

PD-ABC-236

NON-FEDERAL AUDIT OF
THE SOUTH COAST AGRICULTURAL
DEVELOPMENT PROJECT IN GUINEA BISSAU
PROJECT NO. 657-0010

Audit Report No. 7-657-91-03-N
December 21, 1990

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

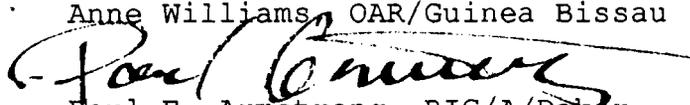
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AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

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C/o AMERICAN EMBASSY
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WEST AFRICA

December 21, 1990

Memorandum

To: Anne Williams, OAR/Guinea Bissau

From: 
Paul E. Armstrong, RIG/A/Dakar

Subject: Non-Federal Audit of the South Coast Agricultural
Development Project in Guinea Bissau, Audit
Report No. 7-657-91-03-N

Attached is the subject audit report prepared by KPMG Peat Marwick Mitchell & Co., Banjul, The Gambia. The audit was performed at the request of the Office of the A.I.D. Representative in Guinea Bissau.

On August 29, 1983, USAID and the Government of Guinea Bissau signed a grant agreement to implement the South Coast Agricultural Development Project. The project originally scheduled to end in March 1990, has been extended to May 1991. The project purpose is to strengthen the institutional capability of the Department of Agricultural Hydraulics and Soils of the Ministry of Rural Development. This included establishing a Regional Center in southern Guinea Bissau with administrative offices, repair and maintenance facilities, and housing.

A.I.D. was responsible for project monitoring and contracted with an expert to train technicians to maintain and use the project's tools, vehicles and equipment. His duties included: (i) advising at the Regional Center on the maintenance and repair of project vehicles and heavy equipment; (ii) organizing and training personnel in spare parts procurement, inventory and storage; and (iii) procuring additional tools and equipment.

The audit objectives were to determine whether (i) commodity expenditures were proper, allowable and reasonable; (ii) internal controls were adequate to safeguard and account for

project commodities and (iii) whether commodities were used in compliance with A.I.D. rules and regulations and terms of the project agreement.

Audit work was performed in two segments: in Guinea Bissau in February 1990 and subsequently in Ivory Coast in October 1990. Since the A.I.D. Office in Abidjan serves as the official accounting station for Guinea Bissau, audit work had to be expanded to review numerous documents held in Abidjan. However, the opinion on the statement of expenditures is qualified because the auditors were unable to obtain adequate documentation either in Abidjan or in Bissau to support \$44,074 in disbursements. Auditors were told that this documentation was held instead by USAID/Dakar as the result of Dakar having served as the accounting station for Guinea Bissau early in the project life. Work was not expanded to review these documents.

Despite this scope limitation, the auditors concluded that apart from several nonmaterial weaknesses, the project internal control structure was adequate for recording, processing, and summarizing expenditures on commodities and equipment. The auditors also determined that the project was in all material respects in compliance with applicable laws, regulations and agreement terms.

The auditors made several recommendations, most of which relate to project controls over commodities. At the time of the Mission's review of the draft audit report, the Mission agreed with these recommendations and indicated that it was taking action to address the internal control deficiencies cited in the draft. We therefore consider these recommendations to be resolved. However, as two of the three internal control deficiencies noted by the auditors, were also found in a concurrent non-Federal audit of another Mission project (the Food Crop Protection III Project), we are making the following general recommendation.

Recommendation No. 1: We recommend that OAR/Guinea Bissau provide written instruction to Mission/Project personnel:

- 1.1 to require that receiving reports (whether they be internal Mission reports or "goods received notes" prepared by field personnel or independent agents contracted by the Mission) be promptly filled out, signed by authorized personnel, and reconciled to invoiced commodities prior to disbursing funds;
- 1.2 to maintain vehicle logbooks in sufficient detail to monitor project vehicle movement and usage; and

1.3 to fully document in procurement files the solicitation of price information from multiple sources prior to authorizing commodity purchases.

Please advise within 30 days of actions planned or taken by the Mission to implement the above recommendation. I appreciate the cooperation and courtesy extended to the non-Federal auditors.



KPMG Peat Marwick Mitchell & Co

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pmb/let/usaid/gb

Our ref:
Your ref:

30th November, 1990.

