



**USAID**  
FROM THE AMERICAN PEOPLE

## OFFICE OF INSPECTOR GENERAL

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AGENCY-CONTRACTED AUDIT OF  
USAID/REDSO/ESA'S RESOURCES MANAGED BY  
EXPRESS TRAVEL GROUP UNDER CONTRACT NO.  
623-C-00-04-0045-00 FOR THE PERIOD APRIL 20,  
2004 TO DECEMBER 31, 2004

AUDIT REPORT NO. 4-650-06-006-N  
February 16, 2006

PRETORIA, SOUTH AFRICA

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



February 16, 2006

MEMORANDUM FOR MISSION DIRECTOR, USAID/Sudan Field Office, Allan E. Reed

FROM: Regional Inspector General/Pretoria, Jay R. Rollins

SUBJECT: Agency-Contracted Audit of USAID Contract No. 623-C-00-04-0045-00 to Express Travel Group for the period April 20, 2004 to December 31, 2004 (Report No. 4-650-06-006-N)

This memorandum transmits the subject report prepared by Agency-contracted auditor, Ernst & Young (Nairobi, Kenya).

The audit was performed in accordance with the U.S. Comptroller General's Government Auditing Standards (GAS). The audit had scope limitations that Ernst & Young does not have continuing education and external quality control review programs that fully satisfy the requirements set forth in GAS.

On February 20, 2004, the U.S. Agency for International Development's Sudan Field Office (USAID/SFO) approved Indefinite Quantity Contract No. 623-C-00-04-0045-00, which provided US\$ 2,200,000 for a contract with Express Travel Group (ETG) for logistical support services for the USAID/SFO located in Nairobi, Kenya. The contract consisted of a provision of a core group of staff dedicated full-time to the contract by ETG as required for the successful implementation of the contract and delivery of logistical services. Services to be provided under the contract included:

- logistics;
- air and road transport;
- accommodation and meals;
- administrative personnel;
- other costs associated with workshops in Nairobi and Southern Sudan;
- studies; and
- travel.

The initial contract was amended on 27 September 2004, whereby the total estimated cost was increased from \$2,200,000 to \$9,000,000 and the contract type changed from "Indefinite Quantity Contract" to "Requirements Contract." Disbursement of obligated amounts was accomplished through work orders, which specified the approved uses and the limitations on use of the funds.

The contract provided for ETG to receive a 15% service fee on all services provided except for commercial air travel.

In accordance with the requirements of ADS 591.3.2.1 (revised 2004) Ernst & Young (Nairobi, Kenya) was contracted to perform an incurred cost audit of ETG.

The audit covered \$2,119,880 in expenditures of USAID funds. The specific objectives of the audit were to:

- Express an opinion on whether the fund accountability statement for the USAID funded programs 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 agreement 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 ETG's internal controls related to the USAID funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation must include the internal controls related to required cost sharing contributions.
- Perform tests to determine whether ETG complied, in all material respects, with agreement terms (including cost sharing, if applicable) and applicable laws and regulations related to USAID funded programs. All material instances of non compliance and all illegal acts that have occurred or are likely to have occurred must be identified. Such tests must include the compliance requirements related to required cost sharing contributions, if applicable.
- Perform an audit of the indirect cost rate(s) if ETG has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the recipient.
- Determine whether ETG has taken adequate corrective action on prior audit report recommendations.

Ernst & Young rendered a qualified opinion on the Fund Accountability Statement. The audit disclosed the following:

- **Total questioned ineligible costs of \$66,730.**
- **With regard to internal control, the audit report identified eight reportable conditions, five of which were considered to be material weaknesses.**
- **Six instances of material noncompliance.**

Therefore, we are making the following recommendations:

**Recommendation No. 1: We recommend that USAID/Sudan Field Office determine the allowability of \$66,730 in questioned ineligible costs detailed on page 8 of the Ernst & Young audit report, and recover from Express Travel Group any amount determined to be unallowable.**

**Recommendation No. 2:** We recommend that USAID/Sudan Field Office ensure that Express Travel Group correct the eight internal control weaknesses (inadequate accounting records, unmatched invoices, reversal of outstanding invoices, budget overruns, allocation of salary, differences between general ledger and reimbursements, long outstanding invoices, and costs incurred inclusive of taxes) detailed on pages 17-32 of the Ernst & Young audit report.

**Recommendation No. 3:** We recommend that USAID/Sudan Field Office ensure that Express Travel Group correct the six instances of material noncompliance (inadequate accounting records, unmatched invoices, reversal of outstanding invoices, budget overruns, allocation of salary, and costs incurred inclusive of taxes) detailed on pages 35-47 of the Ernst & Young audit report.

In accordance with Automated Directives System (ADS) 595.3.1.1.a and 595.3.1.5.a, an audit recommendation without management decision may be elevated three months after issuance. Contract, Grant, or Agreement Officers make management decisions on questioned costs and procedural audit recommendations resulting from Office of Inspector General (OIG) desk reviews of financial audits of contractors and grantees. Mission Directors make management decisions for audit recommendations pertaining to Strategic Objective Grant Agreements that he/she signs. Please have the responsible official provide the Regional Inspector General/Pretoria with written notice within thirty days on any information related to actions planned or taken to implement the report recommendations.



**AUDITOR'S REPORT ON THE AGENCY  
CONTRACTED AUDIT OF USAID CONTRACT No. 623-C-00-0045-00  
TO EXPRESS TRAVEL GROUP (ETG)  
FOR THE PERIOD APRIL 20, 2004 TO DECEMBER 31, 2004**

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## **GLOSSARY OF ABBREVIATIONS**

AICPA	American Institute of Certified Public Accountants
FAS	Fund Accountability Statement
CO	Contracting Officer
CTO	Cognizant Technical Officer
OMB	Office of Management and Budget
US	United States of America
USAID	United States Agency for International Development
RFMC	Regional Financial Management Centre
US\$	US Dollars
ETG	Express Travel Group
SPLM	Sudanese Peoples Liberation Movement
SFO	Sudan Field Office
FAR	Federal Acquisition Regulation
VAT	Value Added Tax

**TRANSMITTAL LETTER**

Our Ref: 99999/25/fm/104

16 January 2006

The Directors  
Express Travel Group Limited  
2<sup>nd</sup> Floor, Middle East Bank Tower  
Milimani Road  
**NAIROBI**

Dear Sir,

**AUDIT OF USAID RESOURCES MANAGED BY EXPRESS TRAVEL GROUP (ETG) - USAID AWARD NO. 623-C-00-04-0045-00 FOR THE PERIOD APRIL 20, 2004 TO DECEMBER 31, 2004**

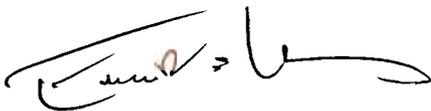
In accordance with our contract dated July 26, 2005 we carried out the audit of USAID resources managed by ETG under Grant Contract Number 623-C-00-04-0045-00, for the period April 20 to December 31, 2004.

We enclose the independent auditors' report, fund accountability statement, report on internal control, report on compliance and cost sharing schedule for the above project.

Please do not hesitate to contact us for any query that you may have.

We would like to take this opportunity to thank you and your staff for the assistance during the course of our audit.

Yours faithfully,

**Encl.**

■ Other Offices: NAKURU, MOMBASA, ELDORET.

D.G.M. Hutchison\*, C.A. Otolo, J.K. Geita, P.M. Kamau, G.G. Karuu,  
J.K.C. Cheboror, A.S. Gilani, P.N. Anchinga, C.O. Atinda.

\*British

## 1. INTRODUCTION

### 1.1 Background

On February 20, 2004, the US Agency for International Development (USAID), mission to Sudan (Sudan Field Office) approved the Commercial Service, Indefinite Quantity Contract No. 623-C-00-04-0045-00, which provide US\$ 2,200,000 in a contract with ETG for logistical support services for USAID, Sudan Field Office located in Nairobi, Kenya. The contract consists of a provision of core group of staff dedicated full-time to this contract by ETG necessary for the successful implementation of the contract delivery of logistical services.

This requires an efficient mechanism for the handling of workshops, studies, USAID staff travel and counterpart travel in Sudan. Services include the provision of:

- Logistics
- Air and road transport
- Accommodation and meals
- Administrative personnel
- Other costs associated with workshops in Nairobi and Southern Sudan
- Studies
- Travel

The contract provided that that other US Government offices may be included under this contract modification.

The initial contract USAID agreement with ETG amount of US\$ 2,200,000 was amended on 27 September 2004 whereby the estimated total costs was increased from US\$ 2,200,000 to US\$ 9,000,000 and the contract type changed from 'Indefinite Quantity Contract' to 'Requirements Contract.' Disbursement of obligated amounts is done through Work Orders, which specify the approved uses and the limitations on use of the funds.

The USAID agreement with ETG provides for ETG to get 15% service fee on all services provided except for commercial air travel. It however does not provide for a Cost Sharing contribution by ETG.

### 1.2 Audit Objectives

Ernst & Young was appointed by USAID, Sudan Field Office to carry out a financial audit of USAID resources managed by ETG under USAID Contract Number 623-C-00-04-0045, Commercial Service Contract for the period April 20, 2004 to December 31, 2004. The audit was performed in accordance with *US Government Auditing Standards (June 2003)*. The specific objectives of the audit were to:

- Express an opinion on whether the fund accountability statement for the USAID funded programs 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 agreements 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 ETG's internal control related to USAID funded programs, assess control risk, and identify reportable conditions, including material internal control weaknesses. This evaluation includes the internal controls related to required cost-sharing contributions;
- Perform tests to determine whether ETG complied, in all material respects, with agreement terms (including cost-sharing, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of non-compliance and illegal acts that occurred or are likely to have occurred or likely to have occurred must be identified. Such tests included the compliance requirements related to required cost-sharing contributions if applicable;
- Perform an audit of the indirect cost rate(s) if ETG has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with ETG; and
- Determine whether ETG has taken adequate corrective action on prior audit report recommendations.

### **1.3 Audit Scope**

#### **1.3.1 Fund Accountability Statement**

Our audit report covers revenues and costs incurred by ETG during the period April 20, 2004 to December 31, 2004.

#### **1.3.2 Internal Control**

The audit assessed ETG's internal control structure relevant to the fund accountability statement for USAID funded programs.

#### **1.3.3 Compliance with the grant agreement terms and applicable laws and regulations**

The audit report covers ETG's compliance requirements in respect of the fund accountability statement for USAID programs.

#### **1.3.4 Cost-Sharing Contributions**

The scope of the audit did not cover cost-sharing contributions, as the agreement does not require ETG to make any cost sharing contributions.

#### **1.3.5 Indirect Costs**

The scope of the audit did not cover indirect costs, as the agreement does not provide for ETG to recover indirect costs from the grant. However, the agreement stipulates that ETG is to get 15% service fee on all services provided except for commercial air travel. The invoices billed to USAID are inclusive of the service fee.

#### **1.3.6 Follow-up of prior year audit findings**

This is the first audit of this program hence there are no prior period audit findings.

#### **1.3.7 Audit Scope Limitations**

In carrying out our audit, we did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.49 of U.S.

*Government Auditing Standards*, since no such program is offered by professional organizations in Kenya. We believe that the effects of this departure from *U.S Government Auditing Standards* is not material because we participate in the Ernst & Young worldwide internal quality control review program which requires our offices to be subjected, every two years, to an extensive quality control review by partners and senior managers from other affiliate offices.

We also do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraphs 3.45 and 3.52 of *U.S Government Auditing Standards*. However our current program provides for at least forty hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing program that fully satisfies the requirement.

#### **1.4 Audit Methodology**

The audit was performed using the Ernst & Young audit approach, which requires general planning and identification of areas of audit significance, as well as evaluating risk inherent in significant accounts. This approach was modified by our Public Sector Services Manual Supplement which addresses the requirements of federal awards as specified in the US Inspector General's 'Guidelines For Financial Audits Contracted By Foreign Recipients (June 2003)'. The audit was performed in accordance with:

- I. US Comptroller General's Government Auditing Standards (June 2003 revision); and
- II. The terms of the grant agreement and amendments.

#### **1.5 Summary of Audit Results**

##### **1.5.1 Fund Accountability Statement**

A total of US\$ 2,119,881 had been expended during the period out of which US\$ 1,504,130 had been reimbursed by USAID, resulting in a closing balance of US\$ 615,750.

We have expressed a qualified opinion on the fund accountability statement due to questioned costs.

##### **1.5.2 Questioned Costs**

The results of our tests disclosed costs amounting to **US\$ 66,730** have been explicitly questioned because they are not program related, unreasonable or prohibited by agreement terms. Refer to Section 2 of the report.

##### **1.5.3 Internal Control Structure**

We noted eight reportable conditions, five of which were considered to be material. Refer to Section 3 of the report.

##### **1.5.4 Compliance with agreement terms, and applicable laws and regulations.**

We noted six instances of material non compliance with agreement terms, and applicable laws and regulations. Refer to Section 4 of the report.

##### **1.5.5 Cost-sharing Contribution**

The agreement does not require ETG to make any cost sharing contributions.

**1.5.6 Indirect costs**

The agreement does not provide for recovery of indirect costs by the grantee. However, the agreement stipulates that ETG is to get 15% service fee on all services provided except for commercial air travel. The service fee is included in the invoices submitted to USAID where applicable.

**1.6 Summary of Management Comments**

We have incorporated the specific responses in the relevant sections of the report and the entire management comments of Express Travel Group are included in Appendix III.

## 2. INDEPENDENT AUDITORS REPORT ON THE FUND ACCOUNTABILITY STATEMENT

The Directors  
Express Travel Group Limited  
2<sup>nd</sup> Floor, Middle East Bank Tower  
Milimani Road  
**NAIROBI**

We have audited the fund accountability statement of the Express Travel Group relating to USAID Contract No. 623-C-00-04-0045-00 for the period April 20, 2004 to December 31, 2004. The fund accountability statement is the responsibility of the management of Express Travel Group. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in paragraphs 3 and 4 below, we conducted our audit of the fund accountability statement in accordance with *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the management of Express Travel Group, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.49 of *U.S. Government Auditing Standards*, since no such program is offered by professional organizations in Kenya. We believe that the effects of this departure from *U.S. Government Auditing Standards* is not material because we participate in the Ernst & Young worldwide internal quality control review program which requires our offices to be subjected, every two years, to an extensive quality control review by partners and senior managers from other affiliate offices.

We do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.45 and 3.52 of *U.S. Government Auditing Standards*. However, our current program provides for at least forty hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing program that fully satisfies the requirement.

The results of our tests disclosed the following material questioned costs as detailed in the fund accountability statement: **US\$ 66,730** in costs that are explicitly questioned because they are not program related, unreasonable or are prohibited by agreement terms.

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, for the period April 20, 2004 to December 31, 2004, in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2.2.

