

# USAID

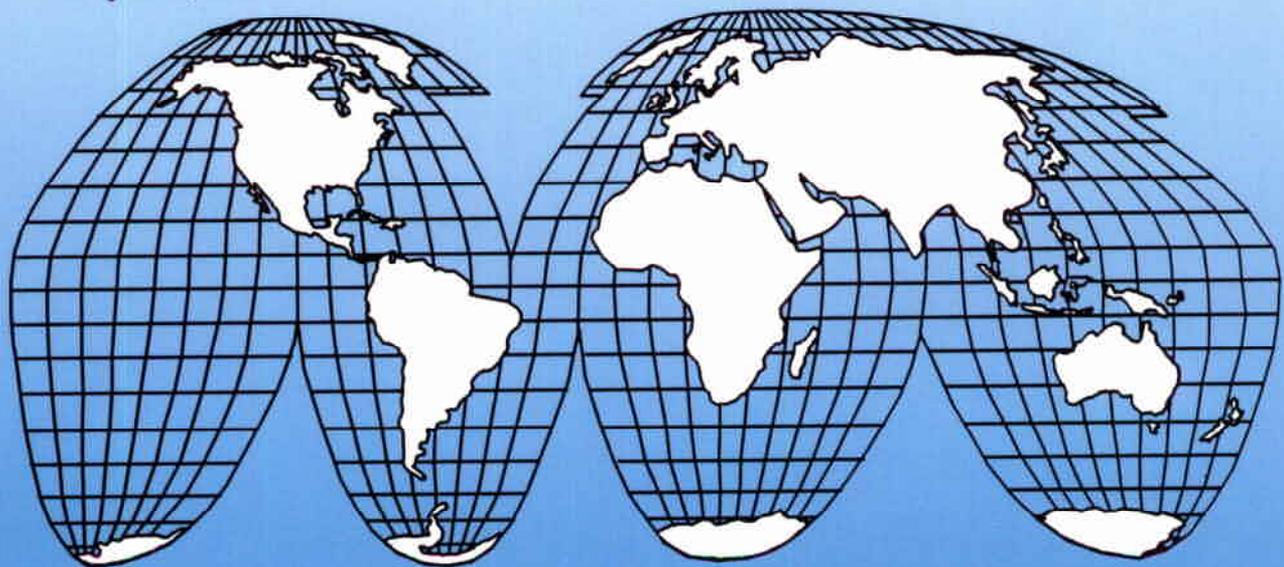
## OFFICE OF INSPECTOR GENERAL

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**Agreed Upon Procedures Review of the  
USAID/Madagascar Resources Managed by Chemonics  
Int'l Inc. under Contract No. PCE-I-809-99-00003-00,  
Railroad Rehabilitation Project, for the Period  
January 31, 2001 to December 31, 2001**

**Audit Report No. 4-687-03-005-N**

**May 20, 2003**



**PRETORIA, SOUTH AFRICA**

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Financial information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

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May 20, 2003

MEMORANDUM FOR ACTING MISSION DIRECTOR, USAID/Madagascar,  
Stephen M. Haykin

FROM: Regional Inspector General/Pretoria, Jay Rollins

A handwritten signature in black ink, appearing to read "Jay Rollins".

SUBJECT: Agreed Upon Procedures Review of the USAID/Madagascar Resources Managed by Chemonics Int'l Inc. under Contract No. PCE-I-809-99-00003-00, Railroad Rehabilitation Project, for the Period January 31, 2001 to December 31, 2001 (Report No. 4-687-03-005-N)

This memorandum transmits the subject agreed upon procedures review report performed by Agency-contracted auditor, Cabinet Mamisoa Ratsimanetrimanana. The review covered \$555,733 in USAID funds.

The review was limited to information and explanations obtained from records and management at the regional office of the project. Otherwise, the review was performed in accordance with U.S. Government Auditing Standards.

The overall objective of the Railroad Rehabilitation Project was to rehabilitate the Fianarantsoa-Manakara Côte Est railroad, which was damaged extensively by the cyclones that struck Madagascar in early 2000. The program consisted of two elements: engineering and management of construction. The engineering element included the rail design to be stabilized and rehabilitated and the securing of public bids for construction services. The construction component included the physical rehabilitation of the rail line and other critical structures.

USAID/Madagascar engaged Cabinet Mamisoa Ratsimanetrimanana to conduct a review of USAID/Madagascar's resources managed by Chemonics Int'l Inc. under contract Number PCE-I-809-99-00003-00 for the Period January 31, 2001 to December 31, 2001. The review focused primarily on USAID financed local costs for activities performed by the contractor in Madagascar. It did not involve an audit of indirect costs nor expenses incurred outside Madagascar. Cabinet Mamisoa Ratsimanetrimanana was required to evaluate the internal control systems and to report on the contractor's compliance with the agreement terms.

The audit report disclosed the following:

- In the course of their internal controls and compliance reviews, the auditors reported \$829 in ineligible and unsupported costs (\$82 in ineligible costs and \$747 in unsupported costs) because the amounts were not in accordance with stated policies, were for taxes, or were not supported by adequate documentation;
- No material internal control weaknesses or instances of material non-compliance were reported; and
- The auditors rendered an unqualified opinion on the contractor's Fund Accountability Statement

Therefore, we are making the following recommendation:

**Recommendation No. 1: We recommend that USAID/Madagascar determine the allowability of questioned costs totaling \$829 (\$82 in ineligible costs and \$747 in unsupported costs) detailed on pages 9-13 of the Cabinet Mamisoa Ratsimanetrimanana report, and recover from Chemonics Int'l Inc. any amounts determined to be unallowable.**

Please respond within 30 days describing the actions taken or planned by USAID/Madagascar to address these recommendations.

Attachments: a/s

CC: USAID/RCSA, Regional Contracting Officer, Karin Kolstrom  
USAID/Madagascar, Controller, Claire Johnson



# Cabinet Mamisoa RATSIMANETRIMANANA

Audit - expertise comptable - conseil en gestion - expertise juridique et fiscale - commissariat aux comptes

## UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) - MADAGASCAR

### REPORT

Initial Financial Audit of the Raise 809  
Railroad Rehabilitation Project -  
Local cost under Chemonics Int'l Inc.  
(FCER Project)  
Contract Number PCE - I - 809 - 99 - 00003 - 00 TO# 809

MARCH 2003

01 MARS 2003

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Tél. 22 60674 - 22 361 70 - 22 660 83 / Fax. 22 660 87 - e-mail : mamisoa.r@simicro.mg  
R.C.S : 1999A00400 - N.I.F : 260092.9 - STAT. : 589.416



# Cabinet Mamisoa RATSIMANETRIMANANA

Audit - expertise comptable - conseil en gestion - expertise juridique et fiscale - commissariat aux comptes

March 21, 2003

USAID Mission Controller  
14 rue Rainitovo Antsahavola  
Antananarivo, Madagascar

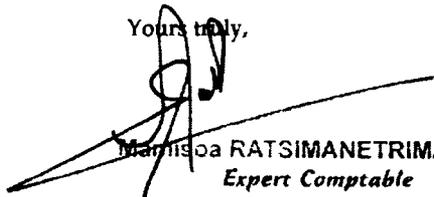
Dear Sir,

**INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-  
LOCAL COST UNDER CHEMONICS INT'L - FOR THE PERIOD OF JANUARY 31, 2001  
TO DECEMBER 31, 2001**

We have completed our audit in respect of the above and are pleased to submit our report which incorporates the Fund Accountability Statement, our independent report on the FAS, on the internal control structure, on compliance with laws, contracts terms and applicable regulations and the management comments.

We avail of this opportunity to thank you and your staff for your co-operation and hospitality.

