

Regional Inspector General for Audit
Singapore

**AUDIT OF
DEVELOPMENT ALTERNATIVES, INC.'S
CONTRACT UNDER THE
NARCOTICS AWARENESS AND CONTROL PROJECT
AFGHANISTAN**

Audit Report No. 5-306-93-02-N
November 18, 1992



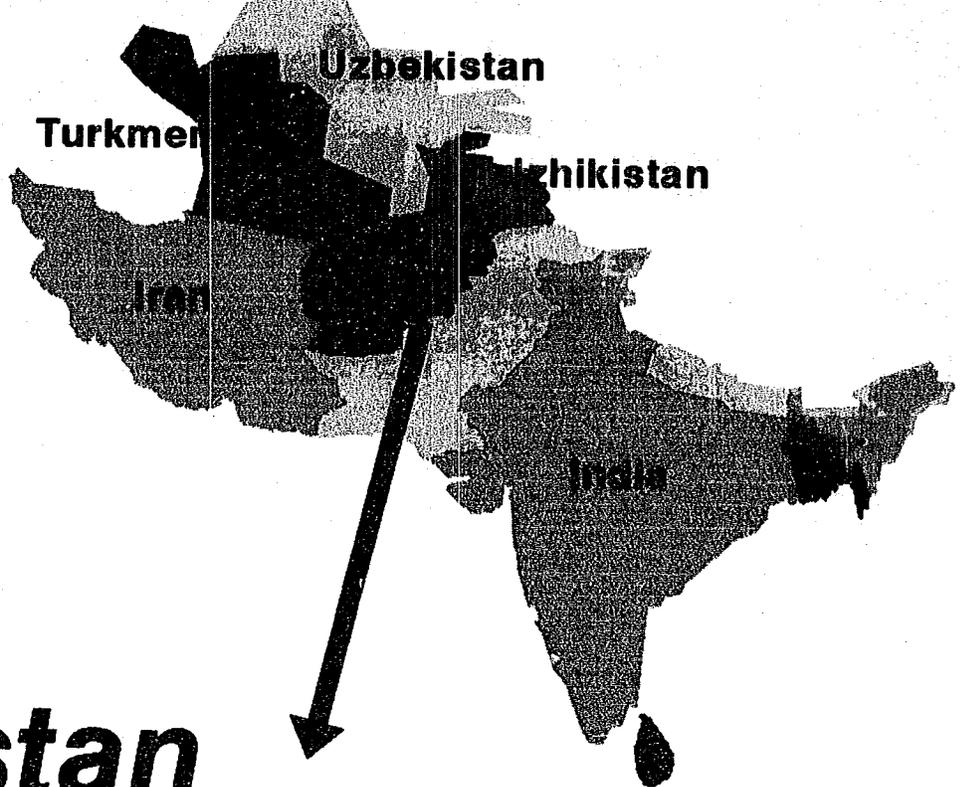
FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