Mr. Paul E. Armstrong,
Regional Inspector General for Audit,
U.S. Agency for International Development,
C/o The American Embassy
B.P. 49,
DAKAR,
Senegal,
West Africa.

Dear Mr. Armstrong,

NON-FEDERAL AUDIT OF SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT

This report presents the results of the nonfederal financial and compliance audit of the South Coast Agricultural Development Project (SCADP) for the period 29th August, 1983 to 31st July, 1989.

The background, audit objectives and scope, and the summary of results of the audit are combined in Sections 2 and 3 of this report. Sections 4, 5 and 6 include audit opinions on commodities and equipment expenditure, on internal controls and on compliance with laws and regulations. The related findings and recommendations are combined in Section 7 as supported by Appendices A and B.

The comments from USAID/Guinea Bissau are summarised under each finding and recommendation in Section 7.

Yours sincerely,

B.A. WILHELM,
for; PEAT MARWICK MITCHELL & CO.

Non-resident partners
R.M. Davies (Managing)
O.S.C. Johnson
A.J. Hardcastle
T.W. Allen

Resident Manager

- 4 -

SOUTH COAST AGRICULTURAL DEVELOPMENT
PROJECT, GUINEA-BISSAU

NON-FEDERAL FINANCIAL AND
COMPLIANCE AUDIT

FOR THE PERIOD 29TH AUGUST, 1983
TO 31ST JULY, 1989

PEAT, MARWICK, MITCHELL & CO.
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SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

CONTENTS	<u>Page</u>
Transmittal letter	
1. Acronyms	2
2. Introduction	
2.1 Background	3
2.2 Audit objectives and scope	4
3. Summary of results	5
4. Auditors' opinion on commodities and equipment expenditure	6
5. Auditors' opinion on internal controls	7
6. Auditors' opinion on compliance with laws and regulations	9
7. Findings and recommendations	10
Appendices:	
Appendix A	Summary of disbursements for the period
Appendix B	Exceptions

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

1. ACRONYMS

AID	The Agency for International Development
USAID/GB	The United States Agency for International Development for Guinea Bissau
REDSO	Regional Economic Development Services Office
SCADP	South Coast Agricultural Development Project
GGOB	The Government of Guinea Bissau
US	The United States of America
DAHS	Department of Agriculture Hydraulics and Soils

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

2. INTRODUCTION

2.1 Background

The South Coast Agricultural Development Project's (SCADP's) goal is to expand rice production in southern Guinea-Bissau. The project aims to strengthen the Department of Agricultural Hydraulics and Soils, (DAHS) which is part of the Ministry of Rural Development. The project includes the development of a regional centre in Catio in southern Guinea-Bissau, consisting of administrative offices, repair and maintenance facilities and housing.

The project grant agreement between USAID/GB and the Government of Guinea-Bissau was signed on 29th August, 1983. As of 31st July, 1989 AID had disbursed \$2.1 million of which \$387,952 had been spent on the procurement of project commodities.

USAID/GB contracted with a technical specialist to train a team of technicians to maintain and operate the project's tools, vehicles and equipment. His responsibilities include advising DAHS's regional centre on maintenance and repair of project vehicles and heavy equipment; organising and training personnel in parts procurement, inventory and storage; and procuring additional tools and equipment as required.

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 19892.2 Audit objectives and scope

The objectives of the audit were to:

- verify the reasonableness, propriety and allowability of commodities expenditure, amounting to \$387,952, charged to the project from 29th August, 1983 to 31st July, 1989, (See Appendix A);
- review and evaluate the project's system of internal controls and operating procedures in so far as they relate to the safeguarding and accounting for project equipment and commodities;
- determine whether these commodities and equipment were used for project purposes and in compliance with applicable rules and regulations and terms of the project agreement.

Our audit procedures included, but were not limited to:

- reviewing the project paper and grant agreement between USAID/GB and GOGB relating to SCADP;
- examining expenditure reports and related accounting records of SCADP to determine whether costs were proper, allowable and reasonable to the project's activities;
- carrying out tests to determine whether equipment and commodities expenditures were being properly accounted for and incurred in accordance with AID regulations;
- inspecting commodities and equipment for proper usage and maintenance;
- making field trips to inspect project vehicles and equipment;
- carrying out sufficient tests to determine whether these expenses were adequately documented, whether the expenditure was properly supported and that equipment vehicles and commodities procured through project funds were not used for personal purposes;
- reviewing and evaluating the system of internal controls in order to determine the extent to which established procedures were functioning as intended; and
- determining compliance with applicable laws and regulations and the terms of the project grant agreement.