Yours truly,



Mamisoa RATSIMANETRIMANANA  
*Expert Comptable*

CC : FCER Project

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## 1. TRANSMITTAL MEMO

### 1.1 Project Description

The overall objective of the Railroad Rehabilitation Project is to rehabilitate the Fianarantsoa-Manakara Côte Est (FCE) railroad that has been extensively damaged by cyclone that struck Madagascar during the period February to April 2000.

The U. S. Agency for International Development (USAID) in Madagascar approved the Project and provided USD 4,700,000 in contract funds to Chemonics Int'l, the contractor, for technical services and commodities in order to obtain technical services in the design, management, and supervision of the railroad rehabilitation. The services required by Chemonics Int'l are:

- DESIGN: prepare the detailed design and bidding documents for the rehabilitation of the Fianarantsoa-Manakara Côte Est (FCE) rail line to as-new standards. The design ends at award of the construction contract;
- MANAGEMENT/SUPERVISION: manage the rail road construction services. This includes subcontracting to local or multi-national construction firms and supervision of the construction work;
- REQUEST FOR PROPOSAL: prepare and issue a Request for Proposal to the five USAID pre-selected local or multi-national construction firms currently in Madagascar, analyze bid submissions, and recommend contract award.

The program consists of two elements: engineering and construction. The engineering element includes the rail design to be stabilized and rehabilitated and securing public bids for construction services. It also includes management of construction services, including the supervision of the construction contractor's activities. The construction component comprises of the physical rehabilitation of the rail line, including stabilization of all tunnels, bridges, culverts, and other critical structures.

The result of the construction element will be completed structures repaired and rehabilitated to the standards specified in the construction contract and ready for full operation.

## 1.2 Audit objectives

Further to the letter of invitation from the USAID dated December 20, 2001 and reference RFP No. 687-02-P-003 and Cabinet Mamisoa RATSIMANETRIMANANA proposal dated January 17, 2002, Cabinet Mamisoa RATSIMANETRIMANANA has been selected to conduct the financial audit of the Rail Rehabilitation Project for the period from January 31, 2001 to December 31, 2001.

The financial audit will be conducted for an initial period from January 31, 2001 to December 31, 2001 and subsequently two semi-annual concurrent audits through the end of the contract. The initial financial and concurrent financial audits will focus primarily on USAID financed local costs for activities performed by the contractor or its sub-contractors in Madagascar. It will not involve an audit of indirect costs nor expenses occurred overseas, these are covered by the DCAA audit.

The financial audit will be conducted in accordance with Government Auditing Standards of the funds provided by USAID.

The specific objectives of the audit are to:

- Express an opinion on whether the fund accountability statement for the USAID-contract presents fairly, in all material respects, revenues received, costs incurred, and commodities and technical assistance directly procured by USAID for the period audited in conformity with the terms of the contracts and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of the Contractor's internal control structure related to the USAID-funded programs, assess control risk, and identify reportable conditions, including material internal control structure weaknesses. This evaluation should include the internal controls related to required cost sharing contributions.
- Perform tests to determine whether the contractor complied, in all material respects, with contract terms and applicable laws and regulations related with the USAID-funded contract. All material instances of non-compliance and all illegal acts that have occurred or are likely to have occurred should be identified.
- Determine if the contractor has taken adequate corrective action if any on the financial audit report recommendations.

### 1.3 Limitation of scope

Our audit is based on all information and explanations obtained from records and management at the regional office of the project. We would like to state that no physical verification has been possible, except for equipment and vehicles purchased and located in Antananarivo or in Fianarantsoa, due to the distance and logistics availability and the works were just started. However, we would perform physical verification during the second phase of the audit.

### 1.4 Summary of audit findings

We summarize hereunder our findings and observations; the points are developed in detail in Section II and III of the report:

#### 1. Fund Accountability Statement

	ACTUAL	Questioned Costs
	USD	USD
Total expenditure	555 733,49	828,82
Reimbursement by USAID	(364 109,51)	(828,82)
Reimbursement Outstanding at December 31, 2001	191 623,98	

#### 2. Internal Control issues

Internal control issues which give rise to questioned costs and affect the Fund Accountability Statement are summarized as follows:

- Departure from procurement procedures including: absence of quotations
- Departure règlement intérieur and human resource procedures: missing "fiche per diem"

#### 3. Compliance with contract terms, laws and regulations

On certain expenditures, value added tax have been paid.

#### 4. Management comments

Overall, we are pleased to note that there are no findings of material errors and no questionable costs except for items shown in the previous paragraphs.

## 2. FUND ACCOUNTABILITY STATEMENT

### FCER PROJECT

Contract Number PCE- I- 809- 99- 00003- 00 TO# 809

For the Period January 31, 2001 to December 31, 2001



# Cabinet Mamisoa RATSIMANETRIMANANA

Audit - expertise comptable - conseil en gestion - expertise juridique et fiscale - commissariat aux comptes

## FCER PROJECT - Contract Number PCE - I - 809 - 99 - 00003 - 00 TO# 809

### Auditors' report to the USAID Mission Controller

*Independent Opinion on the Financial Audit of Local Costs under Chemonics Int'l Inc, Railroad Rehabilitation Project, FCER Project - Contract Number PCE - I - 809 - 99 - 00003 - 00 TO# 809 for the period of January 31, 2001 to December 31, 2001*

We have audited the Fund Accountability Statement of the above project set out on page 7 which have been prepared on basis of accounting policies set out on page 8.

### Respective responsibilities of directors and auditors

The contractor is responsible for maintaining proper accounting records and preparing Fund Accountability Statement for the project, which give a true and fair view and which are properly prepared in accordance with applicable Accounting Standards and the USAID rules and procedures. It is our responsibility to form an independent opinion, based on those accounts and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with the Generally Accepted Government Auditing Standards. Our audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the fund statements. It also includes an assessment of the significant estimates and judgments made by the contractor in the preparation of the fund statements, and of whether the accounting policies are appropriate to the project's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us sufficient evidence to give reasonable assurance that the fund statements are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the fund statements. We believe that our audit provides a reasonable basis for our opinion.

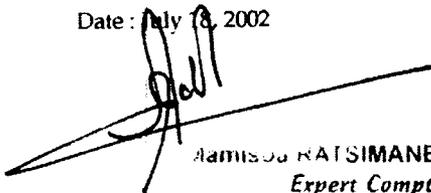
We have no relationship with, or any interests in, the project other than our capacity as auditors.

### Opinion

In our opinion, the Fund Accountability Statement set out on page 7, presents fairly, in all material respects, revenues received, local costs incurred for the period of January 31, 2001 to December 31, 2001 by Chemonics Int'l, under the contract number PCE-I-809-99-00003-00, Task Order N° 809, in conformity with the terms of contracts and generally accepted accounting principles.

