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AUDIT OF  
ANTIGUA WATER SUPPLY PROJECT  
PROJECT NO. 538-0098

Audit Report No. 1-538-87-08  
December 9, 1986

# AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:  
RIG/T  
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA — HONDURAS

TELEPHONES:  
32-0044 & 32-0092  
also 32-3120/9, EXT. 293 & 296

December 9, 1986

MEMORANDUM FOR: Director, RDO/C, James S. Holtaway  
FROM : RIG/A/T, *Coinage N. Gothard*  
SUBJECT : Audit of Antigua Water Supply Project No. 538-0098

This report presents the results of audit of the Antigua Water Supply Project. At the request of the Regional Development Office/Caribbean (RDO/C), the Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit of the Antigua Public Utilities Authority during the period July 21, 1986 to September 5, 1986. The audit assessed accountability and internal controls over project assets, compliance with project agreement requirements and other applicable AID regulations, and whether the project's objectives had been achieved.

The review found that the Antigua Public Utilities Authority (APUA) lacked accountability and a system of internal controls over assets acquired with project funds. There was non-compliance with a condition precedent to disbursements and requirements of the Foreign Assistance Act. A principal project purpose -- APUA's attaining economic self-sufficiency -- had not been realized.

The audit disclosed that: (1) APUA had not accounted for assets acquired with project funds in accordance with generally accepted accounting principles; (2) the Government of Barbuda and Antigua (GOAB) had not met its commitment to APUA by timely payments of its water bills as required by condition precedent section 5.2(c); (3) APUA had not implemented many of the technical assistance contractor's recommended procedures designed to assist the water division to become self-sufficient; and (4) an updated assessment of APUA's capability to effectively administer the project needs to be performed before committing AID funds under a planned second phase.

The report recommends that the Regional Development Office/Caribbean: (1) require APUA to obtain a certified audit of its 1985 accounts and hire a qualified accountant to maintain the books and accounts of the water division; (2) continue monitoring government payments to APUA to ensure timely payments; (3) require APUA to develop a time-phased action plan to improve the water division's revenue and collection system; and (4) perform an updated assessment of the cooperating country's capability to administer the project before proceeding with phase two.

The Mission suggested wording changes in Recommendation No. 1 to accommodate the amount of time required to implement the recommendation. The Regional Inspector General's Office concurred and the wording has been changed. RDO/C notified the auditors that a substantial payment had been made on the government's water account. Recommendation No. 2 has therefore been modified to require continual monitoring of the account, ensuring timely payments. Management agreed with Recommendation No. 3 and requested an action plan from APUA. They also agreed to perform an updated administrative analysis of the Authority before funding any follow-up project; therefore Recommendation No. 4 is closed upon issuance of the report.

Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendations. We appreciate the cooperation and courtesy extended our staff during the audit.

## EXECUTIVE SUMMARY

Antigua differs from other East Caribbean islands in that it lacks an abundant and reliable water supply. This had been a major constraint to the island's economic growth. To help alleviate this situation, AID's Regional Development Office for the Caribbean signed Project Agreement No. 538-0098 with the Government of Antigua and Barbuda in March 1983. This provided \$9.7 million (\$6.6 million in loans and \$3.1 million in grants) to expand the island's water supply system to meet the potable water demands of the tourism, industrial, and commercial sectors. In addition, the five-year project was to provide technical assistance and training to employees of the water division of the Antigua Public Utilities Authority to ensure development of a self-sustaining organization. A follow-up project is under consideration.

At the request of the Regional Development Office/Caribbean, the Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit of the Antigua Public Utilities Authority. The audit assessed accountability and internal controls over project assets, compliance with project agreement requirements and other applicable AID regulations, and whether the project's objectives had been achieved.

The review found that the Utility Authority lacked accountability and a system of internal controls over assets acquired with project funds. There was non-compliance with a condition precedent to disbursements and requirements of the Foreign Assistance Act. A principal project purpose -- the Authority's attaining economic self-sufficiency -- had not been realized.

Despite the Utility Authority's serious administrative deficiencies, it had achieved significant results in expanding Antigua's water supply from an average of 43 million gallons per month to an average of 72 million gallons, thereby almost eliminating one of the major obstacles to the island's economic growth.