BEST AVAILABLE

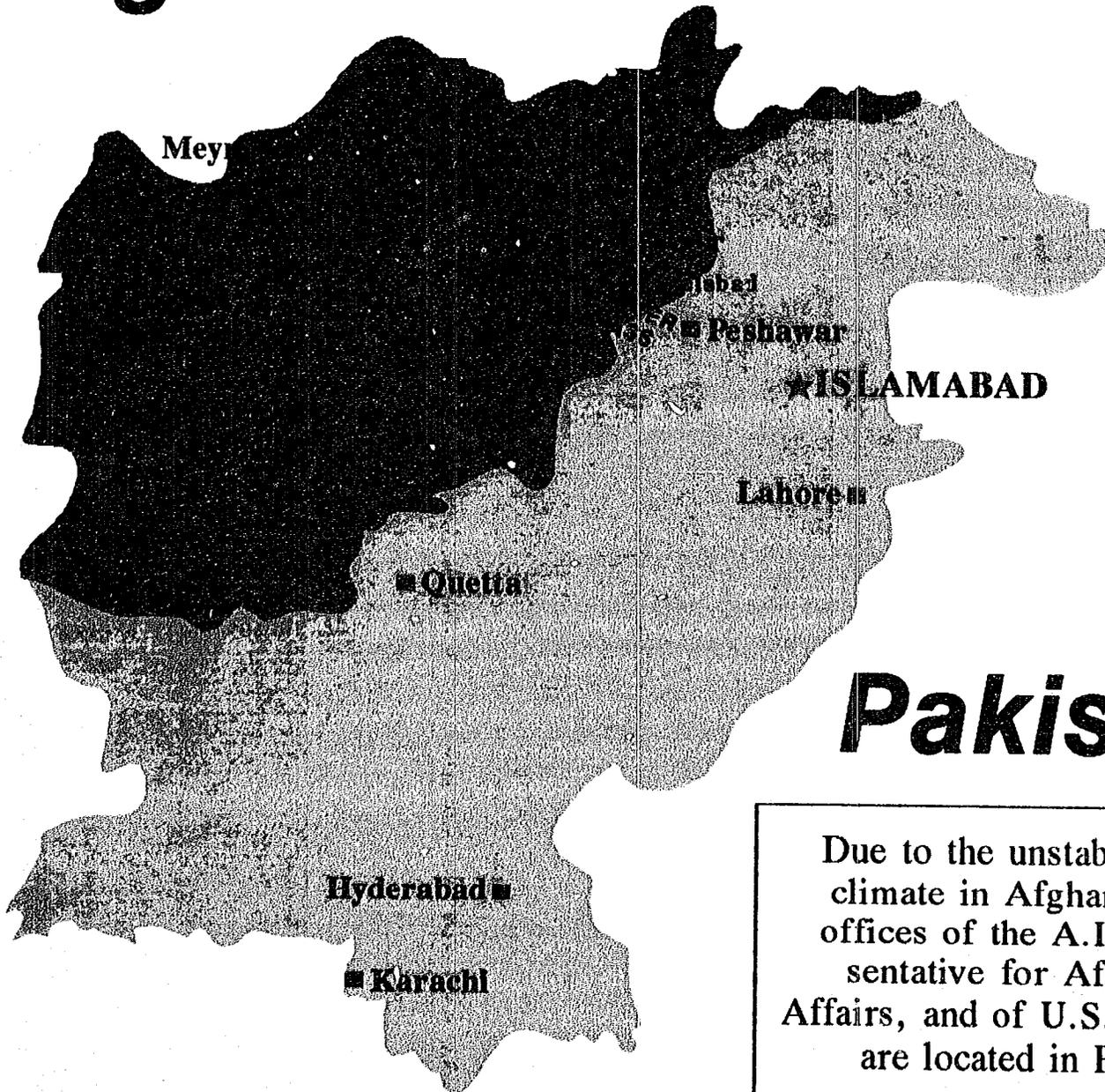


U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

*Central &
South Asia*



Afghanistan



Pakistan

Due to the unstable political climate in Afghanistan, the offices of the A.I.D. Representative for Afghanistan Affairs, and of U.S. contractors, are located in Pakistan.

AUDIT OF

DEVELOPMENT ALTERNATIVES INC.

PERTAINING TO ITS CONTRACT NO.306-0210-0820

WITH

**THE UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT - OFFICE OF THE REPRESENTATIVE
FOR AFGHANISTAN AFFAIRS**

(NARCOTICS AWARENESS AND CONTROL PROJECT)

**FOR THE PERIOD
FROM MAY 17, 1990 TO JULY 31, 1991**

Performed and Prepared by

**A.F. Ferguson & Co.
Chartered Accountants
Karachi - Pakistan**

September 30, 1992

**FINANCIAL AUDIT OF
DEVELOPMENT ALTERNATIVES INC.
PERTAINING TO ITS CONTRACT NO.306-0210-0820 WITH USAID**

TABLE OF CONTENTS

TRANSMITTAL LETTER	1
REPORT ON FUND ACCOUNTABILITY STATEMENT	7
REPORT ON THE INTERNAL CONTROL	9
REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND TERMS OF CONTRACT	12
FUND ACCOUNTABILITY STATEMENT	14
NOTES TO FUND ACCOUNTABILITY STATEMENT	15
AUDIT FINDINGS	18
APPENDIX 1 - MANAGEMENT COMMENTS	
APPENDIX 2 - DISTRIBUTION LIST	

Telegram : BALANCE
Telephones: 242 - 6882 - 6
 242 - 6711 - 6
Fax : (21) 2415007
Telex : 21155 AFFCO

OTHER OFFICES AT
LAHORE - RAWALPINDI

The Regional Inspector General
for Audit/Singapore
United States Agency for International
Development (USAID)
111, North Bridge Road
No.17-03, Peninsula Plaza
Singapore 0617

August 18, 1992

Dear Sir

FINANCIAL AUDIT OF DAI

This report presents the results of our financial audit of the Fund Accountability Statement of Development Alternatives Inc. ("DAI") under Contract No.306-0210-0820 for the period from May 17, 1990 through July 31, 1991. Our audit pertains to DAI's operations in Pakistan and Afghanistan only and does not include DAI's receipt and expenditure outside Pakistan and Afghanistan. Similarly, our audit does not cover DAI's management policies, and systems and procedures relating to the operations outside Pakistan and Afghanistan.