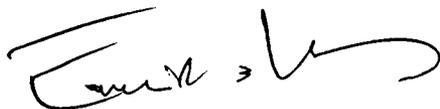
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D.G.M. Hutchison\*, C.A. Otolu, J.K. Geita, P.M. Kamau, G.G. Karuu,  
5 J.K.C. Cheboror, A.S. Gilani, P.N. Anchinga, C.O. Atinda.

\*British

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated 16 January 2006, on our consideration of Express Travel Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

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



**Nairobi**

16 January, 2006

**2.1 Fund Accountability Statement  
For the period April 20, 2004 to December 31, 2004**

		Note	Budget	Actual Costs	Questioned Costs	
					Ineligible	Unsupported
				US\$	US\$	US\$
<b>REVENUE</b>						
Reimbursements by USAID to ETG: Work Orders Nos. 1, 2, 3, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27,29, 30 and 31		2.3	3,090,849	1,504,130		
<b>TOTAL REVENUE</b>			<b>3,090,849</b>	<b>1,504,130</b>		
<b>EXPENDITURE</b>						
Work Order	Description					
WO 01	Capacity Building – Southern Sudan Infrastructure Program	2.6	526,940	190,272	36,524	-
WO 02	Workshop on Cooperatives and Rural Development	2.6	56,065	51,684	1,790	-
WO 03	Consultancy on the study of donor funded seed systems inS. Sudan	2.6	29,800	12,500	85	-
WO 08	Sudan Anti - Corruption Workshop in Rumbek & Naivasha	2.6	52,964	50,118	337	-
WO 09	Technical Services to SFO Health Teams		26,733	17,530	-	-
WO 10	Performance Monitoring Plan Development Workshop		1,725	1,140	-	-
WO 11	Launch of the Sudan Health Transformation Program in Rumbek		62,673	42,272	-	-
WO 12	Gulu Trip – road assessment and develop a resettlement plan		14,000	7,751	-	-
WO 13	New Sudan Centre for Statistics and Evaluation (NCSE) Board Development Training		47,707	46,750	-	-
WO 14	Road Assessment Trip – review of extent of road and dike repair and meet with local communities		445,335	430,171	-	-
WO 15	Travel for Anyuak King's Delegation to Ponchalla Country	2.6	3,645	3,464	13	-
WO 16	Chiefs and Traditional Leaders Conference	2.6	569,412	568,149	4,390	-

		Note	Budget	Actual Costs	Questioned Costs	
					Ineligible	Unsupported
				US\$	US\$	US\$
<b>Work Order</b>	<b>Description</b>					
WO 17	Mission Democracy and Governance Design Document	2.6	14,188	11,300	1,051	-
WO 18	Express Travel Group - Office Costs	2.6	222,484	64,995	4,509	-
WO 19	Literature Review For South Sudan Capacity Development Needs Assessment		32,770	7,376	-	-
WO 20	PMS Contract – launch of the Sudan Health Transformation Program in Rumbek		11,673	8,247	-	-
WO 21	USAID Admin & Delegation visit to South Sudan		48,668	28,226	-	-
WO 22	Telecommunication Technical Advice	2.6	1,863	1,863	278	-
WO 23	Development Associates Team in South Sudan – ENCAP training at Yei November 2004	2.6	48,910	40,151	2,458	-
WO 24	Consultant - Joint Assessment Mission (JAM) Process	2.6	40,394	19,014	22	-
WO 25	Development Associates Team in South Sudan – Capacity development needs assessment		23,000.00	10,690	-	-
WO 26	Micro-Finance Workshop		1,857.25	767	-	-
WO 27	Training of 13 Sudanese at Iowa State University, USA July to Sept ember 2004		20,930.00	6,307	-	-
WO 29	Consultancy - Assessment of Civil Society in S. Sudan		27,421.75	10,724	-	-
WO 30	SPLM Leadership Emergency Consultative meeting in Rumbek	2.6	720,360.00	460,828	464	-
WO 31	National Peace & Reconciliation Commission		39,330.00	12,782	-	-
Unsorted	Items not matched to a particular Work Order	2.6	-	14,809	14,809	-
	<b>TOTAL EXPENDITURE</b>		<b>3,090,848</b>	<b>2,119,880</b>	<b>66,730</b>	
	<b>OUTSATANDING FUND BALANCE</b>	2.4		<b>615,750</b>		

	Note	Budget	Actual Costs	Questioned Costs	
				Ineligible	Unsupported
				US\$	US\$
<b>TECHNICAL ASSISTANCE</b>					
Direct Payments by USAID (RFMC)	2.5	56,700	29,059	-	-
<b>Total Direct Payments by USAID (RFMC)</b>		<b>56,700</b>	<b>29,059</b>	<b>-</b>	<b>-</b>

Disbursement of obligated amounts is done through Work Orders, which specify the approved uses and the limitations on use of the funds.

A total amount of US\$ 3,147,549 had been obligated (committed) by 31 December 2004. Out of the total commitment, a budget of US\$ 56,700 was allocated to USAID/RFMC. Total expenditure during the period under audit amounted to US\$ 2,148,940 out of which US\$ 29,059 was paid to various consultants directly by USAID/RFMC.

According to ETG records, out of the total expenditure amounting to US\$ 2,119,880 incurred as at 31 December 2004, USAID had reimbursed US\$ 1,504,130 and the balance of US\$ 615,750 was outstanding as at 31 December 2004.

Work Orders Nos 4, 5, 6, 7 and 28 were not issued to Express Travel Group.

## 2.2 Notes to the Fund Accountability Statement

### a. Basis of Accounting

The Fund Accountability Statement has been prepared on a cash receipts and disbursements basis modified to accrue for outstanding obligations and receivables. This is a comprehensive basis of accounting other than generally accepted accounting principles.

### b. Revenue

ETG operates on a reimbursement basis. Revenue comprises of amounts reimbursed by USAID for expenditures incurred during the period.

### c. Currency Translation

Transactions are both in US dollars and Kenya Shillings. The ETG General Ledger is maintained in Kenya Shillings. Transactions in US Dollars are translated to Kenya Shillings using the ETG monthly exchange rates.

This report is prepared in US Dollars. The amounts in Kenya Shillings are translated to US Dollars using the applicable ETG rates. The outstanding balances have also been translated using the applicable monthly exchange rates.

ETG uses a uniform exchange rate per month, which is benchmarked to the prevailing rates in the market. The exchange difference arising from the fluctuation of exchange rates between when the invoices denominated in KShs are booked and the applicable rate when the reimbursements from USAID are received and recorded is included in the closing balance reconciliation in note 2.5.

ETG uses a uniform exchange rate per month in posting transactions to the general ledger. The rates applied during the period were as follows:

<u>Month</u>	<u>Exchange Rate Applied</u>
May 2004	1US\$/KShs 78.37000
June 2004	1US\$/KShs 79.18330
July 2004	1US\$/KShs 79.82780
Aug 2004	1US\$/KShs 80.34440
Sept 2004	1US\$/KShs 80.21671
Oct 2004	1US\$/KShs 81.06110
Nov 2004	1US\$/KShs 81.25000
Dec 2004	1US\$/KShs 81.25059

## 2.3 Reimbursements by USAID

The total reimbursements by USAID during the period amounted to US\$ 1,504,130 per ETG records compared to the amount of US\$ 1,521,077 which was confirmed by USAID. The reconciliation of the two amounts is shown below.

Work Order No.	Date	Reference	Amount (US\$)
<b>Reimbursements per USAID Confirmation</b>			<b>1,521,077</b>
<i>Less: Direct Payments by USAID (note i)</i>			
WO#09 (ref Note 2.5)			9,859
WO#19 (ref Note 2.5)			19,200
WO#14 (ref Note 2.5)			175
<b>Sub-total</b>			<b>29,234</b>
<i>Less: Receipts not booked by ETG (note ii)</i>			
WO#09	21-May-04	4623T193	298
WO#09	21-May-04	4623T202	298
WO#09	16-Aug-04	4623T258	1,561
<b>Sub-total</b>			<b>2,156</b>
<i>Add: Other Items (note iii)</i>			
WO#11 (credit note)	03-Dec-04	5623T056	1,025
Unmatched receipt	30-Jun-04	626295	2,681
Unmatched receipt	31-July-04	626577	10,786
Unmatched receipt	22-Dec-04	627922	143
Exchange Difference	Various	Various	(193)
<b>Sub-total</b>			<b>14,443</b>
<b>Reimbursements per ETG records</b>			<b>1,504,130</b>

*A detailed analysis of reimbursements per ETG records is included in Appendix I.*

### Notes (i) – Direct payments by USAID

Details of payments made directly by USAID/RFMC are shown in note 2.5.

### Notes (ii) – Receipts not booked by ETG

These relate to invoices D1003799 (US\$ 272); invoice MD 1473 (US\$ 26) and D1004582 (US\$ 1,561) that were not posted in the ETG general ledger account for Southern Sudan Program. Invoices D1003799 and MD 1473 were submitted and reimbursed twice.

### Notes (iii) – Other Items

- a. Credit Note ref CN105827 of US\$ 1,025.20 issued against invoice # D1003936. The invoice was reimbursed in full by USAID without netting off the credit note. However, USAID utilized the credit note in Public Voucher # 5623T056 on 26 November 2004. ETG will be required to pass necessary entries in the general ledger to clear the amount.
- b. The amount of US\$ 175 was a direct payment by USAID/RFMC to a USAID staff under Work Order #14. No budget was provided for RFMC under this Work Order.

- c. The unmatched receipts were mispostings in the general ledger. These relate to reimbursements to ETG for services rendered to USAID outside the Southern Sudan contract. ETG will be required to reverse these amounts from the Southern Sudan account in the general ledger.
- d. The exchange difference arose due to the variance between the exchange rates applied by USAID from the monthly exchange rates applied by ETG. An adjustment should be passed in the general ledger to clear the exchange difference.

#### 2.4 Closing Fund Balance as at 31 December 2004

The Agreement did not require ETG to maintain a separate bank account for USAID funds. The receipts from USAID are on a reimbursement basis, and ETG uses its operational bank accounts to make payments. Accordingly, it was not necessary to reconcile the closing fund balance to the bank balances. However, the closing balance agreed to the ETG general ledger.

ETG operates on a reimbursement system. The closing balance is made up invoices raised but not reimbursed by USAID as at 31 December 2004. The ETG general ledger reflected a balance of US\$ 615,750 out of which US\$ 1,347 relates to exchange differences, among other reconciling items. The outstanding invoices as at 31 December 2004 are detailed in Appendix II.

The reconciliation of the general ledger closing balance to the detailed listing of outstanding invoices is shown below.

Details	WO#	US\$
<b>Total Outstanding Balance per Invoice Listing (App II)</b>		615,737
Exchange Difference	Various	1,347
Receipt # 635521 (under by KShs 4,531)	WO#1	56
Receipt # 627276 balance not allocated to invoice	WO#1	(8)
Receipt # 625990 (Invoice # SI31 not booked in GL)	WO#2	(512)
Credit note ref CN105827 (ref note 2.4 iii above)	WO#11	(1,025)
Receipt # 625994 (over by US\$ 2.00)	WO#16	(2)
Invoice # Q152148 (KShs12,473 outstanding)	WO#18	158
Receipt # 627699 (over by US\$ 0.02)	WO#22	(0)
<b>Closing balance per ETG General Ledger A/C Receivable</b>		<b>615,750</b>

**2.5 Direct payments by USAID/RFMC**

USAID/RFMC paid a total amount of US\$ 29,234 directly to various consultants undertaking assignments for the Southern Sudan Program. As such, the expenditures were not captured in ETG records. The budget and actual expenditure per Work Order are shown below.

Work Order #	Committed Amount US\$	Amount Paid US\$
WO#02 - RFMC	13,500	-
WO#09	-	9,859
WO#14	-	175
WO#19 - RFMC	19,200	19,200
WO#23 - RFMC	6,000	-
WO#29 - RFMC	18,000	-
<b>Total</b>	<b>56,700</b>	<b>29,234</b>

**2.6 Questioned Costs**

The results of our tests disclosed questioned costs of US\$ 66,730, which have been questioned because they were ineligible. The details of the Questioned Costs are included in Section 4 of the report.

		US\$	Reference
(a)	Expenditures not analyzed per Work Order	14,809	Finding # 4.1.2
(b)	Invoices reversed	3,470	Finding # 4.1.3
(c)	Budget overruns	43,471	Finding # 4.1.4
(d)	Salary for the Program Manager	4,351	Finding # 4.1.5
(e)	VAT paid	629	Finding # 4.1.6
	<b>Total</b>	<b>66,730</b>	

The above costs have been categorized per nature of questioned cost. The affected work orders are indicated under the particular findings. However, the questioned costs in the fund accountability statement have been disclosed per work order.

### 3. **INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL**

The Directors  
Express Travel Group  
2<sup>nd</sup> Floor, Middle East Bank Tower  
Milimani Road  
**NAIROBI**

We have audited the fund accountability statement of Express Travel Group relating to USAID Contract No. 623-C-00-0045-00 for the period April 20, 2004 to December 31, 2004 and have issued our report on it dated 16 January 2006.

Except for not having a fully satisfactory continuing education program and not conducting external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The management of Express Travel Group is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with the management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 2.2 to the fund accountability statement. Because of inherent limitations in any internal control, errors or fraud 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.

In planning and performing our audit of the fund accountability statement of Express Travel Group for the period April 20, 2004 to December 31 2004, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted the following matters involving internal control and its operation which we consider to be a reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of

■ Other Offices: NAKURU, MOMBASA, ELDORET.

D.G.M. Hutchison\*, C.A. Otolo, J.K. Geita, P.M. Kamau, G.G. Karuu,  
J.K.C. Cheboror, A.S. Gilani, P.N. Anchinga, C.O. Atinda.

internal control that, in our judgment, could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

- (a) The accounting records maintained by ETG were inadequate to address USAID's reporting requirements. The general ledger account summarizing the transactions for the Program was not analyzed per Work Order. The SF1034 returns submitted to USAID were found to be incorrectly prepared and not reconciled to the general ledger (*refer to finding No. 3.1.1*)
- (b) At the request of the auditors, ETG analyzed the transactions in the general ledger and updated the SF1034s. The analysis revealed some invoices and receipts that could not be matched to a particular Work Order (*refer to finding No. 3.1.2*)
- (c) Some invoices outstanding as at 31 December 2004 had been subsequently reversed by way of credit notes for various reasons. In addition, there were long outstanding reconciling items in the general ledger (*refer to finding No. 3.1.3*)
- (d) There were budget overruns on some budget line items for certain Work Orders. It was however noted that there was no overrun on the total approved budget for any of the Work Orders (*refer to finding No. 3.1.4*)
- (e) The Program Manager coordinates travel arrangements the Southern Sudan Program and the Embassy. We were unable to determine the portion of her salary allocable to the Southern Sudan Program as the employment contract was not availed for our review (*refer to finding No. 3.1.5*)
- (f) A comparison of the reimbursements by USAID with the amounts reflected in the ETG general ledger indicated net difference of US\$ 12,286.34. Some reimbursements for other services rendered to USAID/US Embassy were misposted to the general ledger account for the Southern Sudan Program, while some reimbursements related to the Program were not reflected in this account. (*refer to finding No. 3.1.6*)
- (g) From our review of the listing of outstanding invoices as at 31 December 2004, it was noted that a number of invoices had not been reimbursed as at 30 September 2005. No proper explanation was provided the long delay (*refer to finding No. 3.1.7*)
- (h) Certain costs were incurred inclusive of VAT of \$675 (*refer to finding No. 3.1.8*)

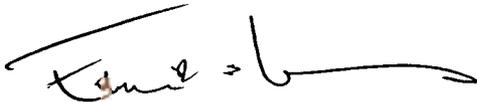
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the fund accountability statement and the cost-sharing schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operations that we consider to be a material weaknesses

as defined above. These conditions were considered in determining the nature, timing and extent of the procedures to be performed in our audit of the fund accountability statement of Express Travel Group for the period April 20, 2004 to December 31, 2004.