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

3. SUMMARY OF RESULTS**3.1 Recording of disbursements**

We found that for the SCADP there was full and accurate recording of commodity disbursements by REDSO, Abidjan for the period, except three disbursements totalling \$44,074 which were not available for our inspection. The supporting documentation for these disbursements could not be found because they remained in Dakar when REDSO Abidjan took over USAID/GB accounting responsibilities from USAID/Senegal.

3.2 Project implementation and control

We found reportable, but not material, deficiencies in the internal control structure of the project. These relate to:

- inadequate identification and recording of short landed commodities, creating the risk of improper disbursements being made on the full value of the related invoice.
- inadequate verification of receipt of SCADP commodities into the country and the project site, which increases the risk of improper and/or delayed disbursements.
- inadequate control over project vehicle usage, movement and maintenance, increasing the risk of misappropriation and worsening project efficiency.
- inadequate verification of tendering for SCADP commodities by USAID/GB.

The responsibility for the above weaknesses is not fully clear due to the lack of their identification and communication in relation to the SCADP. However, it must rest with the Republic of Guinea Bissau, through SCADP management, and USAID/GB. These parties are responsible for the effective operation and implementation of the project.

3.3 Compliance with applicable laws and regulations

We found that SCADP complied with applicable laws and regulations and the terms of the project grant agreement.

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

4. AUDITORS' OPINION ON COMMODITIES EXPENDITURE

We have audited the disbursements on commodities made under the South Cost Agricultural Development Project (SCADP) amounting to \$387,952 from 29th August, 1983 to 31st July, 1989.

We conducted our audit in accordance with generally accepted US Government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounting for these disbursements is free from material misstatement. An audit includes examining on a test basis, evidence supporting the items and disclosures comprising the amount subjected to audit. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain adequate supporting documentation for disbursements amounting to \$44,074 (11% of total disbursements) as set out in Appendix B.1.

In our opinion, except for the matter referred to in the preceding paragraph, the stated total disbursements on commodities of the SCADP amounting to \$ 387,952 from 29th August, 1983 to 31st July, 1989 give a proper, allowable and reasonable presentation of the amounts expended on the project for this period.

This report is intended for the sole use of USAID/GB. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Peat Marwick Mitchell & Co.
PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS,
BANJUL.

30th November, 1990

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

5. AUDITORS' OPINION ON INTERNAL CONTROLS

We have audited the disbursements on commodities made under the South Coast Agricultural Development Project (SCADP) amounting to \$387,952 from 29th August, 1983 to 31st July, 1989.

We conducted our audit in accordance with generally accepted US Government standards. These standards require that we plan to perform the audit to obtain reasonable assurance about whether the accounting for these disbursements is free of material misstatement.

In planning and performing our audit of these disbursements we considered the mission's and the project's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the disbursements and not to provide assurance on the internal control structure. Our consideration was limited to procurement procedures and controls over the use and safeguard of commodities and equipment.

The management of USAID/GB and SCADP are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use or disposition and that transactions are executed in accordance with generally accepted accounting principles. Because of inherent limitations in any control structure, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation 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 may deteriorate.

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

- receiving, utilising and safeguarding commodities and equipment;
- accounting and ordering.

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

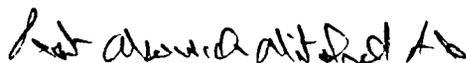
We noted certain matters involving the internal control structures and their operations which we consider to be reportable conditions. These are set out in the accompanying findings.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the USAID/GB's and the SCADP's ability to record, process, summarise and report financial data.

Our consideration of the internal control structures would not necessarily disclose all matters in the internal control structures 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.

We believe that the reportable conditions described do not constitute material weaknesses in the internal control structure, which we consider is adequate for recording, processing, summarising and reporting SCADP commodities and equipment expenditure.

This report is intended for the sole use of USAID/GB. This restriction is not intended to limit the distribution of this report which is a matter of public record.


PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS
BANJUL.

24 November, 1990

13'

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

5. AUDITORS' OPINION ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the disbursements on commodities expenditure amounting to \$387,952 made under the South Coast Agricultural Development Project (SCADP) from 29th August, 1983 to 31st July, 1989.

We conducted our audit in accordance with generally accepted US Government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounting for these disbursements is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the project is the responsibility of the USAID/GB's and the SCADP's management. As part of obtaining reasonable assurance about whether this amount is free of material misstatement, we performed tests of the mission's and the project's compliance with applicable provisions of law, regulations, contracts and grants. These tests were limited to matters related to the procurement, utilisation and safeguard of project commodities and equipment.

The results of our tests indicate that, with respect to the items tested, USAID/GB and SCADP management complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/GB and SCADP management had not complied, in all material respects, with those provisions.

This report is intended for the sole use of USAID/GB. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Peat Marwick Mitchell & Co.
PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS,
BANJUL.

25th November, 1990

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

7. FINDINGS AND RECOMMENDATIONS**7.1 Short landed goods**

During the detailed testing we noted that, on three occasions, disbursements were made for the full invoice amount but a number of items on the corresponding invoice had not actually been received. The total value of these short landed items was \$1,600. These items were not investigated by USAID/GB or SCADP officials.

In addition, we found in respect of one invoice that the actual value of commodities received was inflated so that the receiving and inspection report value agreed to the PIO/C value which was subsequently disbursed. The additional amount of \$500 was detailed as "contingency etc."

The above creates the risk that disbursements made do not represent proper, allowable and reasonable expenditure. This is due to the disbursement being completed on the basis of the invoice value without reference to the actual commodities received per the receiving and inspection report.

Project efficiency may also fall due to the missing commodities.

Recommendation No.1

Before disbursements are made USAID/GB should ensure that the invoiced commodities agree to those stated on the receiving and inspection report.

The receiving and inspection report should detail the actual commodities received and their value, irrespective of the quantity and value shown on the PIO/C.

We also suggest that all short landings be investigated by USAID/GB to ensure project efficiency is not impaired, or further impaired, due to the missing commodities.

Management Comments

USAID Mission staff accept our findings and efforts will be made to implement the recommendations in full.

15

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

7.2 Receipts of commodities

We found during our detailed testing that, for disbursements made with a total value of \$20,245, the corresponding receiving and inspection reports were not available for our inspection. As such, we were unable to verify receipt of the related commodities into Guinea Bissau or the project site.

The responsibility to complete the receiving and inspection report is held by the USAID/GB on receipt of the commodities at the port or at the project site. See Appendix B. for details.

Completion of this report is not always possible due a number of circumstances, including:

- a. the USAID/GB may not be informed of arrival at the port or project site.
- b. the time and location of receipt of the commodity may not be known with certainty.
- c. it may not be practical to attend the entire unloading at the port, or attend receipt at a remote project site.

This increases the risk of inaccurate or incomplete reports leading to improper disbursements, or delayed disbursements causing the project efficiency to be affected.

We also found that some receiving and inspection reports stated that there had been short landed commodities but failed to quantify, detail or value them.

Lastly we noted that the receiving and inspection report is not verified as to authorisation before the corresponding disbursement is made. This creates the risk of improper disbursements due to inaccurate and/or unauthorised receiving and inspection reports.

Recommendation No.2

We recommend that a Goods Received Note (GRN) should be completed and signed by a project official authorised by USAID/GB if the commodity is received at the project site.

For commodities received at the port, a GRN should be completed and signed by the independent surveyor or similar representative contracted by USAID/GB to observe and record the quantity and condition of goods unloaded.

A copy of the GRN is then submitted to USAID/GB as a basis for the completion of the receiving and inspection report.

The receiving and inspection report should detail the type, quantity and value of all short landed commodities.

REDSO, Abidjan should establish authorised signatories at USAID/GB to ensure the receiving and inspection report is authorised as proper and accurate.

Management Comments

Efforts are being made to remedy the situation but more personnel are required to cope with the work load.

17

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

7.3 Vehicle and maintenance log books

No vehicle log books are used to monitor project vehicle movement and usage.

The project also has no maintenance logs to ensure effective and efficient use of equipment.