BACKGROUND

In financial year 1985, the United States Agency For International Development began a program of direct assistance to Afghanistan by providing grants to European and U.S. private voluntary organizations (PVOs) to implement activities in health, education, agriculture and food aid.

The following year, AID established a separate Office of the A.I.D. Representative in Islamabad (O/AID/REP), Pakistan to initiate a long-term humanitarian assistance program, known as the Cross Border Humanitarian Assistance Program (CBHA). Its goal was to relieve the Afghan population who chose to remain in Afghanistan and to stem the flow of refugees into Pakistan.

A. F. FERGUSON & CO.

Through fiscal year 1991, this program provided services and commodities to Afghanistan. This includes cross border projects in health services; education support; agricultural services, inputs and infrastructure; and food and other survival-essential commodities, including PL-480 wheat and Department of Defence (DOD) non-lethal excess property (e.g. blankets, sleeping bags). These funds and commodities were in addition to what had been provided for Afghan refugees by the Department of State. The prohibition on U.S. citizen travel in Afghanistan, due to security conditions, presented special constraints in monitoring this assistance and prevented U.S. citizens from working directly with Afghans in-country. However, the program included the participation of Afghans in each phase of activity.

Starting in 1989, Office of the A.I.D. Representative in Islamabad (O/AID/REP), Pakistan entered into the contract with Development Alternatives, Inc. to carry out several activities associated with its assistance to the people of Afghanistan under the Narcotics Awareness and Control Project (NACP).

PROJECT GOAL AND PURPOSE

The purposes of the NACP project (Project No.306-0210) were to (1) increase awareness among Afghans of the destructive influence of narcotics; (2) coalesce the leadership of the resistance movement, the donor community and the implementing organizations into establishing and maintaining an effective anti-narcotics program; (3) reduce existing poppy cultivation while preventing as much as new production as possible, given the constraints prevailing in rural Afghanistan; and (4) test and demonstrate viable methods of matching development benefits and rehabilitation assistance to the elimination of poppy cultivation.

AUDIT OBJECTIVE AND SCOPE

We conducted a financial audit of DAI's Fund Accountability Statement under contract number 306-0210-0820 for the period from May 17, 1990 to July 31, 1991.

The Fund Accountability Statement of project titled 'Narcotics Awareness and Control Project' of DAI presents only the transactions pertaining to its contract with USAID and is not intended to represent the receipts and expenditures of DAI as a whole.

A. F. FERGUSON & CO.

The results of our work, which pertains only to DAI's Pakistan and Afghanistan operations, are reflected in the following accompanying Independent Auditors' Reports:

1. Fund Accountability Statement
2. System of Internal Controls
3. Compliance with the terms of the contract, applicable laws and regulations

The objectives of our work were to:

- (a) Determine whether for DAI's Pakistan and Afghanistan operations the Fund Accountability Statement for DAI Project presents fairly the receipts and expenditures for the period from May 17, 1990 to July 31, 1991 in accordance with the terms of the contract with USAID and to identify costs, which were not fully supported with adequate records or which were not allocable, reasonable or allowable under the terms of the contract.
- (b) Report on DAI's internal control structure.
- (c) Report on DAI's compliance with the applicable laws, regulations and terms of the contract.

The audit was conducted in accordance with generally accepted US Government Auditing Standards and accordingly, included such tests to determine whether funds were being properly accounted for and used as directed by the contract and other applicable program documents and the laws of Pakistan.

For this audit, government auditing standards related to continuing education were not met. Because our continuing education program has not been fully implemented, we cannot ensure that staff assigned received the required ongoing professional education as prescribed. However, the assigned staff were given adequate supervision and directions to adequately perform audit work.

For this audit, government auditing standards related to an external quality control review program were not met. While our firm does not currently participate in an external review program, we have an excellent internal quality control system in place to ensure audit quality.

A. F. FERGUSON & CO.

The scope of our work primarily included the following general procedures:

- (a) Holding meetings with O/AID/REP, DAI and RIG/A/S officials.
- (b) Reviewing Agreements, Office of Management and Budget (OMB) circulars, AID Hand book 14 Procurement Regulations, contract files including all amendments and modifications, annual and quarterly reports submitted to USAID and to DAI's head office and Federal Acquisition Regulations.
- (c) Reviewing DAI Pakistan's internal control structure, accounting records, and control procedures.
- (d) Assessing DAI Pakistan's compliance with terms of the Agreement, applicable laws and regulations.
- (e) In performing some of the above procedures, compliance and substantive testing procedures were devised and performed.
- (f) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit.

A. F. FERGUSON & CO.

SUMMARY OF THE RESULTS OF AUDIT

Opinion on Fund Accountability Statement

As discussed above, our audit covers DAI's operations in Pakistan and Afghanistan only.

