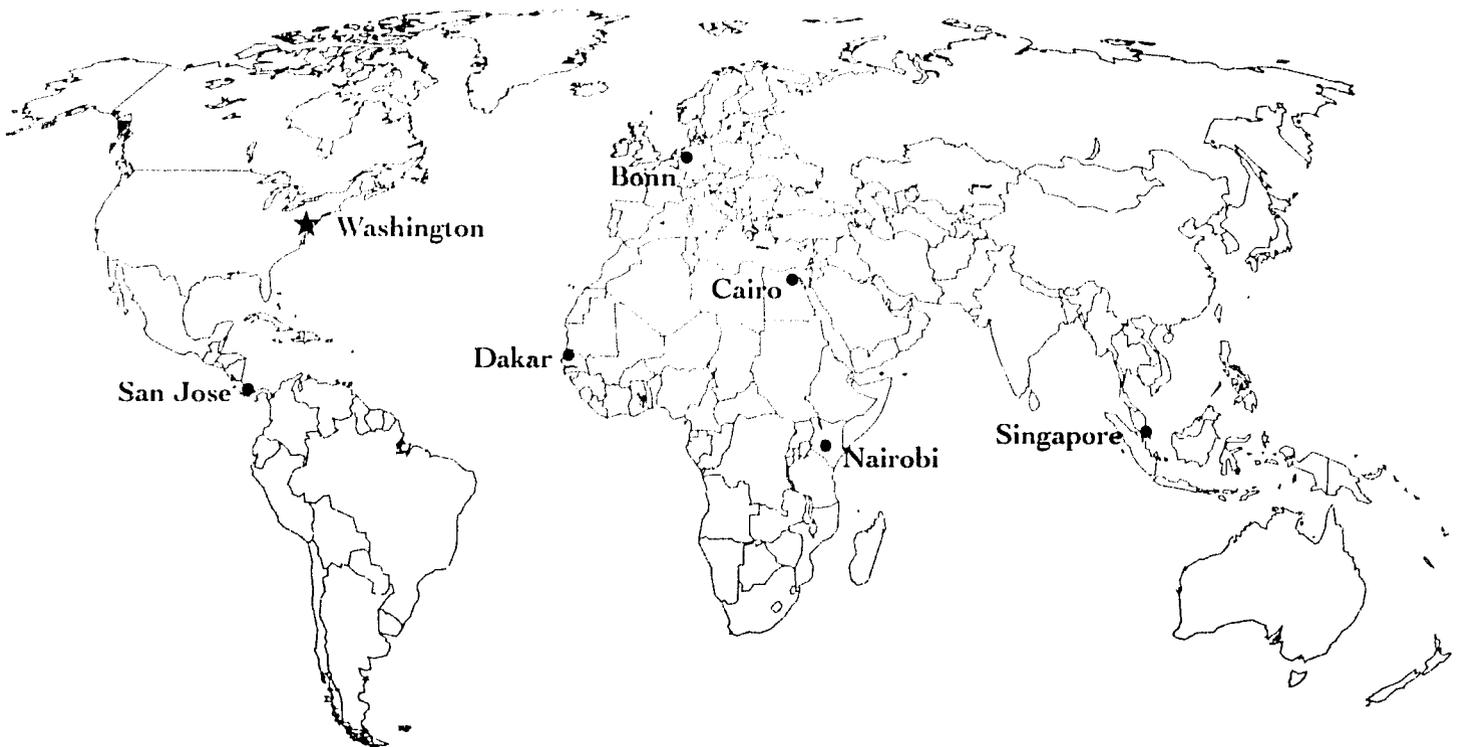


Regional Inspector General for Audit
Nairobi, Kenya

Audit of the Government of Kenya's
Directorate of Personnel Management Component
of the Kenya Human Resources Development
Assistance Project No. 698-0463.15

Report No. 3-615-96-002-N
November 20, 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.**



November 20, 1995

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR MISSION DIRECTOR, USAID/KENYA

FROM: RIG/A/Nairobi, Everette B. Orr

SUBJECT: Agency-contracted Audit of the Government of Kenya's Directorate of Personnel Management Component of the Kenya Human Resources Development Assistance Project No. 698-0463.15, Audit Report No. 3-615-96-002-N

*Regional
Inspector General
for Audit/Nairobi*

Attached are three copies of an Agency-contracted audit of the Government of Kenya's Directorate of Personnel Management (DPM) component of the Kenya Human Resources Development Assistance Project No. 698-0463.15 for the period July 13, 1988 to December 31, 1994. The non-Federal accounting firm of KPMG Peat Marwick, Nairobi, Kenya, performed the audit.

On July 13, 1988, USAID/Kenya signed a limited scope grant agreement with the Government of Kenya as part of its Human Resources Development Assistance (HRDA) Project No. 698-0463.15. The purpose of the project is to provide training to strengthen the Government of Kenya's ability to implement its development program and the Kenyan private sector's capacity to contribute to economic growth. The grant agreement has been amended to include funding of \$2,049,299 with a grant completion date of September 30, 1997. As of December 31, 1994, DPM had received from USAID/Kenya \$493,592 in reimbursements for training under the grant.