The audit disclosed that: (1) the Authority had not accounted for assets acquired with project funds in accordance with generally accepted accounting principles; (2) the government had not met its commitment to the Authority by timely payments of its water bills as required by condition precedent section 5.2(c); (3) the Authority had not implemented many of the technical assistance contractor's recommended procedures designed to assist the water division to become self-sufficient; and (4) an updated assessment of the Authority's capability to effectively administer the project needs to be performed before committing AID funds under a planned second phase.

The project agreement provided that the Authority's accounts and records should be maintained in accordance with generally accepted accounting principles. However, the Authority had not recorded in its accounts the assets acquired with project funds because the utility company did not have personnel with sufficient accounting skills to maintain such records. Thus, approximately \$3 million had been spent for equipment and

major improvements (pipelines, storage tanks, etc.) had not been accounted for in the Authority's books of account. The report recommended that the Mission require the Utility Authority to obtain a certified audit of its 1985 accounts and hire a qualified accountant to maintain the books and accounts of the water division. The recommendation has been modified to accommodate the time constraints noted by management.

Condition precedent to disbursement section 5.2 (c) required that the government keep its monthly water consumption account current. However, the government had not made regular payments and, as of March 1986, owed the Utility Authority \$2 million. Moreover, the government had not made any formal commitment to make payments. As a result, the Authority had been deprived of approximately \$2 million in revenue for water services provided the local government. In response to Mission confirmation of a substantial payment on the government's account, the recommendation was modified to require continued monitoring of the account to ensure timely payments.

One of the project's purposes was to develop the Utility Authority to be a self-sustaining organization to supply water for the long term. In order to accomplish this purpose, the agreement provided financing for technical assistance and training in a number of operational areas, including improvements in procedures, forms and methods of revenue collecting. The Authority had not implemented the procedures needed to realize the potential revenue necessary to attain self-sufficiency. We estimated that the Authority lost revenues of approximately \$3 million for the 18-month period January 1985 to June 1986 in unbilled water. In addition, the Authority had not attained the benefits of increasing cash flows as evidenced by an increase of \$0.4 million in delinquent accounts receivable.

The report recommended that the Mission require the Utility Authority to develop a time-phased action plan to improve the water division's revenue and collection system. A formal action plan has been requested and the recommendation will be closed upon receipt of the plan.

The Foreign Assistance Act requires a certification as to the implementing agency's capability to effectively maintain and utilize the project. The Mission had certified the Utility Authority's capability to do so despite the fact that its accounting firm had issued a qualified opinion on the Authority's 1982 financial statement, due to a detected lack of internal controls and ineffective control over fixed assets. We were unable to find any records describing the considerations used by the Mission to determine the Authority's capability. The report recommended that the Regional Development Office/Caribbean perform an updated assessment of the cooperating country's capability to administer the project before proceeding with phase two. They agreed and the recommendation is closed upon issuance of the report.

*Office of the Inspector General*

AUDIT OF  
ANTIGUA WATER SUPPLY  
PROJECT NO. 538-0098

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AUDIT OF  
ANTIGUA WATER SUPPLY  
PROJECT NO. 538-0098

PART I - INTRODUCTION

A. Background

Antigua differs from other East Caribbean islands in that it lacks an abundant and reliable water supply. This had been a major constraint to the island's economic growth. To help alleviate this situation, AID's Regional Development Office for the Caribbean signed Project Agreement No. 538-0098 with the Government of Antigua and Barbuda in March 1983. This provided \$9.7 million (\$6.6 million in loans and \$3.1 million in grants) to expand the island's water supply system to meet the potable water demands of the tourism, industrial, and commercial sectors. In addition, the five-year project was to provide technical assistance and training to employees of the water division of the Antigua Public Utilities Authority to ensure development of a self-sustaining organization. A follow-up project is under consideration.

As of July 30, 1986 approximately \$5.7 million in loans and grants had been disbursed under the project and as of June 30, 1986, the GOAB had contributed approximately \$2 million of its scheduled \$4.7 million.