The present report is intended for the information of the contractor and the USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Date: July 18, 2002



MAMISOA RATSIMANETRIMANANA  
Expert Comptable

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
 INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
 CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

Chemonics Int'l Inc - FCER				
Raise 809 Railroad Rehabilitation Project				
FUND ACCOUNTABILITY STATEMENT				
(For local costs only)				
January 31, 2001 to December 31, 2001				
	ACTUAL	QUESTIONED COSTS		Reference
		Ineligible	Unsupported	Notes
	USD	USD	USD	
<b>REVENUE</b>				
1. Reimbursements made by USAID (for local costs)	364,109.51			2.1.3
<b>COSTS INCURRED</b>				
Work days Ordered	77,680.23			2.1.4
Local Support Salaries	13,256.45			
Direct Fringe	6,356.83			
Travel & Transportation	9,291.05		442.54	2.1.5
Allowances	16,342.15		270.58	2.1.6
Other Direct Costs	51,811.75	77.88		2.1.7
Equipment & Vehicles	40,131.97			2.1.8
Rehabilitation Fund & Subcontracts	319,054.56			2.1.9
General & Administrative	21,808.50	3.72	34.09	2.1.10
2. Total Costs Incurred	555,733.49	81.60	747.21	
3. Pending Reimbursements (1-2)	( 191,623.98)	( 81.60)	( 747.21)	2.1.11

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

2.1 Notes to the Fund Accountability Statement

2.1.1 Accounting policies

- (a) The accounts are prepared in accordance with and comply with the Government Accounting Standards and under the historical cost convention.
- (b) Cash basis method is used. According to this policy, the contractor registers all costs at the date of payments. FCER project does not account any payables for suppliers.
- (c) From January 31, 2001 to December, 2001, the FCE rehabilitation project used a monthly standardized rate to convert all local expenses into USAID. Those are :

Month	Rate (for 1 USD)	
March 2001	6 469,82	MGF
April 2001	6 742,43	MGF
May 2001	6 742,43	MGF
June 2001	6 821,24	MGF
July 2001	6 876,72	MGF
August 2001	6 323,70	MGF
September 2001	6 352,19	MGF
October 2001	6 310,64	MGF
November 2001	6 430,07	MGF
December 2001	6 474,08	MGF

- (d) All local expenses are booked up to the last day of the month upon which the fund statements are prepared whereas the claim /invoice by home Office is prepared on expenses incurred from the 26<sup>th</sup> of the month to the 25<sup>th</sup> of the following month.

2.1.2 Accounting reports and documents

Local project uses QuickBooks Pro for registering all local operations. At the 25<sup>th</sup> of each month, the project's regional office prepares and sends a report, including the trial balance and the general ledger of the month stated in local currency, to the Home Office. The Home Office combines these local expenses, which are converted in US dollars, with costs incurred overseas on the project's account and submits an invoice for reimbursement to USAID.

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001**

Hereunder is an analysis of the relevant revenues and expenditures captions:

**2.1.3 Reimbursements made by USAID (related to local costs):**

Items	Invoiced	Waiting for reimbursement	reimbursed
Work Days Ordered	63,842.00	33,916.12	29,925.88
Local support salaries	12,409.53	5,615.12	6,794.41
Direct Fringe	6,356.83	6,064.12	292.71
Travel & Transportation Allowances	9,180.96	4,637.01	4,543.95
	14,043.64	8,617.61	5,426.03
Other Direct costs	40,335.22	11,716.53	28,618.69
Equipment & Vehicles	34,768.06	1,800.06	32,968.00
Rehabilitation Funds	332,833.89	90,785.21	242,048.68
General & Administrative	21,506.56	8,015.40	13,491.16
<b>Total</b>	<b>535,276.69</b>	<b>171,167.18</b>	<b>364,109.51</b>

**2.1.4 Work days ordered**

Items	Amount (USD)
Salaries LT Prof.	36,762.02
Salaries ST Prof	6,878.56
Multiplier	34,039.65
<b>Total</b>	<b>77,680.23</b>

**2.1.5 Travel and transportation**

**Questioned costs**

- **Absence of quotations**

**Observation**

The established procedure requires the invitation of at least three quotations from suppliers of every item being purchased. However we observed the absence of three quotes for certain purchases; the choice is between two quotes. There is even a complete absence of quotations.

Date	Items	Amount USD
05/07/01	Rent car for DINIKA	237.30
06/20/2001	Rent car volet communautaire	205.24
<b>Total</b>		<b>442.54</b>

**Implication**

Non adherence to established procedures in the major activity of procurement might potentially give way to unauthorized and irregular transactions.

**Recommendation**

We recommend the systematic application of the procedure of invitation to quotes for supplies and services requirements of the project as resources are in place to carry out such activity. In case of unavailability of quotations, we recommend the go ahead authorization be given by the Chief of Party.

2.1.6 Allowances

**Questioned costs**

Items	Amount (USD)
Missing Fiche per Diem	40.01
Absence of quotations	230.57
Total	270.58

- **Missing "fiche per diem"**

It is observed that certain expenses incurred do not have supporting procedural documentary evidence.

Date	Items	Missing documents	Amount USD
12/05/01	CHS/per diem/NOV	Fiche per diem	40.01

**Implication**

The lack of compliance to procedures may potentially run the risks of generating unauthorized and irregular transactions.

**Recommendation**

We strongly recommend that all expenditures should be supported by relevant documentary formalities before authorization for effecting payments and file accordingly.

- **Absence of quotations**

**Observation**

The established procedure requires the invitation of at least three quotations from suppliers of every item being purchased. However we observed the absence of three quotes for certain purchases; the choice is between two quotes. There is even a complete absence of quotations.

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001**

Date	Items	Amount USD
04/17/2001	5 nights fees from 04/01/01 to 04/06/01	230.57

**Implication**

Non adherence to established procedures in the major activity of procurement might potentially give way to unauthorized and irregular transactions.

**Recommendation**

We recommend the systematic application of the procedure of invitation to quotes for supplies and services requirements of the project as resources are in place to carry out such activity. In case of unavailability of quotations, we recommend the go ahead authorization be given by the Chief of Party.

**2.1.7 Other Direct Costs**

Items	Amount (USD)
Office Make Ready	2,144.84
Office Rent or Lease	7,074.09
Office Maintenance	149.64
Expendable supplies	7,285.86
Office Equipment Maintenance	2,083.59
Office Equipment Rental	64.34
Communication & Delivery	18,398.33
Legal Costs	1.96
Insurance	292.63
Bank Charges	1,827.98
Translation/Edit Costs	1,481.94
Reproduction Costs	748.37
Vehicle Lease/Rent	3,391.60
Vehicle Maintenance & Fuel	2,757.47
Vehicle Spare Parts	729.71
Aircraft Rental	11.40
Meeting Expenses	3,061.12
Passports, Visas, W. Permits	22.86
Subscriptions/Memberships	117.01
Exchange Rate (Gain or Loss)	210.07
<b>Total</b>	<b>51,854.61</b>

**Questioned costs**

- Value added tax paid

**Observation**

We noted that on certain expenditures value added tax has been paid, as shown hereunder.

Date	Items	Missing documents	Amount USD
06/12/01	Phone bills		27.48
07/26/2001	Electricity and water bill/ Aug		50.40

**Implication**

This is contrary to regulations whereby FCER project is not subject to VAT and has the impact of unnecessarily inflating the expenditures of the project and give rise to questioned costs.

**Recommendation**

We recommend addressing this issue and negotiate potential claims, and adjusts the Funds Accountability Statement accordingly if needs be.

**2.1.8 Equipments & Vehicles**

Items	Amount (USD)
Office Equipment/Furniture	11,289.86
Engineering/Field Equipment	1,314.47
Computer Equipment	4,473.67
Project Vehicle	22,367.55
Freight	686.42
<b>Total</b>	<b>40,131.97</b>

**2.1.9 Rehabilitation Fund and Subcontracts**

Items	Amount (USD)
Railroad Rehabilitation Fund	319,054.56
<b>Total</b>	<b>319,054.56</b>

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
 INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
 CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001**

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**2.1.10 General & Administrative**

General & Administrative expenses represent 4.78%, applicable coefficient as per contract between Chemonics Int'l and USAID of all expenditures except for Work Days Ordered.