As stated in note 1b, the fund accountability statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as stated in note 2, this statement is prepared in conformity with DAI's contractual requirements which is also a comprehensive basis of accounting other than generally accepted accounting principles. These contractual requirements include the following "Special Audit Requirements" clause:

Based upon a Section 451 approval by the AID Representative, the provisions of this contract with respect to accounting, records and audit shall not apply to operational costs incurred by the contractor within Afghanistan and end-use-checks of commodities and equipment located within Afghanistan. However, the Contractor agrees to the maximum reasonable extent to exercise prudent oversight of such operational costs and commodities. Further, the contractor agrees to report in detail on such costs and commodities as part of the contract reporting requirements.

In our opinion, the project's Fund Accountability Statement presents fairly the receipts and expenditures of DAI for the period from May 17, 1990 to July 31, 1991, as they relate to its contract number 306-0210-0820 on the basis of accounting described in notes 1b and 2 on page 15.

A. F. FERGUSON & CO.

Internal Control Structure

Our study and evaluation of the internal control structure of DAI's operation in Pakistan and Afghanistan, made as part of the audit of the Pakistan and Afghanistan operations or transactions, did not disclose any material weakness.

Compliance with Terms of Contract, applicable laws and regulations.

Our tests for compliance with terms of agreement, applicable laws and regulations of DAI's operations in Pakistan and Afghanistan and selected transactions and records disclosed instances of non-compliance with those terms, laws and regulations. All such instances have been listed as findings number 1 to 3 at the end of this report. Other than that:-

- our tests indicate that, for the items tested, DAI complied in all material respects with those provisions of the agreement, applicable laws, regulations and contract terms.
- for items not tested, nothing came to our attention that caused us to believe that DAI had not complied, in all material respects, with those provisions.

Management Comments

The management has agreed with our recommendation to seek further clarifications on another similar project (ASSP) as NACP project is already closed. Audit findings No.1 to 3 on ASSP were identical as that for NACP. Full response from DAI has been produced as Appendix I.

Acknowledgement

We would like to take this opportunity to express our gratitude for the assistance extended to us by RIG/A/S office, USAID Islamabad and DAI during the course of the audit.

Yours truly

A. Ferguson & Co

A. F. FERGUSON & CO.
CHARTERED ACCOUNTANTS

STATE LIFE BUILDING 1-C
OFF I. I. CHUNDRIGAR ROAD
P. O. BOX 4716
KARACHI 74000
PAKISTAN

OTHER OFFICES AT
LAHORE - RAWALPINDI

Telegram : BALANCE
Telephones : 242 - 0882 - 6
 242 - 0711 - 5
Fax : (21) 2415007
Telex : 21155 AFFCO

The Regional Inspector General
for Audit/Singapore
United States Agency for International
Development (USAID)
111, North Bridge Road
No.17-03, Peninsula Plaza
Singapore 0617

Dear Sir

**DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0210-0820 WITH USAID
(NARCOTICS AWARENESS AND CONTROL PROJECT)**

INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of Development Alternative, Inc. (DAI) pertaining to expenditure incurred by DAI in Pakistan and Afghanistan relating to its contract number 306-0210-0820 with the United States Agency for International Development ("USAID") as they relate to the period from May 17, 1990 to July 31, 1991. This Statement and the notes thereon are the responsibility of DAI's management. As stated in Note 2, the Fund Accountability Statement presents only the transactions of DAI as they pertain to the said contract and agreement to provide services directly or indirectly to USAID and is not intended to present fairly the receipts and expenditure of DAI as a whole in conformity with generally accepted accounting principles. Our responsibility is to express an opinion on the Statement based on our audit.

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 Fund Accountability Statement is free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Fund Accountability Statement presentation. We believe our audit provides a reasonable basis for our opinion.

A. F. FERGUSON & CO.

As stated in note 1b, the fund accountability statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as stated in note 2, this statement is prepared in conformity with DAI's contractual requirements which includes the "Special Audit Requirements" as stated on page 5 of this report, which is also a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Fund Accountability Statement referred to above present fairly, in all material respects, the receipts and expenditure of DAI pertaining to the period from May 17, 1990 to July 31, 1991 on the basis of accounting described in notes 1b and 2.

This report is intended solely for the use of DAI and the Agency for International Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

May 20, 1992

A handwritten signature in cursive script that reads "A. Ferguson & Co." The signature is written in dark ink and is positioned to the right of the date.