B. Audit Objectives and Scope

The audit covered approximately \$3 million in AID loan disbursements for the period March 1983 to July 1986. A separate review of \$2.1 million in grant disbursements for engineering services, technical assistance and training <sup>1/</sup> has been requested of RIG/A/Washington.

The audit assessed accountability and internal controls over project assets, compliance with project agreement requirements and other applicable AID regulations, and whether the project's objectives had been achieved. Audit work included reviewing project files, records and other pertinent data and interviewing officials at RDO/C, Antigua Public Utility Authority (APUA) and project contractors. Fieldwork was suspended sooner than anticipated due to the poor state of APUA's accounting records and lack of knowledgeable financial management personnel. Otherwise, the audit was made in accordance with generally accepted government auditing standards.

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<sup>1/</sup> The contractor, Gannett Fleming Water Resources Engineers, Inc., maintained supporting documentation for expenses it incurred under the project at their offices in Camp Hill, PA.

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AUDIT OF  
ANTIGUA WATER SUPPLY  
PROJECT NO. 538-0098

PART II - RESULTS OF AUDIT

The Antigua Public Utilities Authority lacked accountability and a system of internal controls over assets acquired with project funds. There was non-compliance with a condition precedent to disbursements and requirements of the Foreign Assistance Act. A principal project purpose -- APUA's attaining economic self-sufficiency -- had not been realized.

Despite the Utility Authority's serious administrative deficiencies, it had achieved significant results in expanding Antigua's water supply from an average of 43 million gallons per month to an average of 72 million gallons, thereby almost eliminating one of the major obstacles to the island's economic growth.

The audit disclosed that: (1) APUA had not accounted for assets acquired with project funds in accordance with generally accepted accounting principles; (2) the Government of Barbuda and Antigua (GOAB) had not met its commitment to APUA by timely payments of its water bills as required by condition precedent section 5.2(c); (3) APUA had not implemented many of the technical assistance contractor's recommended procedures designed to assist the water division to become self-sufficient; and (4) an updated assessment of APUA's capability to effectively administer the project needs to be performed before committing AID funds under a planned second phase.

The report recommends that the Regional Development Office/Caribbean (RDO/C): (1) require APUA to obtain a certified audit of its 1985 accounts and hire a qualified accountant to maintain the books and accounts of the water division; (2) continue monitoring government payments to APUA to ensure timely payments; (3) require APUA to develop a time-phased action plan to improve the water division's revenue and collection system; and (4) perform an updated assessment of the cooperating country's capability to administer the project before proceeding with phase two.

## A.. Findings and Recommendations

### 1. Accounting Transactions Were Not Recorded in the Books of Accounts

The project agreement provided that the Authority's accounts and records should be maintained in accordance with generally accepted accounting principles. However, the Authority had not recorded in its accounts the assets acquired with project funds because the utility company did not have personnel with sufficient accounting skills to maintain such records. Thus, approximately \$3 million had been spent for equipment and major improvements (pipelines, storage tanks, etc.) had not been accounted for in the Authority's books of account.

#### Recommendation No. 1

We recommend that the Regional Development Office/Caribbean obtain from the Antigua Public Utility Authority:

- a) a certified audit of its accounts and records for 1985 and require corrective actions to be taken on the deficiencies noted in the accounting firm's report on APUA's financial statements;
- b) evidence that it has hired a qualified accountant responsible for maintaining its accounts in accordance with generally accepted accounting principles.

#### Discussion

The Project Agreement, Section B5 of Annex II, requires the implementing agency, APUA, to maintain books of accounts and records in accordance with generally accepted accounting principles and practices.

APUA had not maintained its financial records in accordance with the provisions of the project agreement. RDO/C's grant and loan analysis report, dated July 31, 1986, reported over \$3 million expended for various equipment acquisitions and construction projects for pipeline, storage tanks and other equipment to replace and rehabilitate portions of the water system. Our review of the accounting records showed that these project assets were not accounted for in the general ledger or subsidiary ledgers for 1985 and 1986. Also, APUA had not recorded in its accounts the project loan liability to AID, even though it made loan interest payments during 1985 and 1986. A fixed assets register had not been maintained to ensure control and accountability over fixed assets; there was no other system used to account for any APUA water division assets. In other words, this was a system deficiency not restricted to the AID project.