The objective of the audit was to examine DPM's Fund Accountability Statement (Statement) and express an opinion as to whether the Statement presents fairly the use of funds in accordance with the grant agreement. To answer the objective, the auditors were to review the auditee's internal control structure to determine the auditing procedures necessary for expressing an opinion on the Statement. The auditors were required to report on significant internal control deficiencies and material weaknesses. As part of obtaining reasonable assurance about whether the Statement was free of material misstatements, the auditors were required to test the auditee's compliance with the terms of the grant agreement and report any instances of material noncompliance. The audit covered grant expenditures of \$493,592 for the audited time period.

The auditors issued a qualified opinion on DPM's Fund Accountability Statement since the audit identified \$72,682 in questioned unsupported costs. In addition, the audit report disclosed a material weakness involving DPM's internal controls. There were no material instances of non-compliance.

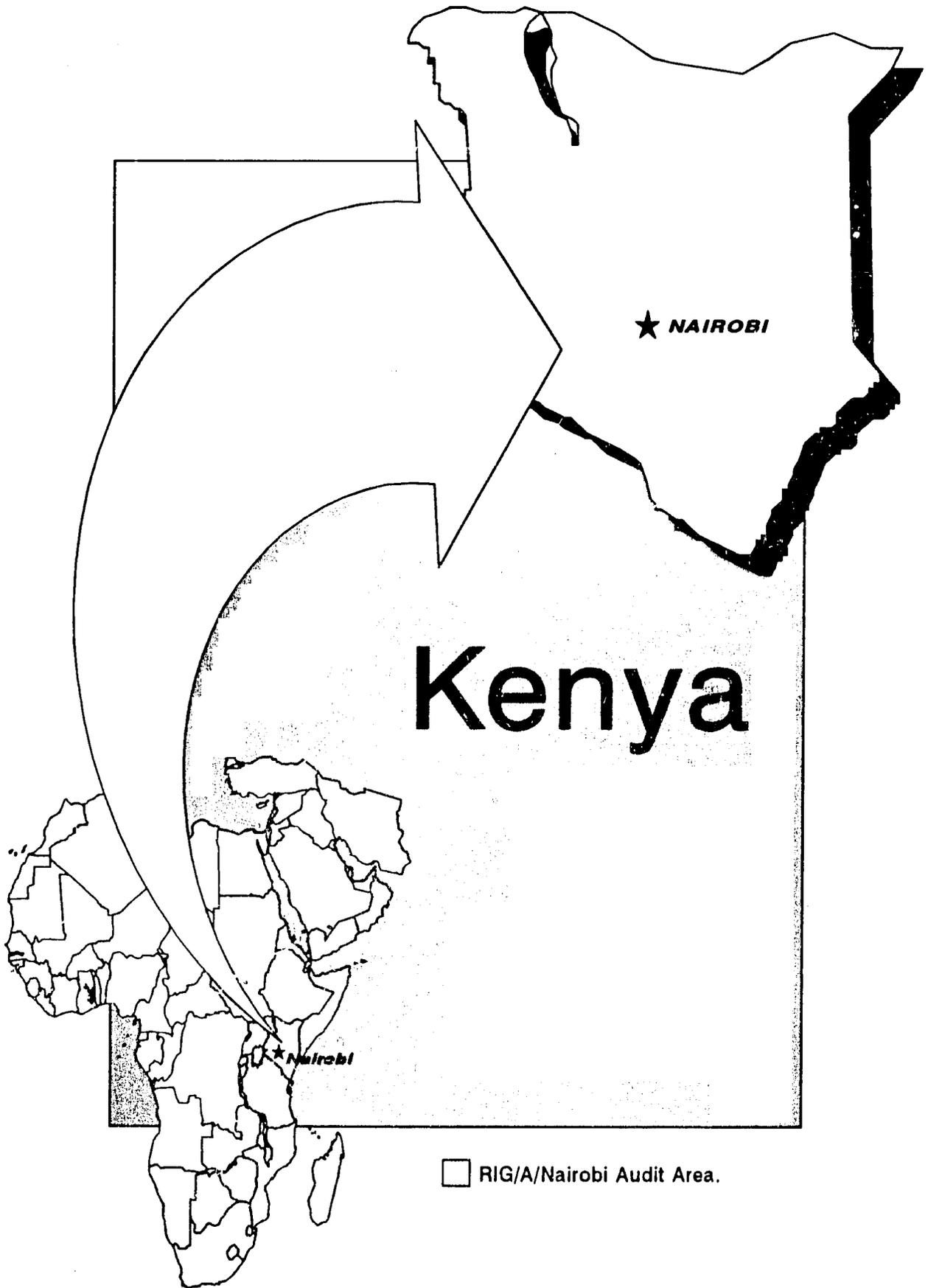
The report contains three recommendations concerning the questioned costs, internal control weaknesses, and compliance issues. It is USAID/Kenya responsibility to ensure appropriate action is taken on all the recommendations. We are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1: We recommend USAID/Kenya determine the allowability and recover, as appropriate, questioned unsupported costs of \$72,682.