**2.1.11 Pending reimbursements**

Concerns:

- costs incurred not yet invoiced by Chemonics Int'l owing to under invoicing and to the fact that claims are prepared for local cost incurred up to December 25, 2001 : USD **20,456.80**
- USD **171,167.18** are invoiced but waiting for reimbursement ( represents invoiced amount for November and December 2001)

Expenses occurred from December 26 to December 31, 2001 are as follows:

Items	Not invoiced	Invoiced but waiting for reimbursement	Total
Work days ordered	13,838.23	33,916.12	47,754.35
Local support salaries	846.92	5,615.12	6,462.04
Direct Fringe	0.00	6,064.12	6,064.12
Travel & Transportation Allowances	110.09	4,637.01	4,747.10
Other direct costs	2,298.51	8,617.61	10,916.12
Equipment & vehicle	11,476.53	11,716.53	23,193.06
Training & Workshops	5,363.91	1,800.06	7,163.97
Rehabilitation Fund	0.00	0.00	0.00
General & Administrative	-13,779.33	90,785.21	77,005.88
<b>Total</b>	<b>301.94</b>	<b>8,015.40</b>	<b>8,317.34</b>
	<b>20,456.80</b>	<b>171,167.18</b>	<b>191,623.98</b>



# Cabinet Mamisoa RATSIMANETRIMANANA

Audit - expertise comptable - conseil en gestion - expertise juridique et fiscale - commissariat aux comptes

## *Independent Auditor's Report on the Internal Control System of the Railroad Rehabilitation Project, FCER Project - Contract Number PCE-I-00-99-00003-00 To#809 for the Period January 31, 2001 to December 31, 2001*

We have audited the detailed Financial Report of the contractors for the period January 31, 2001 to December 31, 2001 and have submitted our report thereon on July 18, 2002.

We have carried out an audit according to the Generally Accepted Government Auditing Standard set up by the Comptroller General of the United States. These standards require that we plan and carry out our audit in order to obtain reasonable assurances that the detailed financial report is accurate.

In planning and executing the audit of the contractor, we have taken in consideration the internal control system in order to determine audit procedures leading to the expression of our opinion on the financial report and to an assurance on the internal control system.

The contractor is responsible for establishing and maintaining the internal control structure. Under this responsibility, the estimates and judgements of management are required to evaluate benefits derived and related costs of the policies and procedures of the internal control system. The objectives of an internal control system are to give management a reasonable but not absolute assurance, that assets are safeguarded against losses out of unauthorised usage or arrangement, that the transactions are executed according to management authority and to terms of agreement, and that transactions are properly recorded to enable the preparation of detailed financial report according to generally accepted accounting standards. Due to inherent weaknesses in all internal control system, error or irregularities can however occur and not be detected. On the other hand, the projected evaluation for future period is subjected to the risks that procedures can become inadequate due to changing conditions or to deterioration in the efficiency of concept and application of policies and procedures.

According to the standards of the American Institute of Certified Public Accountants, the conditions to be mentioned in a report concern substantial weaknesses in concept or application in the internal control system which, in our opinion, could affect negatively the foreign beneficiary in recording, accounting, summarising and reporting financial transactions compatible with management detailed financial report.

Weakness is mentionable in a report where one or more elements in the concept or application of the internal control system do not minimise to such an extent risks of errors or irregularities in amounts which could be substantial and which could be undetected in time by employees in their normal job exercise.

Our examination of the internal control system will not necessarily reveal all the elements in the internal control system that should be mentioned in our report and consequently will not also necessarily reveal all conditions to be mentioned in the report as weaknesses, per definition above.

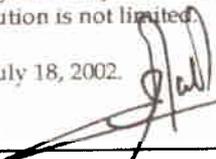
In our opinion, internal control issues which give rise to questioned costs, are summarised as follows:

- Departure from procurement procedures including absence of quotations
- Departure from human resource procedures :absence of "fiche per diem"

Other weaknesses, that did not reveal all conditions, were sent to the contractor in a Management Letter.

The present report is to inform the contractor and the USAID. However, on the approval of the Regional Inspector General Bureau of USAID, this report is of public domain and its distribution is not limited.

Date: July 18, 2002.

  
Mamisoa RATSIMANETRIMANANA  
Expert Comptable

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R.C.S : 1999A00400 - N.I.F : 260092.9 - STAT. : 589.416



# Cabinet Mamisoa RATSIMANETRIMANANA

Audit – expertise comptable – conseil en gestion – expertise juridique et fiscale – commissariat aux comptes

## **Auditor's Report on the Compliance with Contract Terms and Applicable Laws and Regulations, to the USAID Mission Comptroller.**

We have audited the detailed local financial report submitted by Chemonics Int'l Inc, Rail Road Rehabilitation Project - Contract Number PCE-I-00-99-00003-00 To#809 for the period of January 31, 2001 to December 31, 2001 and we have issued our report thereon dated July 18, 2002.

We have performed our audit according to the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

These standards require that we plan and carry out audit work with a view to obtain a reasonable assurance that the detailed Financial Report does not contain any inaccuracy.

The compliance to contract terms and applicable laws and regulations of the above project is the responsibility of the contractor. As part of the audit work for a reasonable assurance that the detailed Financial Report does not contain any inaccuracy, we have carried out tests as to the compliance of "Chemonics Int'l Inc, Rail Road Rehabilitation Project" with contract terms and applicable laws and regulations. However, our objective is not to give an opinion on the global compliance to such provisions. Consequently, we are not expressing such an opinion. We have also carried out tests on the compliance of the project with certain provisions of the contract terms and to applicable laws and regulations for the application of corresponding contributions.

Cases of non-compliance are due to non-fulfilment of requirements or to violation of contract terms and to laws and regulations which can lead us to conclude that the aggregate of the inaccuracies as a result of the non-fulfilment or violations is important in the relevant Financial Report and in the provisions of corresponding contributions.

We observed that on certain expenditures, value added tax have been paid by the project.

However, the results of our tests of compliance indicate that, as regards to tested items, "Chemonics Int'l Inc, Rail Road Rehabilitation Project" has observed, in all material aspects, the provisions which are referred to in the third paragraph of the present report, and concerning the tested items, there is nothing which could lead us to believe that "Chemonics Int'l Inc, Rail Road Rehabilitation Project" did not observe, in all material aspects, these provisions.

The present report is expected to inform the "Chemonics Int'l Inc, Rail Road Rehabilitation Project", and the United States Agency for International Development (USAID). However, on the approval of the Regional Inspector General Bureau of USAID, this report is of public domain and its distribution is not limited.

Date: July 18, 2002

RATSIMANETRIMANANA  
*Expert Comptable*

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## 5. Management Comments

### 5.1 Travel and transportation

*Chemonics' reply:* The State Department Standard Regulations, which govern international per diem, do not require cost quotes for hotel fees. In regards to the Dinika vehicle, the project vehicle was unavailable, so we used the vehicle and driver used by LDI, and LDI had completed the cost investigation. LDI maintains this cost information on file. In regards to Volet Communautaire, the train was not working to bring our team out to the field and the project vehicle was not available; since only two agencies in Fianarantsoa rent cars willing to go into the bush, three quotes are not a possibility.

Typically, these rare exceptions are justified with a memo which is attached to the bon de commande. We will reinforce with staff the importance of justifying and documenting any departure from procedure with a written memo. Regardless, our field policy strives to maintain more stringent procedures than required contractually. Under the Simplified Acquisition Procedures included under the RAISE IQC, items of \$2,500 and below may be purchased without cost quotations as long as the price is reasonable.

### 5.2 Allowances

#### - Missing fiche "per diem"

*Chemonics' reply:* While we do not normally make per diem payments from petty cash, the field accountant has noted that the appropriate supporting documentation for the one per diem charge in question can be found with the petty cash documentation. Therefore, each of these instances has been explained.

#### - Absence of quotations

*Chemonics' reply:* The State Department Standard Regulations, which govern international per diem, do not require cost quotes for hotel fees. In regards to the Dinika vehicle, the project vehicle was unavailable, so we used the vehicle and driver used by LDI, and LDI had completed the cost investigation. LDI maintains this cost information on file. In regards to Volet Communautaire, the train was not working to bring our team out to the field and the project vehicle was not available; since only two agencies in Fianarantsoa rent cars willing to go into the bush, three quotes are not a possibility.