In addition, we requested APUA accounting personnel to prepare a cost of operations statement for 1985 from their trial balance. The resulting statement alleged that it cost \$600,000 to operate the water division; however, APUA management informed us that this figure was far too low (about \$1 million less than the previous year) and that the books of

account for 1985 did not have all the information needed to accurately report the cost of operations. We were not able to determine why these transactions were not recorded in the accounts.

APUA's financial statements for 1983 and 1984 were certified by its local chartered accountants with qualified opinions which, in our opinion, amounted to disclaimers, because financial transactions were incomplete and/or had not been recorded in APUA's books of accounts. The issues raised in the accounting firm's qualified opinions for the statements issued for 1983 and 1984 had not been addressed. The chief of the accounting department stated that all invoices received were recorded; however, detailed information had not been obtained to account for assets acquired with project funds together with the related liability (loan) and other operational expenses.

APUA did not properly account for assets because it did not have sufficient qualified staff. There was no accountant assigned the responsibility to maintain accounts and records for the water division nor was such a position established organizationally. The accounting manager had not taken actions to correct the serious deficiencies raised in APUA's accounting firm's qualified statements for 1984, 1983 or in prior years. These deficiencies included transactions not recorded in the accounts, subsidiary ledgers not reconciled to control accounts, lack of internal controls, etc.

Approximately \$3 million had been spent on the project for infrastructure construction, equipment, vehicles, etc. which had not been accounted for in APUA's books of account. Without such accountability, APUA cannot ensure proper controls in safeguarding its assets and cannot determine its financial viability or ensure its self-sufficiency.

#### Management Comments

RDO/C officials agreed with the recommendation but recognized that a certified audit by an accounting firm of the accounts and the corrections required by the audit may take up to nine months to complete. With regard to part (b), APUA was required to determine that no qualified nationals could fill the job before a foreigner could be hired, a lengthy process. Even though GOAB had given assurances to streamline the hiring process, RDO/C officials recognize the extent of time required to hire a qualified accountant and further believe that the assistance by the accounting firm should be initiated as soon as possible.

#### Office of the Inspector General Comments

We agree with RDO/C's solution to the recommendations and upon receipt of evidence that APUA has executed a contract with an accounting firm to correct the deficiencies in the accounts, to implement appropriate accounting systems and to train APUA employees, we will consider part (a) to this recommendation closed. Further, evidence should be provided that APUA has hired a qualified accountant to ensure the continued maintenance of accounts after the completion of technical assistance.

## 2. Condition Precedent 5.2(c) of the Project Agreement Was Not Complied With

Condition precedent to disbursement section 5.2 (c) required that the government keep its monthly water consumption account current. However, the government had not made regular payments and, as of March 1986, owed the Utility Authority \$2 million. Moreover, the government had not made any formal commitment to make payments. As a result, the Authority had been deprived of approximately \$2 million in revenue for water services provided the local government.

### Recommendation No. 2

We recommend that the Regional Development Office/Caribbean continue monitoring the Government's accounts receivable balance to ensure that payments continue to be made on a timely basis.

### Discussion

Condition Precedent to Disbursement section 5.2 (c) of the project agreement required that AID receive "evidence on the part of the cooperating country that it is current on all payments due the water division of APUA and evidence of its commitment to remain current on its payments."

However, the balance GOAB owed to APUA at March 30, 1986 was over \$2 million for water consumption by government agencies, certain individual and commercial accounts designated by the GOAB to receive water at no charge, and community standpipes.

This issue was discussed with the Financial Secretary, in the Ministry of Finance, to determine why the GOAB had not paid its water bill. He indicated that the balance the GOAB owed APUA was not correct, and therefore, the government had taken the position not to pay anything on its account. He did not know the correct amount owed to APUA and would not provide any information why routine payments were not made to keep its account current.

The intent of the condition precedent that would demonstrate GOAB's commitment to a financially viable water division had never been met. The GOAB's obvious non-commitment to keep its account current had deprived APUA of cash collections of over \$2 million.