- (a) The accounting records maintained by ETG were inadequate to address USAID's reporting requirements. The general ledger account summarizing the transactions for the Program was not analyzed per Work Order. The SF1034 returns submitted to USAID were found to be incorrectly prepared and not reconciled to the general ledger (*refer to finding No. 3.1.1*)
- (b) At the request of the auditors, ETG analyzed the transactions in the general ledger and updated the SF1034s. The analysis revealed some invoices and receipts that could not be matched to a particular Work Order (*refer to finding No. 3.1.2*)
- (c) There were budget overruns on some budget line items for certain Work Orders. It was however noted that there was no overrun on the total approved budget for any of the Work Orders (*refer to finding No. 3.1.4*)
- (d) The Program Manager coordinates travel arrangements the Southern Sudan Program and the Embassy. We were unable to determine the portion of her salary allocable to the Southern Sudan Program as the employment contract was not availed for our review (*refer to finding No. 3.1.5*)
- (e) A comparison of the reimbursements by USAID with the amounts reflected in the ETG general ledger indicated net difference of US\$ 12,286.34. Some reimbursements for other services rendered to USAID/US Embassy were misposted to the general ledger account for the Southern Sudan Program, while some reimbursements related to the Program were not reflected in this account. (*refer to finding No. 3.1.6*)

This report is intended for the information of Express Travel Group and the U.S Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



**Nairobi**

**16 January 2006**

### 3.1 FINDING AND RECOMMENDATIONS ON INTERNAL CONTROLS

#### 3.1.1 Accounting records maintained by Express Travel Group

##### **Criteria**

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contacting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract. Furthermore, FAR 53.301-1034 provides a standard form SF 1034 "Public Voucher for Purchases and Services Other than Personal" which is required to be used by Contractors when requesting payments.

##### **Condition**

ETG maintains a specific account in the general ledger that summarizes the transactions for the USAID Southern Sudan Program. The account basically summaries the expenditures incurred and the receipts (reimbursements) from USAID.

The ETG office at ICIPE (within the USAID premises) is the core operations office. The invoices are generated from this office. The invoices are raised using the Transport Management System (TMS) and "BOSS" system. Invoices generated using the TMS system include service fee of 15% and are assigned a code series "SI". Invoices generated using the BOSS system described as "commercial" and no service fee is charged. These are assigned series "J" (JKIA office) and "D" (ICIPE office). The invoices are forwarded to USAID RFMC for reimbursement together with the SF1034.

The invoices are then forwarded to the ETG head office where they are assigned a "Q" series and posted to the accounting system ACCPAC. The following observations were made regarding the system of accounting:

- (a) The SF1034 submitted to USAID were not reconciled to the general ledger account. Our review of the SF1034s indicated that these were incorrectly prepared and in most cases did not reconcile to the detailed listing of invoices submitted for audit. It was also noted that the SF1034s submitted were not evidenced for review and approval by ETG management.
- (b) The Work Orders forms the basis of approval and accounting for expenditures under this contract. ETG Head Office maintains one general ledger account for all the transactions relating to the Southern Sudan transactions. The account was only per Work Order at the request of the auditors. This took a considerable time and effectively delaying the audit exercise. Thus the accounting system was not designed to address USAID's reporting requirements.
- (c) The listing of invoices generated from the TMS and BOSS systems were not reconciled to the general ledger account.
- (d) The exchange rates applied at the ICIPE office differed from the rates used at the

head office to post the transactions to the general ledger. This was identified as one of the causes of discrepancies between the accounting records (SF1034 and general ledger).

- (e) There was weak oversight on the accounting function by ETG head office on their satellite office at ICIPE as evidenced by the numerous discrepancies and lack of reconciliations between the records maintained at the head office and ICIPE office.

The differences between the various accounting records maintained are shown below. It may be noted that no SF1034 was prepared for WO#18 (Office costs).

Work Order	ETG General Ledger	Per SF 1034 USAID Report	Detailed Invoice Listing
	US\$	US\$	US\$
Work Order 1	190,272	189,025	165,970
Work Order 2	51,684	47,520	52,992
Work Order 3	12,500	12,908	12,908
Work Order 8	50,118	50,706	50,706
Work Order 9	17,530	17,530	17,530
Work Order 10	1,140	-	1,157
Work Order 11	42,272	44,540	48,150
Work Order 12	7,751	7,751	7,751
Work Order 13	46,750	47,568	46,775
Work Order 14	430,171	441,899	442,664
Work Order 15	3,464	3,305	3,305
Work Order 16	568,149	567,082	570,333
Work Order 17	11,300	10,393	11,451
Work Order 18	64,995	-	-
Work Order 19	7,376	7,402	7,402
Work Order 20	8,247	8,247	8,247
Work Order 21	28,226	28,084	28,401
Work Order 22	1,863	1,863	1,863
Work Order 23	40,151	35,940	36,022
Work Order 24	19,014	19,251	19,019
Work Order 25	10,690	10,968	10,968
Work Order 26	767	771	771
Work Order 27	6,307	6,374	6,374
Work Order 29	10,724	10,724	10,724
Work Order 30	460,828	330,797	330,797
Work Order 31	12,782	5,779	5,779
Other items	14,809	-	-
<b>Total</b>	<b>2,119,881</b>	<b>1,906,429</b>	<b>1,898,066</b>

### **Cause**

The cause of this finding is the inadequacy of internal controls at ETG to address USAID's requirements that resulted in the information in the accounting records not being consistent.

### **Effect**

The financial information provided to USAID through the SF1034 is incorrect. The SF1034 is the principal budgetary control tool used by USAID. Effectively, the oversight procedures by USAID are compromised if reliance was placed on the incorrectly prepared SF1034. This is evidenced by the budget overruns noted in some Work Orders.

There were also numerous reconciling items in the general ledger that had not been resolved. A number of invoices and receipts posted to the general ledger account could not be related to a particular Work Order.

### **Recommendation**

ETG should appreciate that the SF1034 is the principle reporting and budgetary tool used by USAID. Proper records should be maintained per Work Order. The transactions posted to the general ledger Account Receivable should be regularly sorted per Work Order and reconciled to the respective SF1034s.

At the request of the auditors, ETG have updated the SF1034 to reflect the expenditures report in the general ledger. A similar exercise should be done for the period subsequent to 31 December 2004. A procedure should be instituted to perform the reconciliations on a monthly basis, and this reconciliation must be reviewed by someone senior to, and independent of the preparer of the reconciliation. Such review must be evidenced in writing

### **Auditee's Comments**

- (a) The General Ledger (GL) transactions are in fact analysed per Works Order in the ETG books by way of the A List sub-ledger. To this extent our A-List sub-ledger is an adequate tool to control the USAID transactions and to form the basis of the USAID reporting requirements under SF1034. If there were a significant absence of accounting procedures conformity with the USAID requirement, this audit could not have been possible.

We did not have to make any corrections to the GL A list (ETG's equivalent of the SF1034). ETG did not feel the need to "reconcile" the SF1034 to its GL A-lists, because ETG only accounts for USAID-approved expenditures as per SF 1034 and Public Payment Vouchers submitted to the USAID.

At the commencement of the audit, copies of SF 1034 which were not updated with those submitted to USAID were inadvertently used by the auditors. However, ETG managed to update these copies and no major deviations were found with the billed expenses per USAID records. The "differences" were due either to exchange rate difference or arising from some line items stated under different WOs. Invoicing to

USAID of expenses under Travel Authorities was recorded in the same account as the WO because ETG maintains only one account in its Accounts Receivable (AR) ledger for the USAID S Sudan contract.

It should be noted that there is no real exchange rate exposure for either party to the contract because transactions are paid, invoiced and booked in the accounts in the currency in which the transaction originated.

ETG shall keep in its files copies of SF 1034 approved by USAID which will be a reflection of expenses recorded in ETG's GL and ensure consistency in the application of the exchange rate used on the SF 1034 and in ETG's accounts.

- (b) The auditor's comment implies that ETG needs to maintain a completely separate ledger for USAID S Sudan. Only in this way would ETG be able to keep separate GL and AR accounts per WO's. This would be unrealistic.

ETG did however successfully recompile on Excel, the USAID S Sudan AR account by WO, on the basis of which the auditors were able to perform the entire audit.

- (c) The TMS system is purely an invoicing module. The system is still in a development stage and it is not integrated into the ETG ledgers. In its current stage of development, the TMS database includes cancelled invoices and does not incorporate the credit note function. ETG did not attempt any such "reconciliation" as only invoicing which is supported by USAID-approved SF 1034 and a USAID-approved Public Payment Voucher is incorporated in the GL and ARL respectively, maintained at ETG HO.

This "reconciliation" will be obviated as soon as the TMS billing module is interfaced into the ETG ledgers. In the interim, the direct confirmation with USAID of ETG's billing is a control which ETG hopes to enforce.

- (d) ETG now ensures that the rate of exchange used by ICIPE office is the same as the one used by ETG HO. As far as billing is concerned the question of exchange rate does not arise as expense incurred in US\$ are invoiced in US\$ and payment is received in the same currency. Likewise expenses for KShs are billed in KShs and paid for in KShs.
- (e) It should be clarified that the main role of the ETG accountant based at the ICIPE office is to register the SF 1034 expenses as they arise against the WO budget submitted by the USAID office. He also prepares cheque requests and petty cash for USAID-authorized expenditures and generates ETG recharge invoicing of these expenditures on the TMS invoicing module. No accounting function, as such, is carried out at the USAID's ICIPE office. All of the accountant's work is supervised and counter authorized by the ETG's Program Manageress (PM) on site.

The ETG ICIPE accountant submits all the above documentation to the ETG HO for counter approval and accounting. Thus ETG only records USAID-approved and USAID-authorized expenditures and USAID-approved recharge invoicing, all of which originates from the ETG ICIPE office. ETG emphasizes that all invoicing and expenditure is recorded in its ledgers using the USAID's WO number as the key reference point.

The “discrepancies” the auditors refer to arose from inconsistent exchange rates and miss- allocation of expenses between works orders. The reasons behind the misallocation between works order were also given to the auditors. The auditors did not detect any cases of un-authentic expenses recorded either on the SF 1034 or in ETG’s ledger account of USAID.

All of the above therefore indicates a sound internal control system exercised by ETG in recording USAID expenditures and recharge thereof.

The expenses and counter invoicing that could not be related to the WO were covered by Travel Authorities issued by the USAID office. This was clarified and explained to the auditors.

ETG will ensure that all outdated copies of SF 1034 are removed from the WO files and only the final USAID approved SF 1034 are filed in the WO file to preclude any reconciliation with the ETG’s ledgers.

### **3.1.2 Invoices not matched to Work Orders**

#### **Criteria**

The costs incurred outside the approved Work Orders are considered unallocable to the Program in accordance with the FAR.

Part 31.201-4 of the FAR with respect to the determination of allocability states that ‘A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a contract if it—

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.’

Furthermore, in terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract.

#### **Condition**

The Work Order is the basis of approval and accounting for expenditures under this contract. At the commencement of the audit, ETG had not analyzed the general ledger transactions relating to the USAID Southern program per Work Order. This was done during the audit at the request of the auditors.

There were inadequate controls in place to ensure that invoices were matched to specific work orders. A number of invoices and receipts in the general ledger could not be

matched to a particular Work Order, and hence we have questioned the expenditures amounting to US\$ 14,809 The invoices are analyzed in the table below. It may be noted that the first two invoices were actually reimbursed by USAID.

*Unmatched Receipts and Invoices*

Invoice #	Date	Amount	Comments
		US\$	
<b>Invoices</b>			
JV 333-626295	31-Aug-04	2,681	Misposting, Receipt # 6266295
JV 312- 626577	11-Aug-04	10,786	Misposting, Receipt #626577
D1005417	1-Dec-04	143	Outstanding
D1005466	1-Dec-04	350	Outstanding
D1005486	7-Dec-04	283	Outstanding
D1005487	7-Dec-04	283	Outstanding
D1005494	8-Dec-04	283	Outstanding
<b>Total</b>		<b>14,809</b>	

We understand that some of the invoices included in the above listing could be mispostings i.e. they relate to other services rendered by ETG to USAID/US Embassy outside the Southern Sudan Program.

**Cause**

The cause of this finding is the inadequacy of internal controls at ETG to address USAID's requirements that resulted in the information in the accounting records not being consistent.

**Effect**

Certain costs were incurred which could not be matched to specific work orders.

**Recommendation**

ETG should design and implement a system of control that will ensure that all costs incurred have specific work order to which they can be allocated. No expenditures should be incurred without reference to a particular Work Order.

**Auditee's Comment**

ETG must reiterate that it records transactions in its General Ledger by reference to the USAID WO. Indeed, the GL highlights any entry of expenditure or recharge invoice if WO number is not keyed in. The General ledger produces a subsidiary A-List ledger which corresponds to the SF1034, except for accounting accruals/deferrals entries and direct cashbook entries. This was explained to the auditors.

Also explained to the auditors was the fact that in the ETG Accounts Receivable Ledger, it cannot be possible to maintain a debtor's account for each individual WO.

It was however possible for ETG to redraft, on Excel, the one debtor's account for USAID Southern Sudan by WO. All Q invoices had the WO reference number and hence it was easy to sort the invoices. The only time consuming exercise was to allocate the receipts from USAID, as the accounting package used by ETG identifies the receipt to an invoice, not to a WO. ETG did however identify all receipts to the WO and hence the auditors were able to conduct their audit.

All Q invoices to USAID relating to WO have to have the WO number stated on it. Hence the auditor's statement that "there were inadequate controls in place to ensure that invoices were matched to specific WO", is incorrect.

ETG had clarified to the auditors at the outset that Invoices against specific Travel Authority were raised from ETG's BOSS travel invoicing system and hence had a specific reference.

Please see Appendix I for ETG's comments on "Unmatched Invoices"

In summary, in ETG's opinion, these were all legitimate items under TA's under FAR or were not related to the USAID S Sudan contract and so the original entries reversed.