Typically, these rare exceptions are justified with a memo which is attached to the bon de commande. We will reinforce with staff the importance of justifying and documenting any departure from procedure with a written memo. Regardless, our field policy strives to maintain more stringent procedures than required contractually. Under the Simplified

Acquisition Procedures included under the RAISE IQC, items of \$2,500 and below may be purchased without cost quotations as long as the price is reasonable.

### 5.3 Other Direct Costs

- Value added tax paid

*Chemonics' reply:* We have had difficulties helping the utilities suppliers in Fianarantsoa understand the TVA system. We did eventually succeed in getting Telma to remove TVA from their bills, but have been unsuccessful getting reimbursed for TVA already paid. Concerning Jirama in Fianarantsoa, we have tried many times to negotiate payment of TVA by the Malagasy government, as our contract states. Unfortunately, if we do not pay TVA, they consider the bill unpaid and will turn off our electricity or water if the TVA is not paid, and the process takes a long time. We are not the only USAID-funded project with this problem. We have raised this issue several times with USAID, but have not been able to arrive at a solution. Hence, in order to keep our power on so that the project can continue, we are obliged to pay TVA on utility bills. We have asked for USAID's assistance in resolving this issue.

- APPENDIX I** : Table of reimbursements
- APPENDIX II** : Monthly details of work days ordered
- APPENDIX III** : Monthly details of allowances
- APPENDIX IV** : Details of other direct costs
- APPENDIX V** : List of Equipments
- APPENDIX VI** : Management Letter and Replies

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001**

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APPENDIX I: TABLE OF REIMBURSEMENTS

APPENDIX II: MONTHLY DETAILS OF WORK DAYS ORDERED

APPENDIX III: MONTHLY DETAILS OF ALLOWANCES

APPENDIX IV: DETAILS OF OTHER DIRECT COSTS

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
 INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
 CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

APPENDIX V: LIST OF EQUIPMENTS

Description	Brand	Reference	Inv. #	Purchase date	Supplier
Chair : office chair (black)			0094	04/18/01	NETWORK
Chair : office chair (black)			0095	04/18/01	NETWORK
Chair : office chair (black)			0096	04/18/01	NETWORK
Chair : office chair (black)			0097	04/18/01	NETWORK
Chair : office chair (green)			0098	04/18/01	NETWORK
Chair : office chair (green)			0099	04/18/01	NETWORK
Closet (armoire)		VNCO 1721931	0220	09/14/01	SODIM
Computer	IBM	Netvista P III 800	0216	04/18/01	SBM
Computer table			0085	04/18/01	NETWORK
Computer table			0086	04/18/01	NETWORK
Computer table			0087	04/18/01	NETWORK
Computer table			0088	04/18/01	NETWORK
Computer table			0089	04/18/01	NETWORK
Computer table			0090	04/18/01	NETWORK
Desk office GM (grey)			0209	07/13/01	ESPACE MEUBLE
Desk office GM (grey)			0091	04/18/01	NETWORK
Desk office GM (grey)			0092	04/18/01	NETWORK
Desk office GM (grey)			0093	04/18/01	NETWORK
Fax System	SAGEM	Internet 2440	0213	05/30/01	LANDIS MGAR
Filing cabinet PM			0212	05/02/01	SODIM
Keyboard and mouse	IBM		0217	08/21/01	SBM
SCANNER HP Scanjet 3300C			0214	07/20/01	NETWORK
Table ordinateur GM			0215	07/13/01	ZZ CENTER
Telephone			0219	09/05/01	VITTEL communication
Telephone : standard			0221	09/05/01	VITTEL communication
Bin sorter finish	XEROX	5830	0218	07/16/01	APMA
Calculator (scientific)	SHARP	EL-531VHB	0245	11/22/01	COULEUR MODERNE
Calculator (scientific)	SHARP	EL-531VHB	0246	11/22/01	COULEUR MODERNE
Calculator (scientific)	SHARP	EL-531VHB	0247	11/22/01	COULEUR MODERNE
Chair office (black)			0129	04/02/01	NETWORK
Chair office (black)			0130	04/02/01	NETWORK
Chair office (black)			0137	04/02/01	NETWORK
Chair office (black)			0162	04/02/01	NETWORK
Chair office (black)			0163	04/02/01	NETWORK
Chair office (black)			0174	04/02/01	NETWORK
Chair office (red)			0104	05/04/01	NETWORK
Closet (varnished wood)			0123	03/14/01	

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**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
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CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001**

Description	Brand	Reference	Inv. #	Purchase date	Supplier
Computer	HEWLETT PACKARD	HP BRIO P4843A	0223	08/18/01	VENDOME SARL
Desk office PM (pin)			0250	12/12/01	ANDRIANARISDA Jady
Fax System	SAGEM	Interref 2440	0102	05/30/01	LANDIS MICAR
Modem externe	ROBOTICS	US ROB M	0101	06/13/01	HP VENDOME
Mouse PS2		PS2	0224	11/26/01	BURTEC
Mouse PS2		PS2	0225	11/26/01	BURTEC
Mouse PS2		PS2	0226	11/26/01	BURTEC
Network Card				12/14/01	Ets RALAVAO
Network Card				12/14/01	Ets RALAVAO
Board : planning board			0222	12/15/01	E' NY ONY
Rule : fibre glass rule 50M	BANDMASS		0205	07/30/01	WELDOM
Rule : fibre glass rule 50M	METRICA	Y 0057 SP	0235	11/22/01	F.B.F
Rule : fibre glass rule 50M	METRICA	Y 0057 SP	0236	11/22/01	F.B.F
Rule : fibre glass rule 50M	METRICA	Y 0057 SP	0237	11/22/01	F.B.F
Rule : fibre glass rule 50M	METRICA	Y 0057 SP	0238	11/22/01	F.B.F
Rule : fibre glass rule 50M	METRICA	Y 0057 SP	0239	11/22/01	F.B.F
Rule : metallic rule 5M	STANLEY	1 30 497	0231	11/22/01	BATPRO
Rule : metallic rule 5M	STANLEY	1 30 497	0232	11/22/01	BATPRO
Rule : metallic rule 5M	STANLEY	1 30 497	0233	11/22/01	BATPRO
Rule : metallic rule 5M	STANLEY	1 30 497	0234	11/22/01	BATPRO
Rule : metallic rule 8M	VOLA	161826CVC	0203	07/30/01	WELDOM
Rule : metallic rule 8M	VOLA	161826CVC	0204	07/30/01	WELDOM
Shelves (polish pin)			0106	05/03/01	SORIME
Shelves (polish pin)			0132	05/03/01	SORIME
Shelves (polish pin)			0134	05/03/01	SORIME
Shelves (polish pin)			0153	05/03/01	SORIME
Shelves (polish pin)			0169	05/03/01	SORIME
Shelves (polish pin)			0170	05/03/01	SORIME
Shelves (polish pin)			0196	05/03/01	SORIME
Sideboard PM			0142	08/08/01	
Sideboard PM			0143	08/08/01	
Sideboard PM			0144	08/08/01	
Sleeping bag	CONDOR 200	20016		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20016		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20016		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20016		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20016		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20016		12/14/01	Planète Madagascar

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
 INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
 CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

Description	Brand	Reference	Inv. #	Purchase date	Supplier
Sleeping bag	CONDOR 200	20018		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20018		12/14/01	Planète Madagascar
Sleeping bag	CONDOR 200	20018		12/14/01	Planète Madagascar
Telephone			0176	04/23/01	VITTEL communication
Telephone			0177	04/23/01	VITTEL communication
Telephone			0178	04/23/01	VITTEL communication
Telephone			0181	04/23/01	VITTEL communication
Telephone			0182	04/23/01	VITTEL communication
Telephone			0183	04/23/01	VITTEL communication
Telephone			0184	04/23/01	VITTEL communication
Telephone			0208	04/23/01	VITTEL communication
Telephone			0180	04/25/01	VITTEL communication
Telephone : standard			0179	04/25/01	VITTEL communication
Tent	CEVENNES	30018		12/14/01	Planète Madagascar
Tent	CEVENNES	30018		12/14/01	Planète Madagascar
Tent	CEVENNES	30018		12/14/01	Planète Madagascar
Tent	CEVENNES	30018		12/14/01	Planète Madagascar

**UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT  
(USAID) - MADAGASCAR**

**MANAGEMENT LETTER**

**Initial Financial Audit of the Raise 809  
Railroad Rehabilitation Project -  
Local cost under Chemonics Int'l Inc.  
(FCER Project)**

**Contract Number PCE - I - 809 - 99 - 00003 - 00 TO# 809**

**March 2003**

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## 1. Internal Control Review

We have reviewed and evaluated the contractor's internal control structure set up for the FCER project and obtained sufficient understanding of the design of relevant control policies and procedures. We have carried out an assessment of the inherent and control risk and identified reportable conditions, including material internal control structure weaknesses.