### Management Comments

RDO/C received a certified statement that the government account was reduced to \$679,000 from \$2.9 million through cash payment and other credits. The Government of Antigua and Barbuda had pledged to outline a plan to resolve the outstanding balance and its payment of future waterbills.

Office of the Inspector General Comments

We changed the wording in the recommendation to require RDO/C monitoring of the government's account to ensure that regular payments are made on its account. Based on the government's pledge to pay its remaining debt along with the significant progress made to reduce its accounts receivable balance, this recommendation is closed upon issuance of the report.

### 3. Ineffective Collection Procedures Had Resulted in Lost Revenue

One of the project's purposes was to develop the Utility Authority to be a self-sustaining organization to supply water for the long term. In order to accomplish this purpose, the agreement provided financing for technical assistance and training in a number of operational areas, including improvements in procedures, forms and methods of revenue collecting. The Authority had not implemented the procedures needed to realize the potential revenue necessary to attain self-sufficiency. We estimated that the Authority lost revenues of approximately \$3 million for the 18-month period January 1985 to June 1986 in unbilled water. In addition, the Authority had not attained the benefits of increasing cash flows as evidenced by an increase of \$0.4 million in delinquent accounts receivable.

#### Recommendation No. 3

We recommend that the Regional Development Office/Caribbean obtain from the Antigua Public Utility Authority an action plan scheduling when procedures recommended by its technical advisors will be implemented.

#### Discussion

A principal purpose of this project was for APUA to become economically self-sufficient by placing it in a position to meet all recurrent operating costs and being able to contribute to future capital expansion. To this end, the project agreement's institutional development component provided for a program of technical assistance to improve APUA's revenue collection procedures. However, several factors related to meter readings, billings and collections had kept APUA from attaining this objective.

Meter Readings - There were several problems in the meter reading process which had limited the amount of revenue collected by APUA. APUA's water statistics report for June 1986 revealed that there were 2,657 faulty meters (32%) out of 8,433 customers connected to the system <sup>2/</sup>. We reviewed the results of meter readings for 100 randomly selected water customer accounts (85 domestic and 15 commercial) and determined that 34 meters were not read for such reasons as inaccessibility, absence, or because they could not be located. We found one commercial customer that had not had a meter reading since April 1985. Generally, billings for these customers were estimated or averaged and were billed at the minimum rate of consumption. This was corroborated when the General Manager reported in his request for an increase of tariff rates that 90% of the domestic customers were charged the minimum usage rate.

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<sup>2/</sup> Information was not available on the number of meters in the system; however, there were 8,433 customers (7,892 domestic and 541 commercial).

Billings - The schedule below shows that the percentage of water billed had decreased as the production of water had increased. It is important to note that all the water produced is used by customers with the exception of a minor amount for reserves.

<u>PERIOD</u>	<u>( IN MILLIONS OF GALLONS )</u>		
	<u>WATER PRODUCED</u>	<u>WATER BILLED</u>	<u>PERCENT BILLED</u>
January to June 1985	268	156	58%
July to December 1985	314	149	47%
January to June 1986	<u>411</u>	<u>188</u>	<u>45%</u>
	<u>993</u>	<u>493</u>	<u>49%</u>

Even though the production of water had increased, there was only a minor increase in the number of gallons billed to customers. Using the rate of \$5.66 per thousand gallons, the lowest minimum charge, we estimated that APUA had lost revenues of approximately \$2.8 million over the period January 1985 to June 1986 based on the number of gallons not billed.

Collection - APUA had not collected its accounts receivable in a timely manner. As of December 31, 1985 there was \$0.8 million in domestic and commercial accounts receivable for water, of which approximately 50% was over six months in arrears. APUA's June 1986 Statistics Report shows that accounts receivable of \$0.8 million were in arrears. According to the senior accountant, APUA's collection policy provides that service be disconnected when the customer becomes delinquent over two months. It is doubtful that this policy was enforced due to the increase of receivables over six months old.