We consider the recommendations to be unresolved. The recommendation will be resolved when USAID/Kenya makes a final determination as to the allowability of the questioned costs and will be closed when USAID/Kenya takes action appropriate to the determination. Please respond to this report within 30 days indicating action planned or taken to implement the recommendations.

Thank you for the cooperation extended to KPMG Peat Marwick auditors and the Regional Inspector General for Audit representative during the audit.

Attachments: a/s



★ **NAIROBI**

Kenya

★ **Nairobi**

□ RIG/A/Nairobi Audit Area.

Audit of the Government of Kenya's
Directorate of Personnel Management Component
of the Kenya Human Resources Development Assistance
Project No. 698-0463.15

A.R. No. 3-615-96-002-N

ATTACHMENTS

Agency-contracted audit of the
Government of Kenya's
Directorate of Personnel
Management component of
the Kenya human resources
development assistance
project no 698-0463.15

KPMG Peat Marwick
2 July 1995
This report contains 18 pages
Ref U/20/01/smw/lao

Table of contents

1	Introduction	3
1.1	Background	3
1.2	Audit objectives	3-4
1.3	Audit scope	4-5
1.4	Restrictions on audit scope	5
1.5	Audit methodology	5
1.6	Summary of audit results	6
1.7	Summary of recommendations	6
1.8	Summary of DPM comments	6-7
1.9	Summary of USAID/Kenya management comments	7
2.	Independent auditor's report on the fund accountability statement	8
2.1	The fund accountability statement	9
2.2	Questioned costs	10-11
3.	Independent auditor's report on the internal control structure	12-13
3.1	Introduction	14
3.2	Findings	14-15
4.	Independent auditors report on DPM's compliance with the grant agreement	16
4.1	Findings	17-18
Appendices		
I	Management comments: DPM	
II	Management comments: USAID/Kenya	

1 Introduction

1.1 Background

On 13 July 1988, USAID/Kenya signed a limited scope grant agreement with the Government of Kenya as part of its Human Resources Development Assistance (HRDA) Project No.698-0463.15. The purpose of the project is to provide training to strengthen the Government of Kenya's ability to implement its development program and the Kenyan private sector's capacity to contribute to economic growth. The grant agreement has been amended to include funding of US\$2,049,299 with a grant completion date of 30 September 1997. The implementation of this project under the grant agreement is carried out by the Directorate of Personnel Management (DPM) of the Office of the President. Some of the grant funding has been paid directly to various NGOs and other organizations with DPM's involvement limited to a consultative role or to acquiescence in the training activity coordinated with these entities. This audit will be limited to funds actually disbursed by and reimbursed to DPM for project activities. As at 31 December 1994, DPM had received approximately US\$493,000 in reimbursements for training under the grant agreement. Grant funding directly provided to other organizations - such as the Federation of Kenya Employers - will be covered by separate audits of those organizations.

Training funded through DPM includes technical training programs in Kenya and third countries (including the US), as well as seminars, workshops and special courses in Kenya. Most of the training is of short duration and conducted by or in conjunction with local organisations. All funding is on a reimbursable basis. Separate vouchers are submitted for each training activity and detailed proposals for all training activities (with a budget) are pre-approved by USAID/Kenya for inclusion as project activities.

In addition to the direct USAID funding discussed above, DPM has received USAID-generated counterpart funds of KShs.8.5 million for project purposes. This audit will include coverage of these funds to ensure they were actually used in support of the project as mutually agreed upon with USAID as a compliance item.

1.2 Audit objectives

KPMG Peat Marwick was contracted, under its Indefinite Quantity Contract (No.623-000-1-00-2005-00), to perform an agency-contracted audit of the DPM component of the Kenya Human Resources Development Assistance Project No.698-0463.15 in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing standards" (1988 Revision). The principal objective was to determine whether disbursements by the auditee are adequately supported in accordance with the provisions of the grant and are allowable, allocable and reasonable.

With respect to the costs claimed, the objectives of the engagement were to:

- audit DPM's fund accountability statement and express an opinion as to whether the fund accountability statement presents fairly, in all material respects and in conformity with the basis of accounting described in the report, the use of funds in accordance with the grant agreement;
- consider DPM's internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement and to report on significant internal control deficiencies and material weaknesses; and
- test DPM's compliance with the terms of the grant agreement, as part of obtaining reasonable assurance about whether the Fund Accountability statement is free from material misstatement, and report on any identified material instances of non-compliance.

In addition, KPMG Peat Marwick was requested to perform the following work:

- determine, as a compliance item, that required host country contributions have been made;
- determine whether USAID-generated counterpart funds provided to the project were used in support of the project as mutually agreed upon by USAID/Kenya and DPM;
- determine whether DPM maintains log books to show that counterpart fund financed vehicles are used for approved project activities and objectives.