ETG has adequate internal controls to pick up errors and adjust the accounts to conform to USAID requirements.

### 3.1.3 Invoices Reversed

#### Criteria

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract.

#### Condition

From a review of the list of outstanding invoices as at 31 December 2004, it was noted that three invoices amounting to US\$ 3,122 were reversed by way of credit notes in 2005. It was also established that credit notes would also be raised against invoices amounting to US\$ 348. The details of these are shown below:

Work Order	Invoice Number	Credit Note Number	Date	Invoice Amount US\$
<b>Credit Notes raised</b>				
Work Order 16	D1004213	CN-105983	31/01/05	1,399
Work Order 16	Q153348	CN-106227	31/01/05	1,449
Work Order 30	Q155053	CN-155053	31/01/05	274
<b>Sub-total</b>				<b>3,122</b>
<b>Credit Notes raised</b>				
Work Order 18	Q152148	To pass CRN	30/06/04	158
Work Order 30	Q155043	To pass CRN	31/12/04	190
<b>Sub-total</b>				<b>348</b>
<b>Total</b>				<b>3,470</b>

- (i) The amount of US\$ 1,399 is the net of invoice # D1004213 (US\$ 1,679) and CN 105983 (US\$ 280). This was reimbursed in full by USAID vide receipt # 627057 on 09 September 2004 under WO#16. It's thus not clear why this credit note was raised.
- (ii) Invoice # Q153348 was shown as outstanding under WO#16 as at 31 December 2004. The expenditure related to ETG employees.
- (iii) Invoice # Q155053 was shown as outstanding under WO#30 as at 31 December 2004. This related to a flight NBO-LOKI-NBO on 25-26 November 2004.
- (iv) In voice No. 152148 (KShs 386,889) related to ETG office costs for the month of June 2004. A credit note CN105626 for KShs 374,416 was passed against the invoice leaving balance of KShs 12,473. (US\$ 158). The management has confirmed that a credit note will be raised to clear the balance.
- (v) Invoice No. Q155043 for KShs 713,644.13 relating to purchase of stationery, duplication and photocopying costs was partially reimbursed by USAID vide receipt No. 636974 (KShs 713,644.13) leaving a balance of KShs 15,444.37 (US\$ 190). The management intends to raise a credit note for this balance.

### **Cause**

The cause of this finding is the inadequacy of internal controls at ETG to address USAID's requirements that resulted in costs being captured erroneously in the accounting records.

### **Effect**

Certain costs have been recorded in the accounting records in error which would require adjustments

### **Recommendation**

ETG should ensure that prior to incurring expenditure, reference should be made to the approved Work Orders and the provisions of the Agreement with USAID.

Written clarification and authorization should be obtained from the USAID CO where necessary.

### **Auditee's Comment**

Out of the numerous transactions recorded by ETG for this contract, only five items required correction. The conditions underlying these corrections were already known by ETG. Thus this situation cannot be construed as a control weakness. On the contrary, ETG has adequate controls in place to pick up and correct for items that enter the accounting records erroneously.

Please see Appendix III for detailed explanations of each item.

### 3.1.4 Budget Overruns

#### Criteria

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract. Furthermore, FAR 53.301-1034 provides a standard form SF 1034 "Public Voucher for Purchases and Services Other than Personal" which is required to be used by Contractors when requesting payments.

#### Condition

At the request of the auditors, ETG updated the SF1034 and the detailed listing of invoices (maintained on excel spreadsheet) to agree to the expenditures reported. The SF1034 gives a breakdown of the actual expenditures against the approved budget. It was noted that there were budget overruns in some line items on certain Work Orders, as analyzed below:

Work Order/Budget Line	Approved Budget	Actual Expenditure	Overrun	Overrun
	US\$	US\$	US\$	%
<b>WO#01</b>				
SIP-Country Training Logistics	67,208	103,304	36,096	54
SIP-Country Training Practicals	19,006	19,435	429	2
<b>WO#02</b>				
Transport & Accommodation	40,125	40,282	157	0
Workshop Supplies	6,220	7,852	1,632	26
<b>WO#03</b>				
Per Diems in Sudan field	720	805	85	12
<b>WO#08</b>				
Conference Charges-Naivasha	1,214	1,551	337	28
<b>WO#15</b>				
Tickets Nrb-Loki-Nrb	685	697	112	2
Taxis for 7 From Airport & Air Fee	115	116	1	1
<b>WO#16</b>				
Air Flights & Transport	276,601	276,713	112	0
Accommodation & Feeding	188,650	189,450	800	0
<b>WO#17</b>				
Kenya Visa	100	124	24	24
Miscellaneous	480	983	503	105
Salary (\$425 for 15 days)	6,375	6,900	525	8
<b>WO#22</b>				
Accommodation Loki	200	478	278	139
<b>WO#23</b>				
Stationery, Printing, Binding	3,450	4,417	967	28
Flight Nrb-Yei	6,900	8,391	1,491	22
<b>WO#24</b>				

Work Order/Budget Line	Approved Budget	Actual Expenditure	Overrun	Overrun
	US\$	US\$	US\$	%
SRRC Permit	18	40	22	119
<b>Total</b>			43,471	

**Cause**

The cause of this finding is the lack of monitoring, mainly on the part of USAID.

**Effect**

There were some budget overruns on certain line items.

**Recommendation**

The SF1034 is the principal tool to monitor expenditure against the budget. Though the SF1034 returns were submitted to USAID, it is apparent that no emphasis was placed on them by either ETG or USAID.

We, therefore, recommend that prior to incurring expenditure in excess of the authorized budget, reference should be made to the approved Work Orders and the provisions of the Agreement with USAID.

Furthermore, should expenditures exceed the budget amounts, the USAID CO should approve the excess in writing prior to the costs being incurred.

**Auditee's Comment**

"Budget over-runs" occur as a result of the fluid circumstances in S. Sudan under which the services are carried out. It is important here to note that it is always at the request and with the written approval of USAID that such overruns occur. Subsequently the costs have been covered by budget amendments within the allowance in FAR.

**3.1.5 ETG Office Costs (WO#18)**

**Criteria**

The costs incurred outside the approved Work Orders are considered unallocable to the Program in accordance with the FAR.

Part 31.201-4 of the FAR with respect to the determination of allocability states that 'A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a contract if it—

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.'

**Condition**

Work Order No. 18 related to ETG office costs. ETG pays the costs and then bills USAID on a monthly basis. The analysis of the costs under Work Order 18 is shown below. The basis of the expenditures are further explained in the explanatory notes.

Month	Salaries	Rent	Depreciation	Others	Service	Total	Total
	KShs	KShs	KShs	KShs	KShs	KShs	US\$
	Note (i)	Note (ii)	Note (iii)	Note (iv)	(Note (v))		
May	300,552	-	-	11,200	46,763	358,515	4,575
June	300,552	-	3,532	20,820	48,736	373,640	4,681
July	355,752	-	5,073	4,000	54,724	419,548	5,260
Aug	382,907	120,516	5,073	101,200	91,454	701,150	8,741
Sept	350,752	40,000	2,029	676,708	160,423	1,229,912	15,332
Nov	468,565	40,000	5,073	10,120	78,564	602,321	7,413
Dec	468,565	40,000	5,073	83,832	89,620	687,090	8,456
<b>Total</b>	<b>3,095,934</b>	<b>280,516</b>	<b>33,972</b>	<b>1,121,538</b>	<b>679,794</b>	<b>5,211,753</b>	<b>64,816</b>
				Invoice partly reversed		12,473	158
				Exchange difference		-	22
				<b>Per general ledger</b>		<b>5,224,226</b>	<b>64,995</b>

**Explanatory notes**

- (i) Staff costs for ETG staff working full time for the program. There were 5 staff members as at 31 December 2004.
- (ii) Rent for the ETG office situated within the USAID premises at ICIPE, Kasarani. The monthly rent is US\$ 500.
- (iii) Depreciation – this represents amortization of the cost of office furniture and equipment purchased by ETG specifically for the program. The cost amounting to KShs 243,543 is being amortized over 4 years (48 months).
- (iv) Other Costs – these include communication costs and charges for car rental. An amount of KShs 676,708 (US\$ 8,436) relating to travel costs for two employees who traveled to Sudan were included in the month of September 2004.
- (v) The service fee is calculated at 15% on the direct costs as provided for in the agreement.

From a review of the expenditures under this Work Order, the following observations were made:

- (a) The Program Manager was paid a salary for the three months October to December 2004 amounting to KShs 353,163 (US\$ 4,351). In addition to the Southern Sudan Program, ETG also has a contract with the US Embassy for travel logistics.

We understand the Program Manager coordinates travel arrangements the Southern Sudan Program and the Embassy. We were unable to determine the portion of her salary allocable to the Southern Sudan Program as the employment contract was not

availed for our review. Accordingly, we have questioned the expenditures relating to her salary charged to the Program.

- (b) Invoice No. Q152148 of 30 June 2004 (KShs 386,889) included some ineligible expenditure, which were rejected by USAID. A replacement invoice No. Q152403 for KShs 373,640 was issued on 31 July 2004. This invoice had not been paid by 30 September 2004. In addition, credit note No. CN105626 raised to reverse invoice No. Q152148 was for KShs 374,416 leaving a balance of KShs 12,473. We have questioned this balance.
- (c) No SF1034 was submitted to USAID relating to Work Order No. 18 (office costs) at the time of seeking reimbursements, contrary to USAID requirements.

### **Cause**

The cause of this finding is the inadequacy of internal controls pertaining to apportionment of salary costs.

### **Effect**

It was not possible to allocate the cost relating to the salary paid to the Program Manager in the absence of her employment contract or an approved basis of allocating the salary costs between the Southern Sudan Program and the other travel logistic services rendered by ETG to USAID. The cost maybe disallowed by USAID.

### **Recommendation**

ETG must design and implement a system to ensure that salary costs not wholly allocable to the contract are sufficiently and accurately apportioned and segregated. The basis of apportionment must be reasonable and consistently applied.

### **Auditee's Comments**

- (a) The auditors were shown the payroll entry for the salary of the PM borne by ETG for her employment at the main USAID office. An email and subsequent signed contract from USAID approved the \$ 1450 pm as the agreed salary apportionment to the S Sudan contract. The auditors' comment that these costs be disallowed may therefore be incorrect.
- (b) These items are clearly shown on ETG's AR ledger as outstanding and therefore already known by ETG. They cannot therefore be classed as "internal control weakness". Credit notes have since been raised and residues cleared.

## **3.1.6 Discrepancies in amounts reimbursed by USAID**

### **Criteria**

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract.

### **Condition**

A review of the amounts reimbursed per USAID differed from the receipts recorded in ETG records. The total reimbursements by USAID during the period amounted to US\$ 1,504,130.06 per ETG records compared to the amount of US\$ 1,521,007.47 which was confirmed by USAID.

	US\$
<b>Reimbursement per USAID confirmation</b>	<b>1,521,077.47</b>
Less: Direct payments by USAID	<u>(29,233.75)</u>
Adjusted reimbursement amount	1,491,843.72
Less: Receipts not in ETG records	(2,156.40)
Add: Other items (net)	<u>14,442.74</u>
<b>Reimbursement per ETG records</b>	<b><u>1,504,130.06</u></b>

The USAID confirmation included an amount of US\$ 29,233.75 paid directly by USAID to various consultants, hence this was not captured in ETG records. After adjusting for the direct payments, the amount expected in ETG records was US\$ 1,491,843.72. Effectively the reimbursements reflected in ETG records are misstated by US\$ 12,286.34 (net). The full reconciliation is shown in note 2.5.

### **Cause**

The cause of this finding is inadequate record keeping and reconciliations at ETG.

### **Effect**

The reimbursements from USAID reflected in ETG records are misstated to the extent of the omissions noted above.

### **Recommendation**

ETG has the primary responsibility to maintain accurate and up-to-date accounting records. However, there should be regular communication between ETG and USAID to harmonize the records. This can be done on a monthly or quarterly basis. The reconciling items noted in section 2.5 should be resolved with immediate effect.

### **Auditee's Comments**

These are eight specific items covered under 3.1.2 and 3.1.3. They are minor exceptions known to ETG and have been explained to the auditors. They cannot be said to be arising out of "inadequate record keeping and reconciliation at ETG" as declared by the auditors.

### 3.1.7 Long Outstanding Invoices

#### Criteria

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract.

#### Condition

The invoices outstanding as at 31 December 2004 amounted to US\$ 615,737. The invoices analyzed per Work Order are included in Appendix I. The outstanding amount had been settled by 30 September 2005 except for the following invoices:

Invoice/ Work Order	Date	Invoice Amount KShs	Invoice Amount US\$	Details
U1005466 (Unmatched)	01/12/04	-	350	Travel Andrea/Basilica on 27/11/04 Delta-Rumbek-NBO
Q152148 (WO18)	30/06/04	12,473	158	CN105626 KShs 374,416 passed against invoice Q152148 KShs 386,889 leaving balance of KShs 12,473. CRN to be raised.
Q155043/SI436 (WO30)	31/12/04	15,444.37	190	Amt of KShs 713,644.13 for stationery reimbursed vide Rct 636974 leaving a balance of KShs 15,444.37 CRN to be raised
Q151663/SI50 (WO01)	31/05/04	-	495	Air ticket Abb-Yei on 25/05/04
Q152116/SI104 (WO15)	30/06/04	-	158	Excess baggage (Bamabas Gilo)
Q152403 (WO18)	31/07/04	373,640	4,681	Replacement of invoice Q152148 excluding office costs disputed by USAID KShs 13,249
<b>Total</b>			<b>6,031</b>	

In addition, there were other reconciling items in the general ledger that had not been cleared. These are detailed in note 2.5.

#### Cause

There was no proper explanation why the above invoices have been outstanding for a long time. The reconciling items are a further indication of inadequate record keeping at ETG.

#### Effect

The long outstanding items may represent ineligible or unsupported costs rejected by USAID.

## **Recommendation**

ETG should establish the status of each of the long outstanding items and the reconciling items in the general ledger. Those invoices which are still valid should be followed with USAID. Otherwise, the necessary adjustments should be effected in the general ledger to clear the outstanding items.

Furthermore, in the future, ETG must design and implement a system of control to ensure that all outstanding items are cleared within reasonable time.

## **Auditee's Comment**

ETG has in place internal controls which identify the reconciling items on the AR account. The six items out of numerous recorded are already known by ETG and are being handled by the PM with the USAID officials.

Such a situation cannot be considered as "arising out of inadequate record keeping or weak internal control systems at ETG".