OTHER OFFICES AT
LAHORE - RAWALPINDI

Telegram : BALANCE
Telephones : 242 - 8882 - 6
 : 242 - 8711 - 5
Fax : (21) 2415007
Telex : 21155 AFFCO

The Regional Inspector General
for Audit/Singapore
United States Agency for International
Development (USAID)
111, North Bridge Road
No.17-03, Peninsula Plaza
Singapore 0617

Dear Sir

**DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0210-0820 WITH USAID
(NARCOTICS AWARENESS AND CONTROL PROJECT)**

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL

We have audited the Fund Accountability Statement of Development Alternative, Inc. (DAI) pertaining to expenditure incurred by DAI in Pakistan and Afghanistan relating to its contract number 306-0210-0820 with the United States Agency for International Development ("USAID") as they relate to the period from May 17, 1990 to July 31, 1991. This Statement and the notes thereon are set out on the following pages and we have issued our report thereon dated May 20, 1992.

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 Fund Accountability Statement is free of material misstatements.

In planning and performing our audit of DAI, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure of DAI.

The management of DAI 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

A. F. FERGUSON & CO.

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 fund accountability statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

Accounting Controls:

- Cash receipts
- Cash disbursements
- Payroll

Administrative Controls:

- Cost allocation and allowability
- Monitoring
- Reporting

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

As a result of these procedures, and in accordance with Government Auditing Standards, we have limited our reliance on the internal control structure as, given the small size of the entity, an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statements.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 tasks. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

A. F. FERGUSON & CO.

This report is intended solely for the use of DAI and the Agency for International Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

May 20, 1992

A. Ferguson & Co

A. F. FERGUSON & CO.

CHARTERED ACCOUNTANTS

STATE LIFE BUILDING 1-C
OFF I. I. CHUNDRIGAR ROAD
P. O. BOX 4716
KARACHI 74000
PAKISTAN

OTHER OFFICES AT
LAHORE - RAWALPINDI

Telegram : BALANCE
Telephones : 242 - 8682 - 8
 242 - 8711 - 8
Fax : (21) 2415007
Telex : 21165 AFFCO

The Regional Inspector General
for Audit/Singapore
United States Agency for International
Development (USAID)
111, North Bridge Road
No.17-03, Peninsula Plaza
Singapore 0617

Dear Sir

**DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0210-0820 WITH USAID
(NARCOTICS AWARENESS AND CONTROL PROJECT)**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE APPLICABLE LAWS,
REGULATIONS AND TERMS OF CONTRACT**

We have audited the Fund Accountability Statement of Development Alternative, Inc. (DAI) pertaining to expenditure incurred by DAI in Pakistan and Afghanistan relating to its contract number 306-0210-0820 with the United States Agency for International Development ("USAID") as they relate to the period from May 17, 1990 to July 31, 1991. This Statement and the notes thereon are set out on the following pages and we have issued our report thereon dated May 20, 1992.

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 Fund Accountability Statement is free of material misstatements.

Compliance with applicable laws, regulations and terms of the contract is the responsibility of DAI's management. As part of our audit, we performed tests of DAI's compliance with certain provisions of laws, regulations and terms of contract. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records selected disclosed instances of non-compliance with those laws and regulations. All instances of non-compliance that we found are identified as finding numbers 1 to 3 at the end of this report.

A. F. FERGUSON & CO.

The results of our tests indicate that with respect to the items tested DAI complied, in all other 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 DAI had not complied, in all other material respects, with those provisions.

This report is intended solely for the use of DAI and the Agency for International Development and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the USAID Regional Inspector General for Audit, Singapore, is a matter of public record.

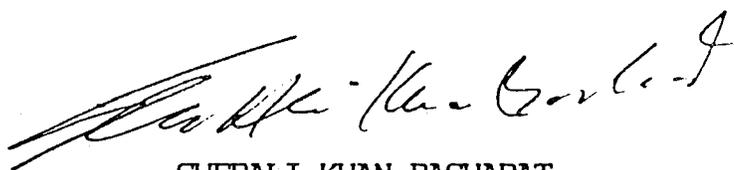
May 20, 1992

A. Ferguson & Co

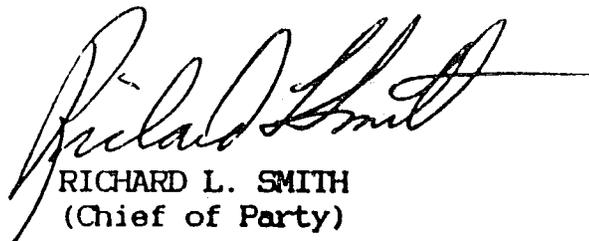
DEVELOPMENT ALTERNATIVE, INC.
 PERTAINING TO ITS CONTRACT NO:306-0210-0820 WITH USAID
 (NARCOTICS AWARENESS AND CONTROL PROJECT)

FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD MAY 17, 1990 TO JULY 31, 1991