We report hereunder our findings/observations with comments on the implications and non compliances and corresponding recommendations:

### 1. Departure from the prescribed accounting system

#### *Observation*

It is to be noted that the Chemonics' "Field Accounting Manual" prescribed the accrual method of accounting system. However FCER project accounting has departed from this system and has instead adopted the cash basis; therefore the general ledger has been maintained on a cash basis.

#### *Implication*

This amounts to a departure from established procedure and known liabilities are not recognised at the time of occurrence and not reflected in the appropriate accounting period.

#### *Recommendation*

We are explained that the change to cash basis was done on the recommendation of the Head Office finance director. However this basis would be different with other projects and comparability made difficult.

With a view to recognise expenditures at the time of occurrence and attribute to the respective accounting period, we recommend the adoption of the accrual basis of accounting.

### 2. Local Budgetary Control

#### *Observation*

We observed that an overall budget is shown in the main contract, summarizing the principle allocation of expenditures but without details for local and overseas costs.

#### *Implications*

The project cannot present the local budgetary situation at December 31, 2001. The fund accountability statement for local costs does not include any details of local budget targets for the period of January 31, 2001 to December 31, 2001

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*Recommendation*

We recommend a detailed budgetary system for every nature of expenditure and its corresponding budgeted amount; and this should be extended to both the Head Office and regional office costs (local/overseas/overall). Monthly variance analysis should be undertaken and material variances explained. This would help local management to take corrective and preventive actions at a very early stage and hence monitors and controls local expenditures accordingly. Otherwise, the local fund accountability statement of the project would contain comparison of local costs to budgets forecast.

3. **Discrepancy between General Ledger expenditures and Invoice to USAID**

*Observation*

We noted that the amount of expenditures reflected in the general ledger do not agree with the amount invoice for reimbursement with USAID for the same period. For instance, there are claims for expenditures that are higher than what has been registered in the general ledger, and the contrary is also true. A detail analysis of disagreed amounts is shown in Appendix I.

*Implication*

There may be risks of under or over invoicing.

*Recommendation*

We recommend that amounts claim should represent expenditures incurred and accounted for in the general ledger. This would avoid inconsistencies, under or over claims, and reflect correctly the expenditures actually incurred.

4. **Common Expenditures between Projects**

*Observation*

We observed that the non accountability in the local general ledger of common costs between projects. The costs are actually split by Head Office among the various projects and imputed to the respective projects in US dollars. This amount is not booked in the local general ledger; instead these costs are added to the local costs claims with the USAID.

*Implication*

These costs are outside the local general ledger system and are not supported by documentary evidence.

The rate of conversation used is based on the average rate prevailing at the project where the expenditure is incurred and this rate is different to the other projects exchange rates.

**Recommendation**

We recommend the use of debit notes, issued by Head Office, to account for the common costs between various projects at the regional office.

5. **Banking operations**

5.1 **Bank Reconciliation**

**Observation**

We observe the bank reconciliation statement is not properly prepared. We noted a check amounting to FMG 9 398 920 was wrongly accounted as FMG 9 298 920 in the general ledger records. Another check payment amounting to FMG 100 000 was outstanding as at December 31, 2001. However when the bank reconciliation was prepared, neither of the reconciling items above were considered; they actually offset off record.

**Implication**

Improper preparation of the bank reconciliation statement has the risks hiding undetected errors, intentions with cash.

**Recommendation**

We recommend that the bank reconciliation statement be properly prepared with every single reconciling item clearly identified and nature disclosed. Compensating exercise should never be undertaken when preparing the bank reconciliation statement. The statement should be reviewed and approved by the Head of Party at frequent intervals, preferably on a monthly basis.

5.2 **« Write checks » prenumbered and input sequence**

**Observation**

We observed the « write checks » vouchers are prepared manually from a template in excel spreadsheet and the serial number is input manually. This process may be cancelled and amended accordingly. We also noted checks issued do follow a consistent sequential order when input in the bank account in the general ledger system.

**Implication**

There are risks that non-serially prenumbered vouchers would not provide track for audit trail of transactions effected.

In addition, there are risks that non sequential input of check issued in the general ledger may hide errors and possible irregularities, and this may go unnoticed.

**Recommendation**

We recommend that « write checks » vouchers be prenumbered serially by the system and issued for every check payment, with the check number correctly registered on the voucher. The vouchers should be filed in sequential order irrespectively.

The source document for accounting of the check payment being the authorized « write check » voucher and the check number registered thereon. The check number would be the main reference and being input systematically in sequential order in the general ledger system.

**6. Petty Cash**

**6.1 Two petty cash system in one site**

**Observation**

We observe the project maintained two petty cash system in the Fiaranantsoa office. We are explained that this procedure was proper due to serious difficulties face during the civil unrest period in March 2002. However as at May 2002, the office has continued operating two petty cash.

**Implication**

This is contrary to standard procedure. The maintenance and operation of two petty cash system in the same office may run the risks of losing control on expenditures and accountability

**Recommendation**

We recommend that the maintenance of two petty cash system be ceased and only one system is in operation at the site.

**6.2 Payments less than FMG 300,000**

**Observation**

We observed that various expenditures above the threshold of FMG 300,000 are effected through the petty cash account, instances are as follows:

Date	Nature of Transaction	Amount - FMG
12/18/2001	Advance Per diem OBE : mission Tamatave	400,000
12/21/2001	HAA/ Per diem	314,500
03/27/2002	KSF Demenagement	450,000

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

**Implication**

This is not in compliance with the « Manual of Procedures », which stipulates that every payment above FMG 300,000 should be effected through the issue of check.

**Recommendation**

In order to maintain standards and consistency in operations, we recommend the strict compliance with and adherence to established policies and procedures.

**6.3 Petty cash expenditure cut off**

**Observation**

We observe that as at the accounting date, December 31, 2001, the last time the petty cash was replenished was December 14, 2001 and the following replenishment was on January 3, 2002. This implies that the petty cash expenditures from December 14, 2001 to December 31, 2001, amounting to equivalent of USD 248.89, were not booked in the accounting system, and hence not reflected in the Funds Accountability Statement. Petty cash for Tana and Fianarantsoa amounts for USD 149.15 and USD 99.74 respectively. We understand this is however immaterial.

**Implication**

There are risks that all the transactions pertaining to the accounting period ending December 31, 2001, are not completely recognized for.

**Recommendation**

As a matter of principle, we recommend the setting up of accounting cut off procedure with a view to reflect fully the transactions pertaining to the respective financial period being prepared.