### **3.1.8 Value Added Tax**

#### **Criteria**

According to Federal Acquisition Regulation (FAR) clause 31.205-41 (Taxes) part (b) sets out the tax costs that are not allowable. Section 3 of the clause states:

"Taxes from which exemptions are available to the contractor directly, or available to the contractor based on an exemption afforded the Government, except when the contracting officer determines that the administrative burden incident to obtaining the exemption outweighs the corresponding benefits accruing to the Government. When partial exemption from a tax is attributable to Government contract activity, taxes charged to such work in excess of that amount resulting from application of the preferential treatment are unallowable. These provisions intend that tax preference attributable to Government contract activity be realized by the Government. The term "exemption" means freedom from taxation in whole or in part and includes a tax abatement or reduction resulting from mode of assessment, method of calculation, or otherwise"

#### **Condition**

ETG purchased stationery for the Southern Sudan program vide invoice number Q152110 dated 07 June 2004 amounting to KShs 361,313.90 (US\$ 4,563). The stationery materials purchased from a supplier included VAT amounting to KShs 43,336 (US\$ 547) which was charged to the Southern Sudan Program under WO#16. Additionally ETG a purchased vide invoice number SI455 which included VAT of \$46.

#### **Cause**

The cause of this finding is inadequate controls over the billing process to isolate VAT amounts from costs billed to USAID.

**Effect**

VAT has been billed to USAID.

**Recommendation**

ETG should ensure that procurement of goods and services for the Program is done net of VAT. The supplier should then be facilitated to secure exemption certificate from the Ministry of Finance through USAID.

**Auditee's Comments**

ETG has clarified its position on VAT to the auditors that for locally consumed goods and services purchased on behalf of USAID S Sudan, the supplier is obliged to charge ETG the VAT in accordance with Kenyan VAT regulations. USAID has been requested to provide approval from K.R.A for V.A.T exemption.

#### 4. **INDEPENDENT AUDITORS REPORT ON COMPLIANCE**

The Directors  
Express Travel Group  
2<sup>nd</sup> Floor, Middle East Bank Tower  
Milimani Road  
**NAIROBI**

We have audited the fund accountability statement of Express Travel Group on relating to USAID Contract No. 623-C-00-0045-00 for the period April 20, 2004 to December 31, 2004 and have issued our report on it dated 16 January 2006.

Except for not having a fully satisfactory continuing education program and not conducting an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with *US Government Auditing Standards*, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms and laws and obligations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with agreement terms and laws and regulations applicable to Express Travel Group is the responsibility of the management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of ETG's compliance with certain provisions of the agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our compliance tests disclosed the following instances of noncompliance, the effects of which are shown as questioned costs in ETG's 2004 Fund Accountability Statement:

- (a) The accounting records maintained by ETG were inadequate to address USAID's reporting requirements. The general ledger account summarizing the transactions for the Program was not analyzed per Work Order. The SF1034 returns submitted to USAID were found to be incorrectly prepared and not reconciled to the general ledger (*refer to finding No. 4.1.1*)
- (b) At the request of the auditors, ETG analyzed the transactions in the general ledger and updated the SF1034s. The analysis revealed some invoices and receipts that could not be matched to a particular Work Order (*refer to finding No. 4.1.2*)

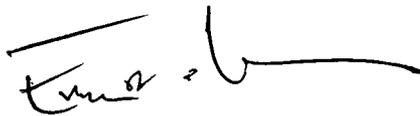
■ Other Offices: NAKURU, MOMBASA, ELDORET.

D.G.M. Hutchison\*, C.A. Otolu, J.K. Geita, P.M. Kamau, G.G. Karuu,  
J.K.C. Cheboror, A.S. Gilani, P.N. Anchinga, C.O. Atinda.

- (c) Some invoices outstanding as at 31 December 2004 had been subsequently reversed by way of credit notes for various reasons. In addition, there were long outstanding reconciling items in the general ledger (*refer to finding No. 4.1.3*)
- (d) There were budget overruns on some budget line items for certain Work Orders. It was however noted that there was no overrun on the total approved budget for any of the Work Orders (*refer to finding No. 4.1.4*)
- (e) The Program Manager coordinates travel arrangements the Southern Sudan Program and the Embassy. We were unable to determine the portion of her salary allocable to the Southern Sudan Program as the employment contract was not availed for our review (*refer to finding No. 4.1.5*)
- (f) From the sample invoices selected for testing, VAT amounting to \$675 was billed to USAID (*refer to finding No. 4.1.6*)

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in note 2.2 to the fund accountability statement and this report does not affect our report on the fund accountability statement dated 16 January 2006.

This report is intended for the information of ETG and the U.S Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



**Nairobi**

**16 January 2006**

#### 4.1. FINDINGS AND RECOMMENDATIONS ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

##### 4.1.1 Accounting records maintained by Express Travel Group

###### Criteria

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract. Furthermore, FAR 53.301-1034 provides a standard form SF 1034 "Public Voucher for Purchases and Services Other than Personal" which is required to be used by Contractors when requesting payments.

###### Condition

ETG maintains a specific account in the general ledger that summarizes the transactions for the USAID Southern Sudan Program. The account basically summaries the expenditures incurred and the receipts (reimbursements) from USAID.

The ETG office at ICIPE (within the USAID premises) is the core operations office. The invoices are generated from this office. The invoices are raised using the Transport Management System (TMS) and "BOSS" system. Invoices generated using the TMS system include service fee of 15% and are assigned a code series "SI". Invoices generated using the BOSS system described as "commercial" and no service fee is charged. These are assigned series "J" (JKIA office) and "D" (ICIPE office). The invoices are forwarded to USAID RFMC for reimbursement together with the SF1034.

The invoices are then forwarded to the ETG head office where they are assigned a "Q" series and posted to the accounting system ACCPAC. The following observations were made regarding the system of accounting:

- (a) The SF1034 submitted to USAID were not reconciled to the general ledger account. Our review of the SF1034s indicated that these were incorrectly prepared and in most cases did not reconcile to the detailed listing of invoices submitted for audit. It was also noted that the SF1034s submitted were not evidenced for review and approval by ETG management.
- (b) The Work Orders forms the basis of approval and accounting for expenditures under this contract. ETG Head Office maintains one general ledger account for all the transactions relating to the Southern Sudan transactions. The account was only per Work Order at the request of the auditors. This took a considerable time and effectively delaying the audit exercise. Thus the accounting system was not designed to address USAID's reporting requirements.
- (c) The listing of invoices generated from the TMS and BOSS systems were not reconciled to the general ledger account.

- (d) The exchange rates applied at the ICIPE office differed from the rates used at the head office to post the transactions to the general ledger. This was identified as one of the causes of discrepancies between the accounting records (SF1034 and general ledger).
- (e) There was weak oversight on the accounting function by ETG head office on their satellite office at ICIPE as evidenced by the numerous discrepancies and lack of reconciliations between the records maintained at the head office and ICIPE office.

The differences between the various accounting records maintained are shown below. It may be noted that no SF1034 was prepared for WO#18 (Office costs).

Work Order	ETG General Ledger	Per SF 1034 USAID Report	Detailed Invoice Listing
	US\$	US\$	US\$
Work Order 1	190,272	189,025	165,970
Work Order 2	51,684	47,520	52,992
Work Order 3	12,500	12,908	12,908
Work Order 8	50,118	50,706	50,706
Work Order 9	17,530	17,530	17,530
Work Order 10	1,140	-	1,157
Work Order 11	42,272	44,540	48,150
Work Order 12	7,751	7,751	7,751
Work Order 13	46,750	47,568	46,775
Work Order 14	430,171	441,899	442,664
Work Order 15	3,464	3,305	3,305
Work Order 16	568,149	567,082	570,333
Work Order 17	11,300	10,393	11,451
Work Order 18	64,995	-	-
Work Order 19	7,376	7,402	7,402
Work Order 20	8,247	8,247	8,247
Work Order 21	28,226	28,084	28,401
Work Order 22	1,863	1,863	1,863
Work Order 23	40,151	35,940	36,022
Work Order 24	19,014	19,251	19,019
Work Order 25	10,690	10,968	10,968
Work Order 26	767	771	771
Work Order 27	6,307	6,374	6,374
Work Order 29	10,724	10,724	10,724
Work Order 30	460,828	330,797	330,797
Work Order 31	12,782	5,779	5,779
Other items	14,809	-	-
<b>Total</b>	<b>2,119,881</b>	<b>1,906,429</b>	<b>1,898,066</b>

### Cause

The cause of this finding is the inadequacy of internal controls at ETG to address USAID's requirements that resulted in the information in the accounting records not being consistent.

## **Effect**

The financial information provided to USAID through the SF1034 is incorrect. The SF1034 is the principal budgetary control tool used by USAID. Effectively, the oversight procedures by USAID are compromised if reliance was placed on the incorrectly prepared SF1034. This is evidenced by the budget overruns noted in some Work Orders.

There were also numerous reconciling items in the general ledger that had not been resolved. A number of invoices and receipts posted to the general ledger account could not be related to a particular Work Order.

## **Recommendation**

ETG must comply with the FAR pertaining to proper books and records as outlined in the criteria above.

## **Auditee's Comments**

- (a) The General Ledger (GL) transactions are in fact analysed per Works Order in the ETG books by way of the A List sub-ledger. To this extent our A-List sub-ledger is an adequate tool to control the USAID transactions and to form the basis of the USAID reporting requirements under SF1034. If there were a significant absence of accounting procedures conformity with the USAID requirement, this audit could not have been possible.

We did not have to make any corrections to the GL A list (ETG's equivalent of the SF1034). ETG did not feel the need to "reconcile" the SF1034 to its GL A-lists, because ETG only accounts for USAID-approved expenditures as per SF 1034 and Public Payment Vouchers submitted to the USAID.

At the commencement of the audit, copies of SF 1034 which were not updated with those submitted to USAID were inadvertently used by the auditors. However, ETG managed to update these copies and no major deviations were found with the billed expenses per USAID records. The "differences" were due either to exchange rate difference or arising from some line items stated under different WOs. Invoicing to USAID of expenses under Travel Authorities was recorded in the same account as the WO because ETG maintains only one account in its Accounts Receivable (AR) ledger for the USAID S Sudan contract.

It should be noted that there is no real exchange rate exposure for either party to the contract because transactions are paid, invoiced and booked in the accounts in the currency in which the transaction originated.

ETG shall keep in its files copies of SF 1034 approved by USAID which will be a reflection of expenses recorded in ETG's GL and ensure consistency in the application of the exchange rate used on the SF 1034 and in ETG's accounts.

- (b) The auditor's comment implies that ETG needs to maintain a completely separate ledger for USAID S Sudan. Only in this way would ETG be able to keep separate GL and AR accounts per WO's. This would be unrealistic.

ETG did however successfully recompile on Excel, the USAID S Sudan AR account by WO, on the basis of which the auditors were able to perform the entire audit.

- (c) The TMS system is purely an invoicing module. The system is still in a development stage and it is not integrated into the ETG ledgers. In its current stage of development, the TMS database includes cancelled invoices and does not incorporate the credit note function. ETG did not attempt any such "reconciliation" as only invoicing which is supported by USAID-approved SF 1034 and a USAID-approved Public Payment Voucher is incorporated in the GL and ARL respectively, maintained at ETG HO.

This "reconciliation" will be obviated as soon as the TMS billing module is interfaced into the ETG ledgers. In the interim, the direct confirmation with USAID of ETG's billing is a control which ETG hopes to enforce.

- (d) ETG now ensures that the rate of exchange used by ICIPE office is the same as the one used by ETG HO. As far as billing is concerned the question of exchange rate does not arise as expense incurred in US\$ are invoiced in US\$ and payment is received in the same currency. Likewise expenses for KShs are billed in KShs and paid for in KShs.
- (e) It should be clarified that the main role of the ETG accountant based at the ICIPE office is to register the SF 1034 expenses as they arise against the WO budget submitted by the USAID office. He also prepares cheque requests and petty cash for USAID-authorized expenditures and generates ETG recharge invoicing of these expenditures on the TMS invoicing module. No accounting function, as such, is carried out at the USAID's ICIPE office. All of the accountant's work is supervised and counter authorized by the ETG's Program Manageress (PM) on site.

The ETG ICIPE accountant submits all the above documentation to the ETG HO for counter approval and accounting. Thus ETG only records USAID-approved and USAID-authorized expenditures and USAID-approved recharge invoicing, all of which originates from the ETG ICIPE office. ETG emphasizes that all invoicing and expenditure is recorded in its ledgers using the USAID's WO number as the key reference point.

The "discrepancies" the auditors refer to arose from inconsistent exchange rates and miss-allocation of expenses between works orders. The reasons behind the misallocation between works order were also given to the auditors. The auditors did not detect any cases of un-authentic expenses recorded either on the SF 1034 or in ETG's ledger account of USAID.

All of the above therefore indicates a sound internal control system exercised by ETG in recording USAID expenditures and recharge thereof.

The expenses and counter invoicing that could not be related to the WO were covered by Travel Authorities issued by the USAID office. This was clarified and explained to the auditors.

ETG will ensure that all outdated copies of SF 1034 are removed from the WO files and only the final USAID approved SF 1034 are filed in the WO file to preclude any reconciliation with the ETG's ledgers.

## 4.1.2 Invoices not matched to Work Orders

### Criteria

The costs incurred outside the approved Work Orders are considered unallocable to the Program in accordance with the FAR.

Part 31.201-4 of the FAR with respect to the determination of allocability states that 'A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a contract if it—

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.'

Furthermore, in terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract.

### Condition

The Work Order is the basis of approval and accounting for expenditures under this contract. At the commencement of the audit, ETG had not analyzed the general ledger transactions relating to the USAID Southern program per Work Order. This was done during the audit at the request of the auditors.

There were inadequate controls in place to ensure that invoices were matched to specific work orders. A number of invoices and receipts in the general ledger could not be matched to a particular Work Order, and hence we have questioned the expenditures amounting to US\$ 14,809. The invoices are analyzed in the table below. It may be noted that the first two invoices were actually reimbursed by USAID.

*Unmatched Receipts and Invoices*

Invoice #	Date	Amount	Comments
		US\$	
<b>Invoices</b>			
JV 333-626295	31-Aug-04	2,681	Misposting, Receipt # 6266295
JV 312- 626577	11-Aug-04	10,786	Misposting, Receipt #626577
D1005417	1-Dec-04	143	Outstanding
D1005466	1-Dec-04	350	Outstanding
D1005486	7-Dec-04	283	Outstanding
D1005487	7-Dec-04	283	Outstanding
D1005494	8-Dec-04	283	Outstanding
<b>Total</b>		<b>14,809</b>	

We understand that some of the invoices included in the above listing could be mispostings i.e. they relate to other services rendered by ETG to USAID/US Embassy outside the Southern Sudan Program.

**Cause**

The cause of this finding is the inadequacy of internal controls at ETG to address USAID's requirements that resulted in the information in the accounting records not being consistent.

**Effect**

Costs amounting to \$14,809 have been questioned in the fund accountability statement as ineligible.

**Recommendation**

We recommend that the USAID CO should determine the allowability of the \$14,809 in questioned ineligible costs, and recover from ETG any amounts determined to be unallowable.