	NOTE	RUPEES	US \$
RECEIPTS	3	15,552,469	631,444
EXPENDITURE			
Programme cost			
Narcotic Awareness Campaign (NAC)	4	2,246,376	91,205
Poppy Cultivation Reduction and elimination Unit (PREU)	5	159,590	6,479
Information and Research Unit (IRU)	6	2,639,446	107,164
Management/Administration	7	5,653,552	229,539
		<u>10,698,964</u>	<u>434,387</u>
Logistic support costs		982,991	39,910
Technical assistance	8	622,678	25,281
		<u>12,304,633</u>	<u>499,578</u>
Excess of receipts over expenditure		<u><u>3,247,836</u></u>	<u><u>131,866</u></u>



SHERALI KHAN BASHARAT
 (Chief of Finance and Administration)



RICHARD L. SMITH
 (Chief of Party)

DEVELOPMENT ALTERNATIVE INC.
PERTAINING TO ITS CONTRACT NO:306-0210-0820 WITH USAID
(NARCOTICS AWARENESS AND CONTROL PROJECT)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD MAY 17, 1990 TO JULY 31, 1991

1. Significant Accounting Policies

(a) The Fund Accountability Statement is prepared in accordance with the historical cost convention. For information purposes they are also expressed in United States Dollars (US\$) using the average rate of exchange prevailed on July 31, 1991 which was Rs.24.63 to US\$1.

(b) Receipts and expenditure are recorded on cash basis.

2. Component Unit of DAI

The Fund Accountability Statement of NACP of DAI presents only the transactions pertaining to its contract number 306-0210-0820 with USAID as it relates to services provided, directly or indirectly, to USAID and are not intended to represent the receipts and expenditure of DAI as a whole. The statements are prepared on a basis which is in conformity with the requirements of this contract.

	Rupees	US \$
3. Receipts		
Funds received for programme cost	15,250,000	619,164
Reimbursements for logistic support costs	302,469	12,281
	<u>15,552,469</u>	<u>631,445</u>
	=====	=====

4. Narcotics Awareness Campaign

Human resources	796,544	32,340
Capital expenditure	624,566	25,358
Recurring/operational cost	599,856	24,355
Allowance/per diem	97,992	3,979
Transport/travel	81,786	3,321
Miscellaneous	45,632	1,853
	<u>2,246,376</u>	<u>91,206</u>

5. Poppy Cultivation Reduction and Elimination Unit

Human resources	<u>159,590</u>	<u>6,479</u>
-----------------	----------------	--------------

6. Information and Research Unit

	Rupees	US \$
Human resources	1,422,644	57,761
Capital expenditure	587,610	23,857
Recurring/operational cost	27,194	1,104
Allowance/per diem	345,413	14,024
Transport/travel	213,979	8,688
Miscellaneous	42,606	1,730
	<u>2,639,446</u>	<u>107,164</u>

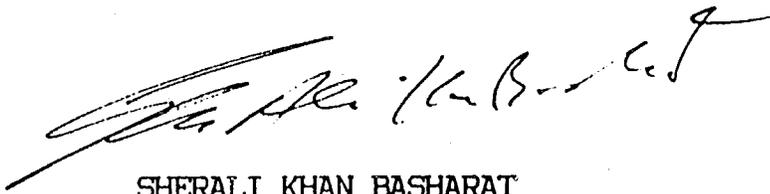
7. Management/Administration

Human resources	2,673,118	108,531
Capital expenditure	589,320	23,927
Recurring/operational cost	1,855,443	75,333
Allowance/per diem	364,870	14,814
Transport/travel	158,367	6,430
Miscellaneous	12,434	505
	<u>5,653,552</u>	<u>229,540</u>

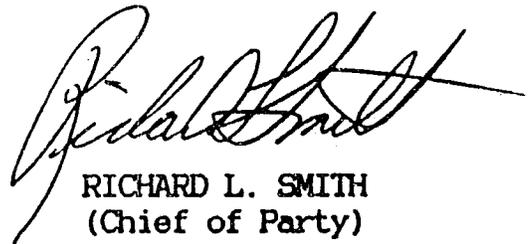
8. Technical assistance

This represents expenditure incurred in Pakistan as under:

Transport/travel	371,401	15,079
Allowances	113,609	4,613
Other direct costs	72,063	2,926
Technical assistance support cost	65,605	2,664
	<u>622,678</u>	<u>25,282</u>



SHERALI KHAN BASHARAT
(Chief of Finance and Administration)



RICHARD L. SMITH
(Chief of Party)

FINANCIAL AUDIT OF DAI RELATING TO
ITS CONTRACT NO.306-0210-0820 WITH USAID
FOR THE PERIOD FROM MAY 17, 1990 TO JULY 31, 1991

AUDIT FINDINGS AND RECOMMENDATIONS
COMPLIANCE ISSUES

1. ABSENCE OF A FORMAL PERMISSION TO CARRY OUT OPERATIONS IN
PAKISTAN AND COMPLIANCE WITH OTHER FORMALITIES

Condition

DAI did not have a formal permission from Government of Pakistan to carry out its operations in Pakistan and did not comply with formalities to file required documents.