1.3 Audit scope

The scope of our audit is set out below.

(a) **Audit report on the fund accountability statement**

Our audit report covers costs claimed by DPM under the grant. Direct reimbursement by USAID/Kenya to third party contractors are excluded from the scope of this audit. Total amounts claimed by DPM from USAID/Kenya amounted to US\$493,592 of which KPMG Peat Marwick has tested US\$383,494 (78%).

(b) **Audit report on the internal control structure**

The audit reviewed the internal control structure relevant to the recording of receipts and disbursements by DPM under the grant.

(c) **Audit report on DPM's compliance with the grant**

The audit report covers only DPM's compliance in respect of the fund accountability statement under the grant.

1.4 Restrictions on audit scope

Within the parameters stated below, there were no restrictions on our audit scope with the exception that we have not complied with Government Auditing Standard 3.46 regarding external quality control review. We do not however believe that this scope limitation had an adverse effect on our audit.

1.5 Audit methodology

KPMG Peat Marwick conducted an initial survey of DPM's accounting records from 2 February 1995 to 14 February 1995, at which time the selection of transactions for detailed testing was completed. KPMG Peat Marwick subsequently prepared its audit work program for approval by RIG/A/N, secured approval and performed the field work from 21 February 1995 to 2 July 1995.

The principal audit steps performed included:

- a review of the terms and conditions of the grant, applicable standard provisions and regulations and other project documents as deemed necessary;
- a review of DPM's internal control structure in order to assess DPM's significant internal control policies and procedures, and the adequacy of DPM's accounting system and internal controls;
- performance of detailed compliance procedures to evaluate DPM's compliance with the grant;
- performance of audit procedures to obtain reasonable assurance of detecting errors, irregularities and illegal acts, as defined by AICPA Statements of Auditing Standards 53 and 54;
- testing of receipt and disbursement transactions from the Fund Accountability Statement to determine the extent of non-compliance, unallowable or unallocable expenses and the effectiveness of internal controls;
- evaluation of DPM's systems to ensure that counterpart funds are received and used for mutually agreed project activities.

1.6 Summary of audit results

1.6.1 *Audit report on the fund accountability statement*

Our audit report on the fund accountability statement is set out in section 2. Our audit report states that the Statement is fairly stated with the exception of questioned costs of US\$72,682.

1.6.2 *Review of DPM's internal control structure*

Our review of DPM's internal control structure is set out in section 3. Our report notes one material weakness relating to the filing of original payment vouchers.

1.6.3 *Review of compliance with the grant*

Our review of DPM's compliance with the grant is set out in section 4. Our report indicates that DPM complied, in all material respects, with the provisions referred to above.

1.7 Summary of recommendations

A summary of our recommendations is set out below.

	Recommendation No.	Page No.
USAID Kenya to resolve questioned unsupported costs of US\$72,682 (KShs.1,902,544)	1	11
DPM to design adequate systems for filing supporting expenditure documents	2	15
DPM to perform exercise to calculate value of host country contributions	3	17

1.8 Summary of DPM comments

DPM's management comments are included in Appendix I to this report. DPM management advise as follows:

- 1 Our recommendation no 2 concerning filing systems is being implemented by the segregation of USAID/Kenya payment vouchers. In addition, DPM is requesting additional accommodation and filing space to store USAID/Kenya payment vouchers.

2 DPM does not have figures at hand to support host country contributions, as noted in our recommendation no 3. DPM note that they incur the following costs as host country contributions:

- salaries to participants/students while attending seminars/courses.
- incountry transportation costs
- international transport costs.

DPM advise that they are reviewing the modalities to enable them to calculate the Government of Kenya contributions on the basis of the above.

3 DPM management advise that they have now located a number of supporting documents for expenditures classified as unsupported in our recommendation no 3.

1.9 Summary of USAID/Kenya management comments

USAID/Kenya's management comments are included in Appendix II to this report. USAID/Kenya concur with our recommendation nos 2 and 3. USAID/Kenya advise that of the questioned costs of KShs.1,902,544, KShs.1,055,882 was reimbursed directly to third parties by USAID/Kenya on behalf of DPM, and accordingly, the expenditures of KShs.1,055,882 should be allowed.

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2. Independent auditor's report on the fund accountability statement

We have audited the fund accountability statement of DPM under KHRDA project no 698-0463.15 for the period 13 July 1988 to 31 December 1994. This financial statement is the responsibility of DPM. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States with the exception that we did not comply with Government Auditing Standard Section 3.46 regarding external quality control review. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also assesses the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The fund accountability statement was prepared on a cash receipts and payments basis which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement of the DPM under KHRDA project No. 698-0463.15 for the period 13 July 1988 to 31 December 1994 is fairly stated on the above accounting basis with the exception of questioned costs of US\$72,682. Details of the questioned costs are set out in section 2.2 of this report.