**Auditee's Comment**

ETG must reiterate that it records transactions in its General Ledger by reference to the USAID WO. Indeed, the GL highlights any entry of expenditure or recharge invoice if WO number is not keyed in. The General ledger produces a subsidiary A-List ledger which corresponds to the SF1034, except for accounting accruals/deferrals entries and direct cashbook entries. This was explained to the auditors.

Also explained to the auditors was the fact that in the ETG Accounts Receivable Ledger, it cannot be possible to maintain a debtor's account for each individual WO.

It was however possible for ETG to redraft, on Excel, the one debtor's account for USAID Southern Sudan by WO. All Q invoices had the WO reference number and hence it was easy to sort the invoices. The only time consuming exercise was to allocate the receipts from USAID, as the accounting package used by ETG identifies the receipt to an invoice, not to a WO. ETG did however identify all receipts to the WO and hence the auditors were able to conduct their audit.

All Q invoices to USAID relating to WO have to have the WO number stated on it. Hence the auditor's statement that "there were inadequate controls in place to ensure that invoices were matched to specific WO", is incorrect.

ETG had clarified to the auditors at the outset that Invoices against specific Travel Authority were raised from ETG's BOSS travel invoicing system and hence had a specific reference.

Please see Appendix I for ETG's comments on "Unmatched Invoices"

In summary, in ETG's opinion, these were all legitimate items under TA's under FAR or were not related to the USAID S Sudan contract and so the original entries reversed.

ETG has adequate internal controls to pick up errors and adjust the accounts to conform to USAID requirements.

#### 4.1.3 Invoices Reversed

##### Criteria

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract.

##### Condition

From a review of the list of outstanding invoices as at 31 December 2004, it was noted that three invoices amounting to US\$ 3,122 were reversed by way of credit notes in 2005. It was also established that credit notes would also be raised against invoices amounting to US\$ 348. The details of these are shown below:

Work Order	Invoice Number	Credit Note Number	Date	Invoice Amount US\$
<b>Credit Notes raised</b>				
Work Order 16	D1004213	CN-105983	31/01/05	1,399
Work Order 16	Q153348	CN-106227	31/01/05	1,449
Work Order 30	Q155053	CN-155053	31/01/05	274
<b>Sub-total</b>				<b>3,122</b>
<b>Credit Notes raised</b>				
Work Order 18	Q152148	To pass CRN	30/06/04	158
Work Order 30	Q155043	To pass CRN	31/12/04	190
<b>Sub-total</b>				<b>348</b>
<b>Total</b>				<b>3,470</b>

- (i) The amount of US\$ 1,399 is the net of invoice # D1004213 (US\$ 1,679) and CN 105983 (US\$ 280). This was reimbursed in full by USAID vide receipt # 627057 on 09 September 2004 under WO#16. It's thus not clear why this credit note was raised.
- (ii) Invoice # Q153348 was shown as outstanding under WO#16 as at 31 December 2004. The expenditure related to ETG employees.
- (iii) Invoice # Q155053 was shown as outstanding under WO#30 as at 31 December 2004. This related to a flight NBO-LOKI-NBO on 25-26 November 2004.
- (iv) In voice No. 152148 (KShs 386,889) related to ETG office costs for the month of June 2004. A credit note CN105626 for KShs 374,416 was passed against the invoice leaving balance of KShs 12,473. (US\$ 158). The management has confirmed that a credit note will be raised to clear the balance.

- (v) Invoice No. Q155043 for KShs 713,644.13 relating to purchase of stationery, duplication and photocopying costs was partially reimbursed by USAID vide receipt No. 636974 (KShs 713,644.13) leaving a balance of KShs 15,444.37 (US\$ 190). The management intends to raise a credit note for this balance.

#### **Cause**

The cause of this finding is the inadequacy of internal controls at ETG to address USAID's requirements that resulted in costs being captured erroneously in the accounting records.

#### **Effect**

Costs amounting to \$3,470 has been questioned in the fund accountability statement as ineligible.

#### **Recommendation**

We recommend that the USAID CO should determine the allowability of the \$3,470 in questioned ineligible costs, and recover from ETG any amounts determined to be unallowable.

#### **Auditee's Comment**

Out of the numerous transactions recorded by ETG for this contract, only five items required correction. The conditions underlying these corrections were already known by ETG. Thus this situation cannot be construed as a control weakness. On the contrary, ETG has adequate controls in place to pick up and correct for items that enter the accounting records erroneously.

Please see Appendix III for detailed explanations of each item.

### **4.1.4 Budget Overruns**

#### **Criteria**

In terms of FAR 52.215-2(b), the Contractor is required to maintain, and also make available to the Contracting Officer or an authorized representative of the Contracting Officer all records and other evidence **sufficient to reflect properly** all costs claimed to have been incurred, or anticipated to be incurred directly or indirectly in performance of the contract. Furthermore, FAR 53.301-1034 provides a standard form SF 1034 "Public Voucher for Purchases and Services Other than Personal" which is required to be used by Contractors when requesting payments.

#### **Condition**

At the request of the auditors, ETG updated the SF1034 and the detailed listing of invoices (maintained on excel spreadsheet) to agree to the expenditures reported. The SF1034 gives a breakdown of the actual expenditures against the approved budget. It was noted that there were budget overruns in some line items on certain Work Orders, as analyzed below:

Work Order/Budget Line	Approved Budget	Actual Expenditure	Overrun	Overrun
	US\$	US\$	US\$	%
<b>WO#01</b>				
SIP-Country Training Logistics	67,208	103,304	36,096	54
SIP-Country Training Practicals	19,006	19,435	429	2
<b>WO#02</b>				
Transport & Accommodation	40,125	40,282	157	0
Workshop Supplies	6,220	7,852	1,632	26
<b>WO#03</b>				
Per Diems in Sudan field	720	805	85	12
<b>WO#08</b>				
Conference Charges-Naivasha	1,214	1,551	337	28
<b>WO#15</b>				
Tickets Nrb-Loki-Nrb	685	697	112	2
Taxis for 7 From Airport & Air Fee	115	116	1	1
<b>WO#16</b>				
Air Flights & Transport	276,601	276,713	112	0
Accommodation & Feeding	188,650	189,450	800	0
<b>WO#17</b>				
Kenya Visa	100	124	24	24
Miscellaneous	480	983	503	105
Salary (\$425 for 15 days)	6,375	6,900	525	8
<b>WO#22</b>				
Accommodation Loki	200	478	278	139
<b>WO#23</b>				
Stationery, Printing, Binding	3,450	4,417	967	28
Flight Nrb-Yei	6,900	8,391	1,491	22
<b>WO#24</b>				
SRRC Permit	18	40	22	119
<b>Total</b>			<b>43,471</b>	

**Cause**

The cause of this finding is the lack of monitoring, mainly on the part of USAID.

**Effect**

There were some budget overruns on certain line items amounting to \$43,471 which we have questioned as ineligible in the fund accountability statement.

**Recommendation**

We recommend that the USAID CO should determine the allowability of the \$43,471 in questioned ineligible costs, and recover from ETG any amounts determined to be unallowable.

### Auditee's Comment

"Budget over-runs" occur as a result of the fluid circumstances in S. Sudan under which the services are carried out. It is important here to note that it is always at the request and with the written approval of USAID that such overruns occur. Subsequently the costs have been covered by budget amendments within the allowance in FAR.

#### 4.1.5 ETG Office Costs (WO#18)

##### Criteria

The costs incurred outside the approved Work Orders are considered unallocable to the Program in accordance with the FAR.

Part 31.201-4 of the FAR with respect to the determination of allocability states that 'A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a contract if it—

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.'

##### Condition

Work Order No. 18 related to ETG office costs. ETG pays the costs and then bills USAID on a monthly basis. The analysis of the costs under Work Order 18 is shown below. The basis of the expenditures are further explained in the explanatory notes.

Month	Salaries KShs Note (i)	Rent KShs Note (ii)	Depreciation KShs Note (iii)	Others KShs Note (iv)	Service KShs (Note (v))	Total KShs	Total US\$
May	300,552	-	-	11,200	46,763	358,515	4,575
June	300,552	-	3,532	20,820	48,736	373,640	4,681
July	355,752	-	5,073	4,000	54,724	419,548	5,260
Aug	382,907	120,516	5,073	101,200	91,454	701,150	8,741
Sept	350,752	40,000	2,029	676,708	160,423	1,229,912	15,332
Oct	468,290	40,000	8,119	213,658	109,510	839,577	10,357
Nov	468,565	40,000	5,073	10,120	78,564	602,321	7,413
Dec	468,565	40,000	5,073	83,832	89,620	687,090	8,456
<b>Total</b>	<b>3,095,934</b>	<b>280,516</b>	<b>33,972</b>	<b>1,121,538</b>	<b>679,794</b>	<b>5,211,753</b>	<b>64,816</b>
					Invoice partly reversed	12,473	158
					Exchange difference	-	22
					<b>Per general ledger</b>	<b>5,224,226</b>	<b>64,995</b>

### Explanatory notes

- (i) Staff costs for ETG staff working full time for the program. There were 5 staff members as at 31 December 2004.
- (ii) Rent for the ETG office situated within the USAID premises at ICIPE, Kasarani. The monthly rent is US\$ 500.
- (iii) Depreciation – this represents amortization of the cost of office furniture and equipment purchased by ETG specifically for the program. The cost amounting to KShs 243,543 is being amortized over 4 years (48 months).
- (iv) Other Costs – these include communication costs and charges for car rental. An amount of KShs 676,708 (US\$ 8,436) relating to travel costs for two employees who traveled to Sudan were included in the month of September 2004.
- (v) The service fee is calculated at 15% on the direct costs as provided for in the agreement.

From a review of the expenditures under this Work Order, the following observations were made:

- (a) The Program Manager was paid a salary for the three months October to December 2004 amounting to KShs 353,163 (US\$ 4,351). In addition to the Southern Sudan Program, ETG also has a contract with the US Embassy for travel logistics.

We understand the Program Manager coordinates travel arrangements the Southern Sudan Program and the Embassy. We were unable to determine the portion of her salary allocable to the Southern Sudan Program as the employment contract was not availed for our review. Accordingly, we have questioned the expenditures relating to her salary charged to the Program.

- (b) Invoice No. Q152148 of 30 June 2004 (KShs 386,889) included some ineligible expenditure, which were rejected by USAID. A replacement invoice No. Q152403 for KShs 373,640 was issued on 31 July 2004. This invoice had not been paid by 30 September 2004. In addition, credit note No. CN105626 raised to reverse invoice No. Q152148 was for KShs 374,416 leaving a balance of KShs 12,473. We have questioned this balance.
- (c) No SF1034 was submitted to USAID relating to Work Order No. 18 (office costs) at the time of seeking reimbursements, contrary to USAID requirements.

### **Cause**

The cause of this finding is the inadequacy of internal controls pertaining to apportionment of salary costs.

### **Effect**

The salary costs of the Program Manager amounting to \$4,351 has been questioned as ineligible costs in the fund accountability statement.

## **Recommendation**

We recommend that the USAID CO should determine the allowability of the \$4,351 in questioned ineligible costs, and recover from ETG any amounts determined to be unallowable.

## **Auditee's Comments**

- (a) The auditors were shown the payroll entry for the salary of the PM borne by ETG for her employment at the main USAID office. An email and subsequent signed contract from USAID approved the \$ 1450 pm as the agreed salary apportionment to the S Sudan contract. The auditors' comment that these costs be disallowed may therefore be incorrect.
- (b) These items are clearly shown on ETG's AR ledger as outstanding and therefore already known by ETG. They cannot therefore be classed as "internal control weakness". Credit notes have since been raised and residues cleared.

## **4.1.6 Value Added Tax**

### **Criteria**

According to Federal Acquisition Regulation (FAR) clause 31.205-41 (Taxes) part (b) sets out the tax costs that are not allowable. Section 3 of the clause states:

"Taxes from which exemptions are available to the contractor directly, or available to the contractor based on an exemption afforded the Government, except when the contracting officer determines that the administrative burden incident to obtaining the exemption outweighs the corresponding benefits accruing to the Government. When partial exemption from a tax is attributable to Government contract activity, taxes charged to such work in excess of that amount resulting from application of the preferential treatment are unallowable. These provisions intend that tax preference attributable to Government contract activity be realized by the Government. The term "exemption" means freedom from taxation in whole or in part and includes a tax abatement or reduction resulting from mode of assessment, method of calculation, or otherwise"

### **Condition**

ETG purchased stationery for the Southern Sudan program vide invoice number Q152110 dated 07 June 2004 amounting to KShs 361,313.90 (US\$ 4,563.). The stationery materials purchased from a supplier included VAT amounting to KShs 43,336 (US\$ 547) which was charged to the Southern Sudan Program under WO#16.

### **Cause**

The cause of this finding is inadequate controls over the billing process to isolate VAT amounts from costs billed to USAID.

### **Effect**

From our sample selected for testing, VAT amounting to \$629 has been billed to USAID. There is a possibility that in other invoices not selected for testing, more VAT may have been billed to USAID.

### **Recommendation**

We recommend that the USAID CO should determine the allowability of the \$629 in questioned ineligible costs, and recover from ETG any amounts determined to be unallowable.

Furthermore, we recommend that USAID request ETG to submit an analysis of all invoices billed inclusive of VAT in order to determine the extent of VAT that may have been billed to it.

### **Auditee's Comments**

ETG has clarified its position on VAT to the auditors that for locally consumed goods and services purchased on behalf of USAID S Sudan, the supplier is obliged to charge ETG the VAT in accordance with Kenyan VAT regulations. USAID has been requested to provide approval from K.R.A for V.A.T exemption.

## APPENDIX I – Analysis of Expenditure and Reimbursements per Work Order

Revenue is comprised of reimbursements by USAID. A total of US\$ 2,119,881 had been expended during the period out of which US\$ 1,504,130 had been reimbursed by USAID, resulting in a closing balance of US\$ 615,750. The bulk of the outstanding invoices related to WO#30 issued towards the year end. The analysis per Work Order is shown below, including the balances outstanding as at 31 December 2004.