**7. Expenditures analysis**

**7.1 Procurement**

**(a) Missing supporting documents**

**Observation**

It is observed that certain expenses incurred do not have supporting procedural documentary evidence. For instance the expenditure is not supported by a purchase requisition, delivery order, and invoice. We provide hereunder a few case examples:

Date	Items	Amount(MGF)	Missing documents
04/17/2001	Taxi fare, RRR/LDI, Office warehouse	10,000	Receipt of payment
05/02/2001	Taxi fare office bank	11,000	Receipt of payment
12/05/2001	CHS/per diem/NOV	259,000	Fiche per diem

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

**Implication**

The lack of compliance to procedures may potentially run the risks of generating unauthorized and irregular transactions.

**Recommendation**

We strongly recommend that all expenditures should be supported by relevant documentary formalities before authorization for effecting payments and file accordingly.

**(b) Absence of quotations**

**Observation**

The established procedure requires the invitation of at least three quotations from suppliers of every item being purchased. However we observed the absence of three quotes for certain purchases; the choice is between two quotes. There is even a complete absence of quotations.

Date	Items	Amount (MGF)
04/17/2001	5 nights fees from 04/01/01 to 04/06/01	1,554,650
05/07/2001	Rent car for DINIKA	1,600,000
06/20/2001	Rent car volet communautaire	1,400,000

**Implication**

Non adherence to established procedures in the major activity of procurement might potentially give way to unauthorized and irregular transactions.

**Recommendation**

We recommend the systematic application of the procedure of invitation to quotes for supplies and services requirements of the project as resources are in place to carry out such activities. In case of unavailability of quotations, we recommend the on ahead authorization

### 7.3 Value Added Tax

#### *Observation*

We noted that on certain expenditures value added tax has been paid, as shown hereunder.

Date	Nature of transaction	Amount VAT MGF
06/12/2001	Phone bills	187,428
07/26/2001	Electricity and water bill/ Aug	346,608

#### *Implication*

This is contrary to regulations whereby FCER project is not subject to VAT and has the impact of unnecessarily inflating the expenditures of the project and give rise to questioned costs.

#### *Recommendation*

We recommend addressing this issue and negotiate potential claims, and adjusts the Funds Accountability Statement accordingly if needs be.

## 8. Manpower Remuneration

### 8.1 Discrepancy between payroll and tax return

#### *Observation*

We observe that the deductions effected from the salary package of the employees, on behalf of the authorities, do not agree with the tax return. For instance, as per the law the employer deducts personal tax, pension contribution, etc to be remitted to the government.

#### *Implication*

The non compliance to government directives may run the risk of the project to be operating against the law and cause prejudice to the good operations of the project implementation.

#### *Recommendation*

We recommend that the project be implemented in strict compliance to all relevant laws of the country.

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Cabinet Mamisoa RATSIMANETRIMANANA

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
 INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
 CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

9. Accounting issues

9.1 Wrong classification

**Observation**

It is observed that certain expenditures are not classified in their correct accounts, examples are as follows:

Date	Check number	Account	Memo	Proposed reclassification	Amount (FMG)
04/17/2001	6201568	Travel & Transport	Fuel for CHEVY	Vehicle Maintenance & Fuel	110,000
05/18/2001	6201589	Expendable supplies	Hanging folders	Office equipment & furniture	1,104,000
06/12/2001	433477	Expendable supplies	Water & electricity consumption	Office rent/lease	240,502
10/09/2001	6443477	Vehicle lease & rental	Aircraft rental	Aircraft rental	4,209,167

**Implication**

Expenses registered in the wrong account may distort the true assessment of the nature of the respective ledger accounts.

**Recommendation**

We recommend due care and diligence in recognizing the nature of expenditure and correctly accounting in the appropriate account caption.

9.2 Wrong accounting

**Observation**

We observe variances between invoice value and the amount actually booked in the general ledger system. Instances are as follows:

Date	Check Number	Booked in system MGF	Invoice value MGF
06/12/2001	Chks 8718912	1,003,860	836,550
11/14/2001	Chks 8718902	739,960	282,000

**Implication**

Wrong accounting of invoice value may understate or overstate the relevant transaction and may not provide a true assessment in the respective ledger accounts. Reconciliation of transactions may also be rendered difficult.

**Recommendation**

We recommend due care and diligence in assessing and recognizing the correct value of invoices for input in the relevant and appropriate account caption.

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### 9.3 General Journal adjustments

***Observation***

We noted that many journal adjustments have been effected in the general ledger system and for which there is no supporting evidence.

***Implication***

There are risks that the absence of documentary evidence may hide possible non complying and irregular transactions.

***Recommendation***

We recommend that every adjustment effected in the general ledger system through a journal should be duly authorized and relevant documentation attached and filed.

**CHEMONICS REPLIES**

2.

**1. Accounting System - Accrual vs. Cash System.**

*Audit report:* FCER uses a cash basis as opposed to an accrual basis.

*Chemonics' reply:* Chemonics follows an accrual-based accounting system. We believe that the auditors' conclusion that Chemonics uses a cash-based system is incorrect. To keep the FCER system consistent with accrual-based system prescribed by the Field Accounting manual, the field accountant must ensure that an invoice which carries over from a previous monthly accounting period to the next monthly accounting period is in fact entered as an account payable. The project was receiving numerous incorrect invoices from suppliers that were being caught during the review and approval stage. To avoid the complications of reversing an accounts payable entry for an incorrect invoice, the project waits until the signatures are received before paying the bill. Usually, the bill can be paid immediately upon receipt of all approval signatures, so it is therefore not necessary to enter into accounts payable, as it is not an accrued debt.

**2. Budgetary Control**

*Audit report:* There is a "complete absence of budgetary control system...there could be over or under spending..."

*Chemonics' reply:* The Task Order contract requires budgetary reporting on the following line items only: Labor, Materials, and Ceiling Price. Chemonics does track incurred and projected costs detailed by line item as well as a detailed commitments tracker for the Railroad Rehabilitation Fund, which are updated and discussed between the Home Office and Field Office on a monthly to bi-monthly basis. We do and will continue to take preventive and corrective action as necessary to ensure wise allocation of resources without underspending or overspending the budget.

**3. Discrepancy Between General Ledger and Invoice to USAID.**

*Audit report:* The amount reflected in the general ledger does not agree with amount in invoice.

*Chemonics' reply:* We do agree that there have been some discrepancies between amounts in the local general ledger and amounts invoiced, and we appreciate the auditors bringing this to our attention. As we explained in our letter and attachments to DCDM dated May 2, 2002, we uncovered a QuickBooks software glitch that has since been corrected, which led to some correcting entries (both debits and credits) not being picked up when transferred to our invoicing software. We also found a human error for the month of June 2001 which

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excluded six days of local expenses from the invoice. The result is a net under billing to USAID of \$10,857.62, which has been thoroughly discussed with the auditors and which will be adjusted in the August invoice.

#### **4. Common Expenditures Between Projects**

*Audit report:* Non-accountability in the local general ledger of common costs between projects, with a different exchange rate applied in each project.

*Chemonics' reply:* We do not see any evidence of non-accountability. Common costs shared by projects, such as a portion of the time for the LDI janitor who also cleans the shared office space of FCER, are appropriately defined in a Memorandum of Understanding between the projects set forth at the beginning of the project and are invoiced accordingly. The cost is shown in the local general ledger of the project which pays the expense. A complete report of FCER expenses paid for by the LDI project was provided to the auditors for their review. Other expenses, such as office rent, are paid from the Home Office and therefore accounted for at the Home Office and not included in the local accounts.

Regarding the exchange rate, as clarified in our comment on section 2.1.1 (c), we used a weighted average for each project. Each project exchanges money on different days and in different amounts, therefore resulting in a different weighted average being applied to each project.

#### **5.1 Bank Reconciliation**

*Audit report:* The bank reconciliation statement was not properly prepared.

*Chemonics' reply:* We agree that there was an error. The \$15 error in one month's reconciliations has been corrected. Bank reconciliations are reviewed by the Home Office Field Accounting department every month in order to avoid errors.