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. This report is intended solely for the information of DPM and the Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date:

2 July 1995

2.1 Fund accountability statement

	Note	US\$	KShs
Revenues	2		
Expenditure claims reimbursed by USAID/Kenya		493,592	15,800,330
Expenditures	3		
Training expenses		<u>493,592</u>	<u>15,800,330</u>
Unexpended funds	4	<u>-</u>	<u>-</u>

2.1.1 Notes to the statement

1. Basis of accounting

The fund accountability statement is prepared on a cash receipts and payments basis. As noted in notes 2 and 3 below, revenues and expenditures are recorded when cash is physically received or expended.

2. Revenues

Revenues represent amounts reimbursed directly by USAID/Kenya to DPM. They exclude grants from other donors, and other sources of income.

3. Expenditures

Expenditures represent payments made by DPM for costs incurred under the grant.

4. Unexpended funds

As USAID/Kenya funds DPM on a reimbursement claim basis, there are no unexpended funds.

2.2 Questioned costs

	Total costs claimed	Costs Recommended for Acceptance	Questioned Ineligible Costs	Costs Unsupported Costs	Reference
	US\$	US\$	US\$	US\$	
Training expenses	493,592	420,910		72,682	2.3

Expenditures

Expenditures represent payments for training activities under the grant.

Verification

For a sample of payments by DPM reimbursed by USAID/Kenya under the grant, we performed the following work:

- ensured that the payment was authorized;
- ensured that the payment was adequately supported by originating third party documentation;
- ensured that the payment was for purposes relevant to the grant and was allowable, allocable and reasonable.

Results

1. Total questioned unsupported costs amounted to US\$72,682 (KShs.1,902,544) representing reimbursement claims submitted to USAID/Kenya for which we have been unable to obtain original supporting third party documents. An analysis of this amount is as follows:

USAID Voucher Number	Note	Date Submitted	US\$	KShs
615893379	1	24/5/89	11,121	227,315
615893378	1	24/5/89	21,162	432,544
615900635	1	27/12/89	8,413	181,390
615902649	1	9/8/90	9,332	214,633
615911341	2	27/3/91	3,511	91,847
615911342	2	27/3/91	1,384	36,200
615911340	2	27/3/91	2,849	74,535
26150726	2	8/1/92	1,979	55,423
46151604	1	28/4/94	6,350	398,462
26150257	1	14/11/91	<u>6,581</u>	<u>190,195</u>
			<u>72,682</u>	<u>1,902,544</u>

Notes:

1. Whilst we have not sighted original third party supporting documents for the above, we have sighted photocopies of the supporting documents which were submitted to USAID/Kenya together with the reimbursement claims.
2. As with note 1, except that original third party supporting vouchers for part of these reimbursement claims have been sighted. The amount disclosed is the unsupported element.

Recommendation no 1

We recommend that USAID/Kenya should request DPM to provide supporting documentation for unsupported expenditures of US\$72,682 (KShs.1,902,544). If DPM is unable to provide adequate supporting third party documentation, USAID/Kenya should request DPM to reimburse the unsupported expenditures.

DPM management comments

DPM management advise that they have located a number of documents to support the expenditures noted above.

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3. Independent auditor's report on the internal control structure

We have audited the fund accountability statement of the DPM component of the Kenya human resources development assistance project no 698-0463.15 for the period 13 July 1988 to 31 December 1994 and have issued our report thereon dated 2 July 1995.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

In planning and performing our audit of the financial statement of the KHRDA project we considered the DPM's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

The DPM is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- controls over disbursements.
- controls over preparation of reimbursement claims.
- controls over cash management.
- controls over recording and safekeeping of assets purchased under the grant.

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 operation, and we assessed control risk.

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

A description of the reportable condition is set out on page 12 immediately following this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements 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. In our opinion, the reportable condition noted on page 12 is a material weakness.

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. This report is intended solely for the information of DPM and the US Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: *2 July 1995*

3.1 Introduction

3.1.1 *Definition*

American Institute of Certified Public Accountants (AICPA) Codification of Auditing Standards, section 319, defines an organization's internal control structure as consisting of the policies and procedures established to provide reasonable assurance that a specific entity's objectives will be achieved. The internal control structure is composed of three elements:

- the control environment;
- the accounting system;
- control procedures.

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

We have classified the internal control structure of DPM on a functional basis, relating to the administration of the grant as follows:-

- controls over disbursements;
- controls over preparation of reimbursement claims;
- controls over cash management;
- controls over recording and safekeeping of assets purchased under the grant.

3.2 Findings

3.2.1 *Filing of expenditure documents*

Observation

As noted in section 2.3, DPM were unable to locate a number of original payment vouchers supporting expenditures reimbursed by USAID/Kenya. In general, the filing systems at DPM were poor, particularly for older documents which had been archived.

Recommendation no 2

We recommend that all original payment vouchers are retained in DPM's accounts department. Payment vouchers should be filed together with a copy of the reimbursement claim form submitted to USAID/Kenya.