Work Order #	Description	Amount Billed US\$	Amount Reimbursed US\$	GL Balance 31-Dec-2004 US\$
WO01	Capacity Building – Southern Sudan Infrastructure Program	190,272.47	(148,824.92)	41,447.55
WO02	Workshop on Cooperatives and Rural Development	51,683.58	(52,134.32)	(450.74)
WO03	Consultancy on the study of donor funded seed systems in S. Sudan	12,499.98	(12,499.98)	-
WO08	Sudan Anti - Corruption Workshop in Rumbek & Naivasha	50,118.18	(50,101.84)	16.35
WO09	Technical Services to SFO Health Teams	17,529.80	(17,250.00)	279.80
WO10	Performance Monitoring Plan Devp Workshop	1,140.11	(1,130.90)	9.20
WO11	Launch of the Sudan Health Transformation Program in Rumbek	42,271.52	(35,046.93)	7,224.59
WO12	Gulu Trip – road assessment and develop a resettlement plan	7,751.00	(7,751.00)	-
WO13	New Sudan Centre for Statistics and Evaluation (NCSE) Board Development Training	46,750.28	(46,548.14)	202.14
WO14	Road Assessment Trip – review of extent of road and dike repair and meet with local communities	430,171.46	(416,356.28)	13,815.18
WO15	Travel for Anyuak King's Delegation to Ponchalla Country	3,464.02	(3,303.51)	160.51
WO16	Chiefs and Traditional Leaders Conference	568,149.30	(561,111.12)	7,038.18
WO17	Mission Democracy and Governance Design Document	11,299.85	(11,296.65)	3.20
WO18	Express Travel Group - Office Costs	64,994.90	(33,365.22)	31,629.68
WO19	Literature Review For South Sudan Capacity Development Needs Assessment	7,376.24	(7,107.83)	268.41
WO20	PMS Contract – launch of the Sudan Health Transformation Program in Rumbek	8,247.20	(8,247.20)	-
WO21	USAID Admin & Delegation visit to South Sudan	28,225.53	(27,656.83)	568.70
WO22	Telecommunication Technical Advice	1,863.08	(1,531.84)	331.25

<b>Work Order #</b>	<b>Description</b>	<b>Amount Billed US\$</b>	<b>Amount Reimbursed US\$</b>	<b>GL Balance 31-Dec-2004 US\$</b>
WO23	Development Associates Team in South Sudan – ENCAP training at Yei November 2004	40,151.19	(19,194.03)	20,957.16
WO24	Consultant - Joint Assessment Mission (JAM) Process	19,013.92	(19,013.92)	-
WO25	Development Associates Team in South Sudan – Capacity development needs assessment	10,689.69	(7,310.73)	3,378.96
WO26	Micro-Finance Workshop	766.54	-	766.54
WO27	Training of 13 Sudanese at Iowa State University, USA July to September 2004	6,307.06	-	6,307.06
WO29	Consultancy - Assessment of Civil Society in S. Sudan	10,723.99	(3,879.74)	6,844.25
WO30	SPLM Leadership Emergency Consultative meeting in Rumbek	460,828.34	-	460,828.34
WO31	National Peace & Reconciliation Commission	12,782.14	-	12,782.14
Unsorted	Items not matched to a particular Work Order	14,809.13	(13,467.13)	1,342.00
<b>Total</b>		<b>2,119,880.50</b>	<b>(1,504,130.06)</b>	<b>615,750.44</b>

*Note\*- Other items relate to invoices, receipts and journals that could not be matched to a particular Work Order.*

APPENDIX II – Outstanding Invoices at 31 December 2004

Invoice #	Date	Currency	Base	Mark-up	Total	Ex - rate	Invoices
			US\$/Kshs	US\$/Kshs	US\$/Kshs		US\$
WO # 1							
Q151631	31-May-04	US\$	430.00	64.50	494.50	1.0000	494.50
D1004219	28-Jun-04	US\$	464.20	-	464.20	1.0000	464.20
D1004329	07-Jul-04	US\$	141.40	-	141.40	1.0000	141.40
Q152899	30-Aug-04	US\$	329.00	49.35	378.35	1.0000	378.35
Q153011	31-Aug-04	US\$	11,010.43	1,651.57	12,662.00	1.0000	12,662.00
Q153340	25-Sep-04	US\$	365.40	54.81	420.21	1.0000	420.21
Q153346	25-Sep-04	US\$	11,895.00	1,784.25	13,679.25	1.0000	13,679.25
Q153348	25-Sep-04	US\$	1,260.00	189.00	1,449.00	1.0000	1,449.00
Q153351	25-Sep-04	US\$	600.00	90.00	690.00	1.0000	690.00
Q153371	25-Sep-04	US\$	2,000.00	300.00	2,300.00	1.0000	2,300.00
Q153374	25-Sep-04	US\$	50.00	7.50	57.50	1.0000	57.50
Q153375	25-Sep-04	US\$	297.00	44.55	341.55	1.0000	341.55
Q153429	30-Sep-04	US\$	1,700.00	255.00	1,955.00	1.0000	1,955.00
D1004984	1-Oct-04	US\$	274.80	-	274.80	1.0000	274.80
Q153702	19-Oct-04	US\$	407.76	61.16	468.92	1.0000	468.92
Q153914	30-Oct-04	US\$	2,000.00	300.00	2,300.00	1.0000	2,300.00
Q154301	13-Nov-04	US\$	600.00	90.00	690.00	1.0000	690.00
Q154347	23-Nov-04	US\$	160.00	24.00	184.00	1.0000	184.00
Q154858	30-Dec-04	US\$	750.00	112.50	862.50	1.0000	862.50
Q154859	30-Dec-04	US\$	300.00	45.00	345.00	1.0000	345.00
Q154861	30-Dec-04	US\$	600.00	90.00	690.00	1.0000	690.00
WO # 3							40,848.18
D1004265	3-Jul-04	US\$	279.80	-	279.80	1.0000	279.80
WO # 11							279.80
Q153700	19-Oct-04	US\$	174.84	26.23	201.07	1.0000	201.07
Q153701	19-Oct-04	US\$	3,715.04	557.26	4,272.30	1.0000	4,272.30
Q153802	23-Oct-04	US\$	214.97	32.25	247.22	1.0000	247.22
Q153803	23-Oct-04	US\$	119.84	17.98	137.82	1.0000	137.82
Q154297	13-Nov-04	US\$	2,949.03	442.35	3,391.38	1.0000	3,391.38
WO # 13							8,249.79
D1004249	1-Jul-04	US\$	187.25	-	187.25	1.0000	187.25
WO # 14							187.25
J1003624	12-Jun-04	US\$	288.00	-	288.00	1.0000	288.00
D1004156	22-Jun-04	US\$	279.80	-	279.80	1.0000	279.80
J1003769	7-Jul-04	US\$	141.40	-	141.40	1.0000	141.40
CN105789	30-Sep-04	US\$	(50.00)	(7.50)	(57.50)	1.0000	(57.50)
Q154871	30-Dec-04	US\$	11,426.74	1,714.01	13,140.75	1.0000	13,140.75

Invoice #	Date	Currency	Base	Mark-up	Total	Ex - rate	Invoices
			US\$/KShs	US\$/KShs	US\$/KShs		US\$
							<b>13,792.45</b>
<b>WO # 15</b>							
Q152116	30-Jun-04	US\$	137.00	20.55	157.55	1.0000	157.55
							<b>157.55</b>
<b>WO # 16</b>							
Q152894	30-Aug-04	US\$	342.00	51.30	393.30	1.0000	393.30
Q153369	25-Sep-04	US\$	800.00	120.00	920.00	1.0000	920.00
Q153370	25-Sep-04	US\$	4,900.00	735.00	5,635.00	1.0000	5,635.00
							<b>6,948.30</b>
<b>WO # 18</b>							
Q152403	31-Jul-04	KShs	324,904.35	48,735.65	373,640.00	79.8278	4,680.57
Q154332	31-Oct-04	KShs	730,066.96	109,510.04	839,577.00	81.0611	10,357.34
Q154754	30-Nov-04	KShs	523,757.50	78,563.63	602,321.13	81.2500	7,413.18
Q155159	31-Dec-04	KShs	597,469.30	89,620.40	687,089.70	81.2506	8,456.43
							<b>30,907.52</b>
<b>WO # 19</b>							
Q154394	29-Nov-04	KShs	18,817.27	2,822.59	21,639.86	81.2500	266.34
							<b>266.34</b>
<b>WO # 21</b>							
Q154691	14-Dec-04	US\$	300.00	45.00	345.00	1.0000	345.00
Q154692	14-Dec-04	KShs	5,600.00	840.00	6,440.00	81.2506	79.26
D1005540	15-Dec-04	US\$	143.00	-	143.00	1.0000	143.00
							<b>567.26</b>
<b>WO # 22</b>							
Q153975	30-Oct-04	US\$	288.00	43.20	331.20	1.0000	331.20
							<b>331.20</b>
<b>WO # 23</b>							
Q153976	30-Oct-04	US\$	72.00	10.80	82.80	1.0000	82.80
Q153977	30-Oct-04	US\$	2,402.00	360.30	2,762.30	1.0000	2,762.30
Q153978	30-Oct-04	US\$	290.97	43.65	334.62	1.0000	334.62
Q153979	30-Oct-04	US\$	99.88	14.98	114.86	1.0000	114.86
Q153982	30-Oct-04	US\$	740.00	111.00	851.00	1.0000	851.00
Q153983	30-Oct-04	US\$	3,850.00	577.50	4,427.50	1.0000	4,427.50
Q154349	23-Nov-04	US\$	6,315.00	947.25	7,262.25	1.0000	7,262.25
D1005431	22-Dec-04	US\$	572.00	-	572.00	1.0000	572.00
Q155131	31-Dec-04	KShs	301,624.00	45,243.60	346,867.60	81.2506	4,269.11
							<b>20,676.44</b>
<b>WO # 25</b>							
Q154505	30-Nov-04	US\$	140.00	21.00	161.00	1.0000	161.00
Q154507	30-Nov-04	US\$	2,301.56	345.23	2,646.79	1.0000	2,646.79
D1005432	1-Dec-04	US\$	286.00	-	286.00	1.0000	286.00
D1005430	22-Dec-04	US\$	140.00	-	140.00	1.0000	140.00
D1005247	2-Nov-04	US\$	277.80	-	277.80	1.0000	277.80
D1005541	15-Dec-04	US\$	124.35	18.65	143.00	1.0000	143.00
							<b>3,654.59</b>

Invoice #	Date	Currency	Base	Mark-up	Total	Ex - rate	Invoices
			US\$/KShs	US\$/KShs	US\$/KShs		US\$
<b>WO # 26</b>							
Q154292	12-Nov-04	KShs	3,220.00	-	3,220.00	81.2500	39.63
Q154397	29-Nov-04	KShs	22,514.82	-	22,514.82	81.2500	277.11
V7005648	3-Nov-04	US\$	391.13	58.67	449.80	1.0000	449.80
							<b>766.54</b>
<b>WO # 27</b>							
Q154299	13-Nov-04	US\$	300.00	45.00	345.00	1.0000	345.00
Q154319	17-Nov-04	US\$	421.00	63.15	484.15	1.0000	484.15
Q154321	17-Nov-04	US\$	600.00	90.00	690.00	1.0000	690.00
D1005358	25-Nov-04	US\$	477.78	-	477.78	1.0000	477.78
Q154395	29-Nov-04	KShs	304,520.00	45,678.00	350,198.00	81.2500	4,310.13
							<b>6,307.06</b>
<b>WO # 29</b>							
Q154756	18-Dec-04	US\$	720.00	108.00	828.00	1.0000	828.00
D1005588	31-Dec-04	US\$	6,016.25	-	6,016.25	1.0000	6,016.25
							<b>6,844.25</b>
<b>WO # 30</b>							
J1004831	26-Nov-04	US\$	147.40	-	147.40	1.0000	147.40
J1004838	26-Nov-04	US\$	147.40	-	147.40	1.0000	147.40
J1004839	26-Nov-04	US\$	147.40	-	147.40	1.0000	147.40
J1004840	26-Nov-04	US\$	147.40	-	147.40	1.0000	147.40
J1004841	26-Nov-04	US\$	147.40	-	147.40	1.0000	147.40
D1005563	3-Dec-04	US\$	2,325.00	-	2,325.00	1.0000	2,325.00
D1005564	3-Dec-04	US\$	2,295.00	-	2,295.00	1.0000	2,295.00
Q154671	14-Dec-04	US\$	8,710.00	1,306.50	10,016.50	1.0000	10,016.50
Q154672	14-Dec-04	US\$	7,673.00	1,150.95	8,823.95	1.0000	8,823.95
Q154673	14-Dec-04	US\$	9,125.00	1,368.75	10,493.75	1.0000	10,493.75
Q154674	14-Dec-04	US\$	27,720.00	4,158.00	31,878.00	1.0000	31,878.00
Q154675	14-Dec-04	US\$	13,272.00	1,990.80	15,262.80	1.0000	15,262.80
Q154676	14-Dec-04	US\$	10,576.00	1,586.40	12,162.40	1.0000	12,162.40
Q154678	14-Dec-04	US\$	10,576.00	1,586.40	12,162.40	1.0000	12,162.40
Q154679	14-Dec-04	US\$	17,177.50	2,576.63	19,754.13	1.0000	19,754.13
Q154680	14-Dec-04	US\$	17,272.50	2,590.88	19,863.38	1.0000	19,863.38
Q154683	14-Dec-04	US\$	6,155.00	923.25	7,078.25	1.0000	7,078.25
Q154684	14-Dec-04	US\$	15,370.00	2,305.50	17,675.50	1.0000	17,675.50
Q154723	16-Dec-04	US\$	5,250.00	787.50	6,037.50	1.0000	6,037.50
Q154724	16-Dec-04	US\$	3,500.00	525.00	4,025.00	1.0000	4,025.00
Q154725	16-Dec-04	US\$	22,490.00	3,373.50	25,863.50	1.0000	25,863.50
Q154726	16-Dec-04	US\$	727.00	109.05	836.05	1.0000	836.05
Q154727	16-Dec-04	US\$	7,670.00	1,150.50	8,820.50	1.0000	8,820.50
Q154728	16-Dec-04	US\$	16,590.00	2,488.50	19,078.50	1.0000	19,078.50
Q154729	16-Dec-04	US\$	7,466.00	1,119.90	8,585.90	1.0000	8,585.90
Q154730	16-Dec-04	US\$	22,088.60	3,313.29	25,401.89	1.0000	25,401.89
Q154731	16-Dec-04	US\$	13,065.00	1,959.75	15,024.75	1.0000	15,024.75
Q154732	16-Dec-04	US\$	15,000.00	2,250.00	17,250.00	1.0000	17,250.00

Invoice #	Date	Currency	Base	Mark-up	Total	Ex - rate	Invoices
			US\$/KShs	US\$/KShs	US\$/KShs		US\$
Q154865	30-Dec-04	US\$	9,401.90	1,410.29	10,812.19	1.0000	10,812.19
Q154867	30-Dec-04	US\$	347.83	52.17	400.00	1.0000	400.00
Q154868	30-Dec-04	US\$	420.00	63.00	483.00	1.0000	483.00
Q155043	31-Dec-04	KShs	633,990.00	95,098.50	729,088.50	81.2506	8,973.33
Q155048	31-Dec-04	US\$	48,000.00	7,200.00	55,200.00	1.0000	55,200.00
Q155049	31-Dec-04	US\$	6,201.50	930.23	7,131.73	1.0000	7,131.73
Q155050	31-Dec-04	US\$	7,587.50	1,138.13	8,725.63	1.0000	8,725.63
Q155051	31-Dec-04	US\$	4,795.50	719.33	5,514.83	1.0000	5,514.83
Q155052	31-Dec-04	US\$	9,025.00	1,353.75	10,378.75	1.0000	10,378.75
Q155053	31-Dec-04	US\$	238.61	35.79	274.40	1.0000	274.40
Q155091	31-Dec-04	US\$	37,250.00	5,587.50	42,837.50	1.0000	42,837.50
Q155093	31-Dec-04	US\$	52.17	7.83	60.00	1.0000	60.00
							<b>452,243.01</b>
<b>WO # 31</b>							
Q154862	30-Dec-04	KShs	300,000.00	45,000.00	345,000.00	81.2506	4,246.12
Q154870	30-Dec-04	KShs	102,039.00	15,305.85	117,344.85	81.2506	1,444.23
Q155045	31-Dec-04	US\$	2,978.00	446.70	3,424.70	1.0000	3,424.70
Q155046	31-Dec-04	KShs	45,000.00	6,750.00	51,750.00	81.2506	636.92
Q155129	31-Dec-04	KShs	207,245.00	31,086.75	238,331.75	81.2506	2,933.29
Q155132	31-Dec-04	KShs	6,844.00	1,026.60	7,870.60	81.2506	96.87
Q154681	14-Dec-04	US\$	7,465.50	1,119.83	8,585.33	1.0000	8,585.33
							<b>21,367.47</b>
<b>Unmatched</b>							
D1005417	1-Dec-04	US\$	143.00	-	143.00	1.0000	143.00
D1005466	1-Dec-04	US\$	350.00	-	350.00	1.0000	350.00
D1005486	7-Dec-04	US\$	283.00	-	283.00	1.0000	283.00
D1005487	7-Dec-04	US\$	283.00	-	283.00	1.0000	283.00
D1005494	8-Dec-04	US\$	283.00	-	283.00	1.0000	283.00
							<b>1,342.00</b>
							<b>615,736.99</b>

## **APPENDIX III– Reply by Express Travel Group**

### **INTRODUCTION**

In the period under review, ETG recorded about 475 transactions in the USAID S Sudan account. The auditors have queried about 15 transactions, details about which were already known to ETG.