Criteria

In terms of a Press Note dated October 3, 1963 issued by Ministry of Industries, it is necessary for all foreign companies to have formal permission from Government of Pakistan for carrying out their operations in Pakistan. Section 451 of the Companies Ordinance, 1984 lays down further requirements to be fulfilled by Companies established outside Pakistan and carrying out operations in Pakistan.

Effect

DAI could be fined or sanctioned by the Government of Pakistan.

Cause

DAI is under the impression (though not certain) that they may be exempt from the requirements.

Recommendation

DAI should seek clarification on this subject and act accordingly.

Management Comments

Management agreed to seek further clarification on another similar project as NACP project has been closed.

2. NOT WITHHOLDING TAXES FROM EMPLOYEES SALARIES

Condition

DAI did not deduct tax from the salaries paid to its employees.

Criteria

Article IX of Section H of the contract between DAI and USAID states that host country taxes will not be financed by USAID and it is the responsibility of the contractor to arrange for all tax exemptions. Section 50 of the Income Tax Ordinance, 1979 requires employers to deduct tax from salaries paid to employees and remit them to the tax authorities.

Effect

DAI will be exposed to its employees' tax liabilities if they default on their income taxes.

Cause

DAI is under the impression (though not certain) that they may be exempt from the requirement of withholding taxes.

Recommendation

We recommended that DAI should seek clarification on this issue and act accordingly.

Management Comments

Management agreed to seek further clarification on another similar project as NACP project has been closed.

3.

NOT WITHHOLDING TAXES FROM PAYMENTS TO SUPPLIERS

Condition

DAI did not deduct tax from the payments made to suppliers.

Withholding tax needs to be deducted from the payments to suppliers and remitted to tax authorities.

Criteria

Article IX of Section H of the contract between DAI and USAID states that host country taxes will not be financed by USAID and it is the responsibility of the contractor to arrange for all tax exemptions. Section 50 of the Income Tax Ordinance, 1979 requires the recipients of goods and services to deduct tax from payments to suppliers and remit them to tax authorities.

Effect

In case of examination from the tax authorities, DAI could be fined for non-compliance with the above tax requirements.

Cause

DAI is under the impression (though not certain) that they may be exempt from the applicability of this tax provision.

Recommendation

We recommend that DAI should seek clarification on this issue and act accordingly.

Management Comments

Management agreed to seek further clarification on another similar project as NACP project has been closed.

AFGHANISTAN
AGRICULTURAL
SECTOR
SUPPORT
PROJECT

DAI
Development Alternatives, Inc.

September 29, 1992

M/S A.F. Ferguson & Co.
Chartered Accountants
State Life Building 1-C
OFF I.I. Chundrigar Road
P.O. Box 4716
Karachi 74000

Dear Sir:

MANAGEMENT COMMENTS ON AUDIT REPORT

Please find attached our comments on your report for ASSP. As far as NACP is concerned, the project is closed and any action on the finding is impossible. All the findings for NACP should be considered resolved and closed.

Sincerely,



Richard L. Smith
Chief of Party

cc. Bob Gross
Controller, DAI

Attach:

MANAGEMENT COMMENTS ON DAI/ASSP
AUDIT REPORT
FOR THE PERIOD OF AUGUST 15, 1989 THROUGH JULY 31, 1991.

Finding No.1 through 3:

DAI believes that under the terms of contract we have complied with all laws. However, we will seek further clarification.

Finding No.4:

Voucher No. 700: These expenses were incurred by a team of four employees on seven different occasions. These expenses were \$6.52, \$9, \$18 and \$7.24 per person per occasion. The voucher was verified by one of the senior expatriates having current and detail knowledge of inside Afghanistan. DAI does not question the legitimacy and reasonableness of these expenditures. DAI has exercised prudent oversight of such costs and is willing to present these vouchers to any AID/Rep. representative for further review. The finding may be considered as resolved and closed.

Voucher No. 773: These expenses were incurred by three people during forty-two days. The questioned cost includes an amount of Rs.12,600/- (\$547.82) per diem allowance (a standard allowance of Rs.100/- per day per person). The per diem rate is an established standard per day rate for everyone on TDY inside Afghanistan. This is in conformity with AID policy to have standard rates of per diem. The transportation cost in this voucher is Rs. 20,041/-. These expenses were incurred on 21 occasions, which gives us an average expense per person per occasion of Rs.318/- (\$13.83). As mentioned above the voucher was reviewed and approved by responsible staff. DAI has exercised prudent oversight of such costs and is willing to present these vouchers to any AID/Rep. representative for further review. The finding may be considered as resolved and closed.