DPM management comments

DPM management advise that the accounting unit has decided to segregate paid vouchers in respect of expenditures sponsored by USAID/Kenya from others and these will be stored separately to enable easy access to these documents when the need arises. In addition, DPM management advise that they are acquiring additional accommodation and filing space for storing USAID/Kenya payment vouchers.

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4. Independent auditor's report on DPM's compliance with the grant agreement

We have audited the fund accountability statement of the DPM component of the Kenya human resources development assistance project no 698-0463.15 for the period 13 July 1988 to 31 December 1994 and have issued our report thereon dated 2 July 1995.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

Compliance with the grant is the responsibility of DPM. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of DPM's compliance with certain provisions of the grant. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

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. This report is intended solely for the information of DPM and the US Agency for International Development but this is not intended to limit the distribution of the report, if a matter of public record.

Peat Marwick

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

Date: 2 July 1995

4.1 Findings

4.1.1 *Host country contributions*

Section 5 of the seventh amendment to the grant agreement requires that the Government of Kenya provides host country contributions of US\$816,433 to the project. The host country contribution can be in the form of:

- maintenance of the participants salary and advances while he/she is in training;
- in-country transportation;
- international travel costs.

We are satisfied that the Government of Kenya has made substantial contributions towards the above. However, we have been unable to obtain calculations to support a figure for the level of host country contributions, and accordingly we are unable to determine whether the Government of Kenya has complied with the host country contribution requirements of the grant.

Recommendation no 3

We recommend that the DPM performs a detailed exercise to identify all host country contributions (cash or in kind) to the project. The calculations should be presented to USAID/Kenya to determine whether the grant has been complied with.

DPM management comments

DPM management advise that DPM is looking into the modalities which will enable them to calculate Government of Kenya contributions to the project. DPM management advise that the exercise to calculate host country contributions will be time consuming.

4.1.2 *Counterpart funds*

USAID/Kenya requested KPMG Kenya to confirm that counterpart funds of KShs.8.5 million programmed for the project through the Government of Kenya have been used for project purposes.

We have performed the following work on counterpart funds:-

- Obtained copies of agreements between the DPM and USAID/Kenya budgeting the use of counterpart funds.
- Confirmed the receipt of counterpart funds by DPM.
- Reviewed accounting records to ensure that counterpart funds have been used as agreed between the DPM and USAID/Kenya.

Results

1 In general, the agreements between USAID/Kenya and DPM programmed the counterpart funds to be used as follows:-

- Office and workshop support equipment.
- Training costs.

We have reviewed a sample of payment vouchers extracted from counterpart fund records and confirmed that counterpart funds have been used for purposes as agreed between USAID/Kenya and DPM.

2 We have confirmed the receipt of counterpart funds to DPM accounting records.

Accordingly, we consider that counterpart funds have been used in accordance with agreements between USAID/Kenya and DPM.

4.1.3 Project vehicles

USAID/Kenya requested that KPMG Peat Marwick identifies all vehicles purchased with counterpart funds, and determines whether these vehicles are used for approved project activities and objectives.

Two vehicles have been purchased using counterpart funds, registration nos. GKU 168 and GKP 492. Log books for the vehicles have been sighted. The DPM maintains a file of work tickets for each vehicle which indicates that they are utilised for DPM activities under the grant. No exceptions were noted.

Appendices

- **Appendix I: Management comments: DPM**
- **Appendix II :Management comments: USAID/Kenya**

Appendix I: Management comments: DPM

OFFICE OF THE PRESIDENT

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DIRECTORATE OF PERSONNEL
 MANAGEMENT
 P.O. Box 30050
 NAIROBI
 22nd August 95
, 19.....

When replying please quote
 DPM/FIN 2/II Vol.VIII(35)
 Ref. No.
 and date

The KPMG Peat Marwick,
 Jubilee Insurance Exchange,
 (Certified Public Accountants)
 P.O. Box 40612,
 NAIROBI.

Dear Sir,

USAID/KENYA CONTRACTED AUDIT OF THE DIRECTORATE OF PERSONNEL
 MANAGEMENT

Your letter reference No.U/20/01/SMW/S 16 dated 25th July 1995 refers.

I am in receipt of your above audit report and in response to your above referenced letter, I have the following comments to make, on three issues raised in your report.

UNSUPPORTED PAYMENTS: (PAGE 8)

In reference to page 8 of your draft audit report, an amount of US \$72,682 or Ksh. 1,902,544.00 are deemed to constitute unsupported payments. During the first audit you conducted, we were unable to produce all paid vouchers to support the above expenditure. However after going through copies of USAID vouchers and our records, we have been able to come out with the following findings:-

	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
1.	61593379	24/5/89	11121	227,315-85
2.	61593378	24/5/89	21162	<u>432,544-30</u> 659,860-15

The amount was paid direct to Kenya Institute of Management (KIM) P.O. Box 43706 Nairobi. Therefore DPM was not reimbursed the amount in question.