We have noted that the auditors have reported a few known exceptions to the otherwise well functioning internal control and accounting systems, as weaknesses in ETG's internal controls. No cognizance has been given to the fact that most of these few exceptions arose at the earliest stage of the contract, when ETG was in the process of adjusting to the USAID reporting and accounting requirements under the contract.

The auditors have declared travel expenses of USAID personnel incurred in the course of performing their duties under the S Sudan contract, as illegitimate expenses, despite the fact that these were incurred under specific travel authority from the USAID, and well within the definition of FAR as stated in 3.1.2 on page 19 of the auditors report.

The auditors have declared ETG's procedure of recording in the USAID S Sudan contract account (Work Order account) of ETG's travel invoices under USAID S Sudan Travel Authority as internal control weaknesses. The rationale adopted by ETG in combining the Travel invoices with the WO invoices in one account in the Accounts Receivables Ledger is that both are payable under the same USAID S Sudan contract.

It cannot be over emphasized that ETG's accounting of their S Sudan office transactions are controlled by whatever instructions are received from USAID. ETG only accounts for expenses which are first approved by the USAID S Sudan office through the SF 1034. No recharge invoicing by ETG is done without first obtaining the approval from the USAID S Sudan Office by way of the SF 1034. No reimbursement from the USAID S Sudan office is obtained without the USAID's Public Voucher Payment Authority. In light of these highly controlled procedures, ETG cannot reconcile with the auditors' contention of "inadequate internal controls and accounting records not being consistent" on ETG's side.

ETG had, at the outset clarified to the auditors that there were some travel invoices of the main USAID office which were erroneously posted in the USAID S Sudan account. These were immediately noted by the ETG credit controller and correction journals passed prior to the closing of the year 2004, and thus having no bearing to the FAS. The auditor's report does not clarify this. Indeed to a third party the auditor's comments may convey a misleading opinion.

### **SPECIFIC COMMENTS.**

3.1.1 & 4.1.1 Accounting records maintained by Express Travel Group.

3.1.1 (a) & 4.1.1 (a)

The General Ledger (GL) transactions are in fact analysed per Works Order in the ETG books by way of the A List sub-ledger. To this extent our A-List sub-ledger is an adequate tool to control the USAID transactions and to form the basis of the USAID reporting requirements under SF1034. If there were a significant absence of accounting procedures conformity with the USAID requirement, this audit could not have been possible.

We did not have to make any corrections to the GL A list (ETG's equivalent of the SF1034). ETG did not feel the need to "reconcile" the SF1034 to its GL A-lists, because ETG only accounts for USAID-approved expenditures as per SF 1034 and Public Payment Vouchers submitted to the USAID.

At the commencement of the audit, copies of SF 1034 which were not updated with those submitted to USAID were inadvertently used by the auditors. However, ETG managed to update these copies and no major deviations were found with the billed expenses per USAID records. The "differences" were due either to exchange rate difference or arising from some line items stated under different WOs. Invoicing to USAID of expenses under Travel Authorities was recorded in the same account as the WO because ETG maintains only one account in its Accounts Receivable (AR) ledger for the USAID S Sudan contract.

It should be noted that there is no real exchange rate exposure for either party to the contract because transactions are paid, invoiced and booked in the accounts in the currency in which the transaction originated.

ETG shall keep in its files copies of SF 1034 approved by USAID which will be a reflection of expenses recorded in ETG's GL and ensure consistency in the application of the exchange rate used on the SF 1034 and in ETG's accounts

**3.1.1 (b) & 4.1.1 (b)**

The auditor's comment implies that ETG needs to maintain a completely separate ledger for USAID S Sudan. Only in this way would ETG be able to keep separate GL and AR accounts per WO's. This would be unrealistic.

ETG did however successfully recompile on Excel, the USAID S Sudan AR account by WO, on the basis of which the auditors were able to perform the entire audit.

**3.1.1 (c) & 4.1.1 (c)**

The TMS system is purely an invoicing module. The system is still in a development stage and it is not integrated into the ETG ledgers. In its current stage of development, the TMS database includes cancelled invoices and does not incorporate the credit note function.

ETG did not attempt any such "reconciliation" as only invoicing which is supported by USAID-approved SF 1034 and a USAID-approved Public Payment Voucher is incorporated in the GL and ARL respectively, maintained at ETG HO.

This "reconciliation" will be obviated as soon as the TMS billing module is interfaced into the ETG ledgers. In the interim, the direct confirmation with USAID of ETG's billing is a control which ETG hopes to enforce.

**3.1.1 (d) & 4.1.1 (d)**

ETG now ensures that the rate of exchange used by ICIPE office is the same as the one used by ETG HO. As far as billing is concerned the question of exchange rate does not arise as expense incurred in USD are invoiced in USD and payment is received in the same currency. Likewise expenses for KSHS are billed in KSHS and paid for in KSHS.

**3.1.1. (e) & 4.1.1 (e)**

It should be clarified that the main role of the ETG accountant based at the ICIPE office is to register the SF 1034 expenses as they arise against the WO budget submitted by the USAID office. He also prepares cheque requests and petty cash for USAID-authorized expenditures and generates ETG recharge invoicing of these expenditures on the TMS invoicing module. No accounting function, as such, is carried out at the USAID's ICIPE office. All of the accountant's work is supervised and counter authorized by the ETG's Program Manageress (PM) on site.

The ETG ICIPE accountant submits all the above documentation to the ETG HO for counter approval and accounting. Thus ETG only records USAID-approved and USAID-authorized expenditures and USAID-approved recharge invoicing, all of which originates from the ETG ICIPE office. ETG emphasizes that all invoicing and expenditure is recorded in its ledgers using the USAID's WO number as the key reference point.

The "discrepancies" the auditors refer to arose from inconsistent exchange rates and miss- allocation of expenses between works orders. The reasons behind the misallocation between works order were also given to the auditors. The auditors did not detect any cases of un-authentic expenses recorded either on the SF 1034 or in ETG's ledger account of USAID.

All of the above therefore indicates a sound internal control system exercised by ETG in recording USAID expenditures and recharge thereof.

The expenses and counter invoicing that could not be related to the WO were covered by Travel Authorities issued by the USAID office. This was clarified and explained to the auditors.

ETG will ensure that all outdated copies of SF 1034 are removed from the WO files and only the final USAID approved SF 1034 are filed in the WO file to preclude any reconciliation with the ETG's ledgers.

### **3.1.2 & 4.1.2 Invoices not matched to Work Order (WO).**

ETG must reiterate that it records transactions in its General Ledger by reference to the USAID WO. Indeed, the GL highlights any entry of expenditure or recharge invoice if WO number is not keyed in. The General ledger produces a subsidiary A-List ledger which corresponds to the SF1034, except for accounting accruals/deferrals entries and direct cashbook entries. This was explained to the auditors.

Also explained to the auditors was the fact that in the ETG Accounts Receivable Ledger, it cannot be possible to maintain a debtor's account for each individual WO.

It was however possible for ETG to redraft, on Excel, the one debtor's account for USAID Southern Sudan by WO. All Q invoices had the WO reference number and hence it was easy to sort the invoices. The only time consuming exercise was to allocate the receipts from USAID, as the accounting package used by ETG identifies the receipt to an invoice, not to a WO. ETG did however identify all receipts to the WO and hence the auditors were able to conduct their audit.

All Q invoices to USAID relating to WO have to have the WO number stated on it. Hence the auditor's statement that "there were inadequate controls in place to ensure that invoices were matched to specific WO", is incorrect.

ETG had clarified to the auditors at the outset that Invoices against specific Travel Authority were raised from ETG's BOSS travel invoicing system and hence had a specific reference.

Please see Appendix I for ETG's comments on "Unmatched Invoices"

In summary, in ETG's opinion, these were all legitimate items under TA's under FAR or were not related to the USAID S Sudan contract and so the original entries reversed.

ETG has adequate internal controls to pick up errors and adjust the accounts to conform to USAID requirements.

### **3.1.3 & 4.1.3 Invoices Reversed.**

Out of the numerous transactions recorded by ETG for this contract, only five items required correction. The conditions underlying these corrections were already known by ETG. Thus this situation cannot be construed as a control weakness. On the contrary, ETG has adequate controls in place to pick up and correct for items that enter the accounting records erroneously.

Please see Appendix I for detailed explanations of each item.

### **3.1.4 & 4.1.4 Budget Overruns**

“Budget over-runs” occur as a result of the fluid circumstances in S. Sudan under which the services are carried out. It is important here to note that it is always at the request and with the written approval of USAID that such overruns occur. Subsequently the costs have been covered by budget amendments within the allowance in FAR.

### **3.1.5 & 4.1.5 ETG Office Costs(WO#18)**

#### **3.1.5(a)& 4.1.5(a)**

The auditors were shown the payroll entry for the salary of the PM borne by ETG for her employment at the main USAID office. An email and subsequent signed contract from USAID approved the \$ 1450 pm as the agreed salary apportionment to the S Sudan contract. The auditors’ comment that these costs be disallowed may therefore be incorrect.

#### **3.1.5b &c on pg 25 & 4.1.5 e & f on pg 41**

These items are clearly shown on ETG’s AR ledger as outstanding and therefore already known by ETG. They cannot therefore be classed as “internal control weakness”. Credit notes have since been raised and residues cleared.

### **3.1.6. Discrepancies in amounts reimbursed by USAID - \$12,286.34 (net)**

These are eight specific items covered under 3.1.2 and 3.1.3. They are minor exceptions known to ETG and have been explained to the auditors. They cannot be said to be arising out of “inadequate record keeping and reconciliation at ETG” as declared by the auditors.

### **3.1.7. Long Outstanding Invoices.**

ETG has in place internal controls which identify the reconciling items on the AR account. The six items out of numerous recorded are already known by ETG and are being handled by the PM with the USAID officials.

Such a situation cannot be considered as “arising out of inadequate record keeping or weak internal control systems at ETG”.

### **3.1.8 & 4.1.6 Value Added Tax.**

ETG has clarified its position on VAT to the auditors that for locally consumed goods and services purchased on behalf of USAID S Sudan, the supplier is obliged to charge ETG the VAT in accordance with Kenyan VAT regulations. USAID has been requested to provide approval from K.R.A for V.A.T exemption.

**Hereunder are the explanations for the queried /ineligible costs by the auditors.**

The report shows that US\$ **\$66, 730/-** as questioned costs, that constitute

	US\$
a) Expenses not matched to any work order	14,809/-
b) Reversed invoices	3,470/-
c) Budget overruns/ deficit in line items	43,471/-
d) Salary for program manager	4,351/-
e) VAT	<u>629/-</u>
Total	<u>66,730 /-</u>

## Explanations

a) "Expenses not matched to any WO"

These are travel invoices amounting to \$14,809/- appearing in the AR with WO invoices.

- i) JV-333-receipt #626295 of \$2,681/-. This is a known exception. The receipt was erroneously posted in the USAID S Sudan AR a/c instead of the USAID Travel office a/c. ETG's JV 333 was passed to remove this receipt. Thus this was a legitimate accounting correction picked up by ETG internal controls.
- ii) JV-312-626577 of \$10,786/- these were travel tickets for S Sudan office issued under Travel Authority 4623T239.
- iii) D1005417 of \$143/- Andrea Basilica flight was paid by TA-KEN 05-273 voucher no 5650T023
- iv) D1005466 of \$350/- Andrea Basilica's Delta Connection flight has been reversed as another invoice was raised, SI431/Q154758.
- v) D1005486 of \$283/- D'silva flight was catered for by TA-KEN 05-331 voucher 5650T015
- vi) D1005487 of \$283/- Roger Winter flight was catered by TA00005TA000533 voucher no 5650T015
- vii) D1005494 of 283 West Yegulle flight was catered by TA-KEN 04-130

b) Reversed invoices.

The following are the reasons that necessitated cancellations of the questioned invoices amounting to \$3,470/-

- i) Invoice D1004213 of \$1,678.80/- included a cancelled ticket of \$279.80/- A fresh invoice D1004260 of \$1,399.00 was submitted to USAID for payment. To correct our ledgers, a credit note CN-105983 of \$279.80/- was posted against invoice D1004213.
- ii) CN-106277 was posted to cancel invoice Q153348 of \$1,449.00/-. This was to reverse a duplication of per diem allowances for ETG staff already charged under WO 18 (office costs)
- iii) Q152148 of Kes 386,889/- refers to June 2004 office cost. An error was noted and hence credit note had to be done. CN105626 of Kes 374,416/- was done which did not clear the invoice thus another CN106918 of Kes 12,473.00/- (\$158.00/-) was eventually done to clear the balance
- iv) Q155043 of Kes 729,088.50/- was submitted but USAID paid Kes 713,644.13/- leaving a balance of kes 15,444.37/-. A CN of Kes 15,444.73/- was passed to clear the residue.
- v) Q155053 of \$274.00/- This invoice was cancelled and allocated on 31/1/2005