#### **5.2 Write Checks**

*Audit report:* Write check forms are prepared manually and should be generated electronically.

*Chemonics' reply:* According to the Chemonics field accounting system, the write check numbers must match the number of the check written. This facilitates filing and researching the supporting documentation. Since write check forms are also used to generate electronic funds transfer requests, the audit report recommendation that an electronically-generated numbering system would mean that the write check form number would not match the check number. Therefore, we disagree with the statement that an electronically-generated numbering system be used. Chemonics' manual system contains sufficient controls to ensure that only authorized and approved checks are issued.

#### 6.1 Two Petty Cash Systems On-site.

*Audit report:* The Fianarantsoa office maintained two petty cash systems, which is contrary to standard procedure.

*Chemonics' reply:* The petty cash policy in Fianarantsoa was changed during the recent political crisis to respond to problems of unpredictable bank hours and cash availability, which helped the office maintain operations despite the challenging environment. This change was approved in writing by the Home Office, who generates the petty cash policy. In order to ensure continuation of project activities, we took the precaution of increasing our petty cash level to 6,500,000 FMG. To reduce the risks associated with having this much cash in one place, we kept the standard amount 1,500,000 FMG in the cash box, and the remainder in the safe - to be accessed only in case of emergency when the petty cash could not be replenished at the bank. There was one petty cash system as far as accounting was concerned. This reserve system has since been phased out with the resolution of the crisis and we have returned the petty cash supply to normal levels.

#### 6.2 Payments Less Than FMG 300,000

*Audit report:* There were various expenditures above the threshold of 300,000 FMG. Examples provided.

*Chemonics' reply:* There is a misunderstanding regarding per diem charges. In the case of "Advance per diem OBE: mission Tamatave," while the total of the bonne de caisse exceeds 300,000 FMG, these charges in fact represent two per diem transactions, each under 300,000 FMG. In the case of "HAA/Per diem," the auditors cite that a payment was made for 314,500 FMG. While the total per diem figure was 314,500, the payment disbursed from petty cash for HAA per diem was only 39,100, as evident in reviewing the back-up for this expense. Therefore, the first two examples are not supported.

There have been a few rare cases where we have made exception to the standard policy to respond to an urgent need that was decided upon after banks were closed. In the case of the March 27 expense for « KSF deménagement », our regional director's house was on fire and we needed to move quickly to hire trucks to move as much of the USAID furniture and family's belongings out of their apartment as possible. Since it was nighttime, no banks were open and issuance of a check was not possible.

We will continue to follow policy, making exceptions only in order to remain responsive to urgent situations. Each exceptional instance will be documented with a memo, and a check will be issued the next day to replenish the amount. The procedures manual will be updated to reflect the need to replenish the petty cash the next day in these situations.

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### 6.3 Petty Cash Expenditure Cut-off

*Audit report:* There were no petty cash replenishments from December 14 - December 31, resulting in the equivalent \$248.89 not being booked into the accounting system.

*Chemonics' reply:* We acknowledge that \$248.89 was booked into the accounting system 9 days late.

### 7.1(a) Expenditures Analysis - Missing Supporting Documents

*Audit report:* Certain expenses do not have supporting documentary evidence. Examples cited.

*Chemonics' reply:* Following Chemonics' policy, receipts are not required for taxi fare under \$15. While we do not normally make per diem payments from petty cash, the field accountant has noted that the appropriate supporting documentation for the one per diem charge in question can be found with the petty cash documentation. Therefore, each of these instances has been explained.

### 3.7.1 (b) Expenditures Analysis - Absence of quotations

*Audit report:* There are three quotes required in the procedures manual for every item being purchased, yet there was an absence of three quotes for certain purchases. Examples cited.

*Chemonics' reply:* The State Department Standard Regulations, which govern international per diem, do not require cost quotes for hotel fees. In regards to the Dinika vehicle, the project vehicle was unavailable, so we used the vehicle and driver used by LDI, and LDI had completed the cost investigation. LDI maintains this cost information on file. In regards to Volet Communautaire, the train was not working to bring our team out to the field and the project vehicle was not available; since only two agencies in Fianarantsoa rent cars willing to go into the bush, three quotes are not a possibility.

Typically, these rare exceptions are justified with a memo which is attached to the bon de commande. We will reinforce with staff the importance of justifying and documenting any departure from procedure with a written memo. Regardless, our field policy strives to maintain more stringent procedures than required contractually. Under the Simplified Acquisition Procedures included under the RAISE IQC, items of \$2,500 and below may be purchased without cost quotations as long as the price is reasonable.

### 7.2 Payments in Foreign Currency

*Audit report:* Payments made in US dollars contrary to manual of procedures. [note: observation incomplete].

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)-MADAGASCAR  
INITIAL FINANCIAL AUDIT OF THE RAIL ROAD REHABILITATION PROJECT-LOCAL COST UNDER  
CHEMONICS INT'L - For the Period January 31, 2001 to December 31, 2001

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*Chemonics' reply:* Our policy to denominate and pay local suppliers is consistent with 22 CFR 228.40. However, this regulations states that payment is to be made "normally" in the currency of the cooperating country, which allows for deviations.

### 7.3 Value Added Tax

*Audit report:* Value added tax has been paid on certain expenditures.

*Chemonics' reply:* We have had difficulties helping the utilities suppliers in Fianarantsoa understand the TVA system. We did eventually succeed in getting Telma to remove TVA from their bills, but have been unsuccessful getting reimbursed for TVA already paid. Concerning Jirama in Fianarantsoa, we have tried many times to negotiate payment of TVA by the Malagasy government, as our contract states. Unfortunately, if we do not pay TVA, they consider the bill unpaid and will turn off our electricity or water if the TVA is not paid, and the process takes a long time. We are not the only USAID-funded project with this problem. We have raised this issue several times with USAID, but have not been able to arrive at a solution. Hence, in order to keep our power on so that the project can continue, we are obliged to pay TVA on utility bills. We have asked for USAID's assistance in resolving this issue.

### 8.1 Manpower Remuneration - Payroll and Tax Return

*Audit report:* Salary package of employees does not agree with the tax return.

*Chemonics' reply:* We received further clarification from the auditors that they are referring to OSTIE which we collected in March from the employees' pay, and which we did not pay to the organization. In fact, the project was not enrolled in OSTIE during the month of March, because our paperwork was pending. Therefore, we made correcting entries in a subsequent accounting period to repay the employees concerned. Furthermore, we are not obligated to pay OSTIE for a period in which we were not registered. Chemonics is in compliance with all relevant laws of Madagascar.

### 9.1 Accounting Issues - Wrong Classification

*Audit report:* Certain expenditures are not classified properly. Some examples given.

*Chemonics' reply:* We must consider these on a case-by-case basis. Of the four examples provided, two will be changed. Fuel can be moved to vehicle maintenance and fuel. The water and electricity classification was an entry error made by confusing account 44210 with account 44120. This error has been corrected, and we will consider other cases suggested by the auditors.

AIDAR 752.245-70, Government Property defines non-expendible property as "property which is complete in itself, does not lose its identity or become a component part of another

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article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of more than \$500." We cannot consider any expendable supplies, such as hanging folders, to be office equipment, which by regulation would also therefore have to be tracked in our inventory system. Hanging folders are expendable supplies.

Regarding the fourth example, an aircraft is a vehicle by definition, and this categorization is aligned with our budget.

#### **9.2 Accounting Issues - Wrong Accounting**

*Audit report:* variances between invoice value and the amount actually booked in the general ledger system. Instances cited.

*Chemonics' reply:* These were entry errors which were corrected in another month. We accept the recommendation.

#### **9.3 General Journal Adjustments**

*Audit report:* General journal adjustments were made without supporting evidence.

*Chemonics' reply:* Any corrections are made as journal entries with supporting documentation kept in a file called "Make journal entry." This file was provided to the auditors.