Again this creates the risk that project commodities and equipment are not devoted for the purposes of the project per the grant agreement.

This also increases the risk of misappropriation through inadequate monitoring and authorisation of vehicle usage.

Lastly, there is a risk of inadequate maintenance leading to a worsening of project effectiveness.

Recommendation No. 3

We suggest that log books be introduced for all project vehicles and equipment to detail and authorise movements and ensure maintenance is performed as appropriate.

Management Comments

The use of vehicle and maintenance log books will be recommended to the project via the garage specialist. We note the efforts of this person in instituting the introduction of this system.

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

7.4 Tendering

AID tendering procedures require that for items purchased, not in excess of \$25,000, three phone calls must be made and the lowest price is then selected.

We found no evidence or verification of this procedure for such project expenditure from our detailed testing.

This creates the risk that for such purchases:

- the best value goods are not selected
- connected persons are used to supply inadequate commodities
- non bona fide or inaccurate invoices are obtained.

One, or a combination, of these factors could cause improper disbursements to be made.

Recommendation No. 4

USAID/GB should ensure that AID tendering procedures are being adhered to via periodic review.

Management Comments

USAID/Bissau acknowledged the shortcomings in the procurement process and is taking action to ensure that procedures are complied with.

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

7.5 Project Disbursements

We were unable to verify that disbursements totally \$44,074 were proper, allowable and reasonable as the vouchers and supporting documentation were unavailable for our inspection. See Appendix B. for details.

We understand from REDSO, Abidjan that this is due to the disbursements being made from Dakar before the transfer of this function to Abidjan and that the relevant documentation was not then transferred.

Thus, this expenditure may not be able to be verified in the case of dispute.

Recommendation No 5

Full records should be held at REDSO, Abidjan to ensure verification of project disbursements.

Management Comments

We will ensure that the necessary documentation is obtained from Dakar in order to complete our records.

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

APPENDIX A

SUMMARY OF DISBURSEMENTS FOR THE PERIOD

		<u>US \$</u>
Z320006	Landrover and truck parts	23,259
Z320007	Daf trunk parts	28,493
Z320009	Caterpillar spare parts	164
Z320011	Household furniture	84,361
Z320012	Appliances	19,417
Z320013	Company equipment/work clothes	67,281
Z320014	Construction materials	9,500
Z320016	Caterpillar spares	10,993
Z320017	Transportation of caterpillar parts	251
Z420017	Liquidated commitments FY 84	
	9/15/88 657080510 10 motor cycles and helmets	22,943
	9/14/88 657080538 Transportation and customs duty on 10 motor bikes	<u>1,106</u>
		24,049
Z420037	Caterpillar spares	10,700
Z420049	Caterpillar spares	2,965
Z420052	Caterpillar spares	3,831
Z420004	16 tyres and tubes	15,304
Z420005	Vegetable seeds	20,879
Z420008	Buckets and watering cans	2,361
Z520058	Office furniture and equipment	19,977
Z520064	2 Toyota land cruisers	43,339
Z520077	Pick-up trucks spare parts	<u>828</u>
		\$ <u>387,952</u>

21

SOUTH COAST AGRICULTURAL DEVELOPMENT PROJECT, GUINEA BISSAU

NON FEDERAL FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD 29TH AUGUST, 1983 TO 31ST JULY, 1989

APPENDIX B

EXCEPTIONS

1. Receiving and inspection reports being unavailable

Where no receiving and inspection report was available for our inspection we were unable to verify receipt of the commodities into the country or at the project site. This relates to the following exceptions:

<u>Date</u>	<u>Reference</u>		<u>Amount</u> <u>US \$</u>
8.11.86) 715066)	16 tyres and tubes	13,015
)	200 ear protectors	5,650
9.27.88	715605	144 pairs of work boots	<u>1,580</u>
			\$ 20,245
			=====

2. Vouchers being unavailable

The following exceptions represent disbursements for which the corresponding vouchers and supporting documentation were not available for our inspection. As such, we were unable to verify that these expenditures were proper, allowable and reasonable:

<u>Date</u>	<u>Description</u>	<u>Amount</u> <u>US \$</u>
3.31.86	Summary of disbursements	20,879
2.31.86	Summary of disbursements	20,452
9.30.85	Summary of disbursements	<u>2,743</u>
		\$ 44,074
		=====

221

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