Finding No. 5:

As mentioned by the auditors in the Cause of finding, the voucher was taken out for the next camera purchase and subsequently misplaced. All the four cameras are listed with the same amount and voucher number in our inventory system, reference No. 04-02-0090. This is the only voucher missing out of three years record. The amount involved is not material and stores are properly recorded and available. The finding, therefore, may be considered resolved and closed.

Finding No. 6:

DAI agree that the at present the jackets of the used tickets are not available. However, all these travels and class of travel can easily be verified through other means.

DAI has developed procedures to insure that all used/unused portion of the tickets are collected from the travelers.

DAI will welcome any further procedures to determine the validity of these expenses by AID/Rep.

Finding No. 7:

It is DAI policy to obtain quotations for all procurement over Rs.5000/- (which is far lower than FAR standards). We believe that quotations for this procurement were obtained, however, currently they can not be located.

DAI will establish the reasonableness of this amount as recommended.

REPORT DISTRIBUTION LIST

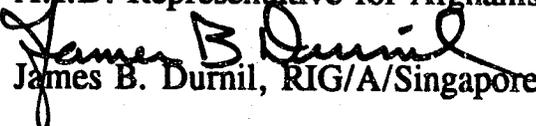
	<u>No. of Copies</u>
Office of the A.I.D. Representative for Afghanistan Affairs	5
Assistant Administrator for	
Asia and Private Enterprise Bureau (AA/APRE)	2
Associate Administrator for Finance and Administration (AA/FA)	1
Associate Administrator for Operations (AA/OPS)	1
Office of Press Relations (XA/PR)	1
Office of Financial Management (FA/FM)	1
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Asia/FPM	1
POL/CDIE/DI, Acquisitions	1
Management Control Staff (FA/MCS)	1
Inspector General	1
Assistant Inspector General/Audit	1
Office of Policy, Plans and Oversight (IG/A/PPO)	2
Office of Programs and Systems Audit (IG/A/PSA)	1
Office of Legal Counsel (IG/LC)	1
Assistant Inspector General for Investigations and Inspections (AIG/I)	1
Regional Inspector General for Investigations/Singapore (RIG/I/S)	1
Office of Resource Management (IG/RM/C&R)	5
IG/A/FA	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/EUR/W	1
RAO/Manila	1
RIG/A/Nairobi	1
RIG/A/Tegucigalpa	1
RIG/A/Vienna	1



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

November 18, 1992

TO: Dr. Frederick E. Machmer, Jr.,
A.I.D. Representative for Afghanistan Affairs

FROM: 
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of Development Alternatives, Inc.'s contract under the Narcotics Awareness and Control Project - Afghanistan
Audit Report No. 5-306-93-02-N

The accounting firm of A.F. Ferguson & Co., the Price Waterhouse affiliate in Pakistan, performed a financial audit of the Office of the A.I.D. Representative for Afghanistan Affairs' contract with Development Alternatives, Inc. (DAI) under Contract No. 306-0210-C-00-0820-00. Five copies of the audit report are enclosed for your action.

In fiscal year 1985, A.I.D. began a program of direct assistance to Afghanistan by funding activities in health, education, agriculture, and food aid. The following year, A.I.D. established a separate Office of the A.I.D. Representative for Afghanistan Affairs in Islamabad, Pakistan to initiate the Cross Border Humanitarian Assistance Program. In 1989, this office entered into a contract with DAI to carry out anti-narcotics activities under the Narcotics Awareness and Control Project in Pakistan and Afghanistan. The period covered by the audit was May 17, 1990 through July 31, 1991, during which DAI reported that \$499,578 had been expended under the contract.

The audit objectives were to: (1) determine whether DAI's Fund Accountability Statement presents fairly the receipts and expenditures under the contract and whether the expenditures were allocable, allowable, and reasonable; (2) report on DAI's system of internal controls; and (3) report on DAI's compliance with applicable laws, regulations, and contract terms.

The auditors reported that DAI's Fund Accountability Statement presents fairly the receipts and expenditures under the contract. No material internal control weaknesses were noted, and DAI complied, in all material respects, with applicable laws, regulations, and contract terms. Accordingly, we are not making any recommendations for Mission action.

The management of DAI agreed with the auditors' conclusions, including three non-material findings. Management's comments are summarized under each finding in the report and are included in full as Appendix I to this report.

We appreciate the courtesies and cooperation the Office of the A.I.D. Representative for Afghanistan Affairs and DAI extended to the auditors and our staff during the course of this audit.

Attachments:a/s