	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
3.	615900635	27/12/89	8413	181,389-75
4.	61502649	9/8/90	9332	<u>214,633.15</u>
				396,022-90

The above amount was paid direct to the Permanent Secretary Ministry of Co-operative Development, P.O. Box 30547 Nairobi. Consequently DPM was not reimbursed this amount.

5.	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
	61511341	27/3/91	3511	91,847-00

The total amount claimed and reimbursed by USAID/KENYA is Kshs.180,047-10. This amount comprises of an expenditure supported as follows:-

	<u>DPM VOUCHER</u>	<u>DATED SUBMITTED</u>	<u>KSHS.</u>
	1181	9/11/90	50,000-00
	1187	9/11/90	20,000-00
	1408	5/12/90	8,500-00
	1409	5/12/90	61,550-00
	1410	5/12/90	13,571-20
	1436	11/12/90	7,020-90
	1437	11/12/90	<u>31,250-00</u>
			191,892-10

The above payment vouchers are now available.

6.	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
	61511342	23/9/91	1384	36,200-00

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26

The total amount reimbursed by USAID/KENYA is Kshs.256,158.00 and is supported as follows:-

<u>DPM VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>KSHS.</u>
0355	23/11/90	50,000-00
1150	2/11/90	600-00
1461	11/12/90	184,225-00
1462	11/12/90	<u>35,733-00</u>
		270,558-00

The above payment voucher are now available.

	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
7.	61511340	27/3/91	2849	74,535.00

The total amount reimbursed by USAID/KENYA is Kshs.201,336.55 and accounted for as follows:-

<u>DPM VOUCHER</u>	<u>DATE PAID</u>	<u>AMOUNT KSHS.</u>
1046	19/10/90	50,000-00
1047	19/10/90	20,000-00
1222	14/11/90	56,600-00
1223	14/11/90	4,830-55
1224	14/11/90	4,733-00
1329	13/12/90	15,122-30
1339	13/12/90	<u>36,250-00</u>
		187,535-85

Documents supporting expenditure amounting to Kshs.13,800-70 are still missing and effort is being made to avail the documents in question i.e. (Kshs.201,336.55 - 187,535-85 = Kshs.13,800.70), otherwise, the above payment vouchers are now available.

	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
8.	26150726	8/1/92	1979	55,423-00

The total amount reimbursed by USAID/KENYA is Kshs.204,321-10 and was accounted for as follows:

<u>DPM VOUCHER</u>	<u>DATE PAID</u>	<u>AMOUNT KSHS.</u>
0591	7/8/90	50,000-00
1089	31/10/90	17,316-05
1147	20/12/90	6,262-00
1211	12/11/90	1,200-00
1212	9/11/90	2,500-00
1213	22/11/90	500-00
1214	12/11/90	1,000-00
1215	15/11/90	600-00
1507	18/12/90	600-00
2375	26/4/91	81,200-00
2376	26/4/91	23,063-00
2879	3/6/91	9,831-10
3070	27/6/91	<u>4,987-50</u>
		199,059-65

Effort is being made to avail to you paid vouchers amounting Kshs.5,261.45 i.e. (Kshs.204,321-10 less 199,059.65) to support expenditure on the missing documents, otherwise the above listed vouchers are now available.

	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
9.	26150257	14/11/91	6581	190,195-00

The total amount reimbursed by USAID/KENYA is Kshs.190,195.35 and is supported as follows:-

<u>DPM VOUCHER</u>	<u>DATE PAID</u>	<u>AMOUNT KSHS.</u>
2903	6/6/91	60,000-00
2906	11/6/91	3,200-00
3503	13/6/90	<u>104,700-00</u>
		167,900-00

Documents supporting expenditure amounting to Kshs.22,295-35 being the difference between USAID/KENYA reimbursement and the available paid vouchers indicated the above are still missing and effort is being made to avail them to you for audit purpose, otherwise the above listed are now available.

	<u>USAID VOUCHER</u>	<u>DATE SUBMITTED</u>	<u>US \$</u>	<u>KSHS.</u>
10.	46151604	28/4/94	6350	398462-50

The payment voucher supporting the above expenditure has not been traced by the time I am writing this letter. We have got hundreds of thousands of payment vouchers in store and I suspect this payment might have been misfiled. However effort is being made to see to it that we avail this payment voucher, to you.

I also suggest that you use other available records like the ledger and paid cheque in order to authenticate this expenditure. This expenditure was actually incurred and paid for vide DPM payment voucher No.0746 of 28th October 1993 and supported by Invoice No.0813 of 27th October 1993 of which we have photocopies.

I am therefore requesting you to arrange and come to verify the available paid vouchers as listed above (items 5 to 9 and also 10 if only you agree to my suggestion above).

Please note that most of these vouchers are supported by photocopies of invoices from third parties because at that time, original documents from third parties were being passed over to USAID/KENYA to support our claims. Of late, this method has been reversed and DPM is now the one in custody of these original documents to support our payment vouchers.

DPM is going to strengthen this area of operation to ensure that USAID/KENYA sponsored expenditure is supported by original documents from third parties.

FILING SYSTEM (PAGE 12 REFERS)

The trend has been that all payment vouchers in DPM are filed and stored in one central place. These documents date back as far as 1987. These documents are so many and mixed up with the USAID/KENYA sponsored payments. This mix up has been our undoing in identifying USAID sponsored payments.

This accounting unit has therefore decided to segregate paid vouchers in respect of expenditure sponsored under USAID/KENYA from others and these will be stored separately to enable easy accessibility to these documents when need arises. By the time we acquire floor accommodation and filing cabinets to store USAID payment vouchers, the filing system will have improved greatly. We have embarked on this improvement immediately. Copies of DPM payment vouchers will be filed together with copies of reimbursement claims submitted to USAID/KENYA. Registers suitably analysed have been introduced to record USAID/KENYA transactions and will conveniently serve as reference records.

HOST COUNTRY CONTRIBUTIONS (PAGE 14 REFERS)

The Government of Kenya Caters for the following expenses when participants/students attend USAID/KENYA sponsored seminars/courses/workshops.

- pays salaries to participants/students while attending seminars/courses.
- meets incountry transport costs for participants/students.
- meets international transport costs.

At the moment, we do not have ready figures to support the Government's contributions. However, we are looking for modalities which will enable us to be calculating the Kenya Governments contributions in a form stated above.

As for the past seminars/courses conducted, it will not be easy for DPM to give you realistic figures of GOK's contribution since we do not have ready records from which to extract the required information. Participants come from various ministries, departments and organisations who meet almost the above mentioned costs i.e. salaries and transport costs and for seminars which take a duration of as fewer as 7 days (a week), it will be tedious computing salaries etc. paid to each participants earning varying salaries.

This Directorate is also requesting you to give us your expertise advice on how to go about this complicated situation.

Inspite of the above difficulties; given time we shall be able to give an estimate of GOK's contributions for past seminars.

Yours faithfully,



(F.G. Mwobobia)

for: PERMANENT SECRETARY/DIRECTOR

C.C. USAID

- Appendix II :Management comments:
USAID/Kenya



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

UNITED STATES POSTAL ADDRESS

US AID MISSION TO KENYA
UNIT 64102
APO AE 09831 - 4102

INTERNATIONAL POSTAL ADDRESS

POST OFFICE BOX 30261
NAIROBI, KENYA
TEL: 254-2-331160
FAX: 254-2-337305

August 11, 1995

Messrs Peat Marwick
Certified Public Accountants
Jubilee Insurance Exchange
Mama Ngina Street
P.O. Box 40612
Nairobi-Kenya

Dear Sirs:

**Subject: Agency - Contracted Audit of the Government of Kenya's
Directorate of Personnel Management, Human Resources
Development Assistance Project No. 698-0463.15**

The following is our response to your draft audit report recommendations:

Recommendation No.1: We recommend that USAID/Kenya should request Directorate of Personnel Management (DPM) to provide supporting documentation for unsupported expenditures of U.S. \$72,682 (KSh. 1,902,544). If the Directorate of Personnel Management is unable to provide adequate supporting third party documentation, USAID/Kenya should request DPM to reimburse the unsupported expenditures.

Response: USAID/Kenya has reviewed the questioned unsupported costs of KSh. 1,902,544 and established that the questioned expenditures were reimbursed as follows:

1. Amounts paid to third parties on behalf of the Directorate of Personnel Management:

<u>Voucher Number</u>	<u>Amount</u> KSh.	<u>Payee</u>
615893379	227,315	Kenya Institute of Management
615893378	432,544	
615900635	181,390	Ministry of Co-Op Development
61502649	<u>214,633</u>	
TOTAL	<u>1,055,882</u>	

Since these amounts were paid directly to third parties by USAID/Kenya, we request that KSh.1,055,882 be allowed.

- 29'

2. Amounts reimbursed directly to the Directorate of Personnel Management:

<u>Voucher Number</u>	<u>Amount</u> KSh.
61511341	91,847
61511342	36,200
61511340	74,535
26150726	55,423
46151604	398,462
26150257	<u>190,195</u>
TOTAL	<u>846,662</u>

For these amounts, DPM should have supporting documents. USAID/Kenya accordingly concurs with your recommendation for the questioned costs of KSh. 846,665.

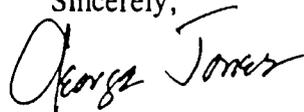
Recommendation No. 2: We recommend that all original payment vouchers are retained in Directorate of Personnel Management's accounts department. Payment vouchers should be filed together with a copy of the reimbursement claim form submitted to USAID/Kenya.

Response: USAID/Kenya concurs.

Recommendation No. 3: We recommend that DPM performs a detailed exercise to identify all host country contributions (cash or in kind) to the project. The calculations should be presented to USAID/Kenya to determine whether the grant has been complied with.

Response: USAID/Kenya concurs.

Sincerely,



George Jones
Director
USAID/Kenya