The technical assistance portion of the project provided for new procedures and forms for the meter reading section and improved billing and collection procedures to increase cash flows to APUA and reduce its accounts receivable to a minimum. However, APUA had not implemented many of the suggested procedures. APUA management had not made a concerted effort to implement these changes even though they had been agreed to. We found no one who could explain why the recommendations had not been implemented.

APUA needs to improve its procedures for meter reading, collection and billing to consumers for actual water consumption, and take steps to reduce delinquent accounts receivable as a step toward self-sufficiency.

#### Management Comments

RDO/C agreed with our recommendation and had requested a formal action plan from APUA.

#### Office of the Inspector General Comments

Upon our receipt of this plan, this recommendation will be considered closed.

#### 4. A Capability Assessment Needs to be Performed on the Antigua Public Utility Authority

The Foreign Assistance Act requires a certification as to the implementing agency's capability to effectively maintain and utilize the project. The Mission had certified the Utility Authority's capability to do so despite the fact that its accounting firm had issued a qualified opinion on the Authority's 1982 financial statement, due to a detected lack of internal controls and ineffective control over fixed assets. We were unable to find any records describing the considerations used by the Mission to determine the Authority's capability.

#### Recommendation No. 4

We recommend that the Regional Development Office/Caribbean perform an updated capability assessment of Antigua Public Utility Authority before beginning phase two of the project and require it to correct any deficiencies before disbursement

#### Discussion

Section 611(e) of the Foreign Assistance Act requires that any capital assistance project estimated to cost in excess of \$1 million should be accompanied by a certification as to the implementing agency's capability to effectively maintain and utilize the project.

Although the Project Paper reported that a certification had been made by a former mission Director, the institutional assessment determined that the Authority's capabilities to adequately operate and maintain the water system were marginal and suffered from a lack of funds, insufficient management, untrained personnel, etc.

Also, as noted by a qualified opinion on its 1982 financial statements, APUA lacked internal controls and exercised ineffective control over fixed assets. As a result, APUA did not have the capability to account for fixed assets, and no corrective actions had been required by the Mission before the project agreement was signed in March 1983.

RDO/C officials included a technical assistance component in the project to provide for the development of required institutional skills. However, at the time of our review, the development of these skills had not been realized.

It is our understanding that RDO/C is considering the possibility of a second phase of this project. We believe a reassessment of APUA should be performed before approval of any follow-on project.

#### Management Comments

RDO/C management officials agreed to perform an updated administrative analysis of the Authority before any disbursement is made under any follow-on project and will include conditions precedent to disbursement to correct any managerial deficiencies.

Office of the Inspector General Comments

We have reworded our recommendation accordingly and consider this recommendation closed upon issuance of the report.

## B. Compliance and Internal Control

### 1. Compliance

The audit disclosed non-compliance with two sections of the project agreement during implementation:

- The implementing agency did not maintain its books of accounts in accordance with generally accepted accounting principles for assets acquired with project funds, as required by Section B5, Annex II of the Project Agreement (Finding No. 1).
- The Government of Antigua and Barbuda had not made payments on its regular monthly water bills nor on its balance from prior periods as required by the project agreement's condition precedent to disbursement 5.2(c). (Finding No. 2)

Other than the conditions cited, tested items were in compliance with applicable laws and regulations, and nothing came to our attention that would indicate that untested items were not in compliance.

### 2. Internal Control

There were three internal control issues in the implementing agency:

- A lack of qualified accounting staff to account for project assets.
- Ineffective collection procedures resulting in lost revenue.
- An administrative capability assessment identified significant constraints in the implementing agency's ability to manage the project.

**AUDIT OF  
ANTIGUA WATER SUPPLY  
PROJECT NO. 538-0098**

**PART III - APPENDICES**

ACTION: RIG-3 INFO: AMB DCM/5

VZCZCTG0950  
RR RUEHTG  
DE RUEHWN #8250/01 3021704  
ZNR UUUUU ZZH  
R 291701Z OCT 86  
FM AMEMBASSY BRIDGETOWN  
TO RUEHTG/AMEMBASSY TEGUCIGALPA 0384  
INFO RUEHC/SECSTATE WASHDC 2278  
BT  
UNCLAS BRIDGETOWN 08250

29-OCT-86 TOR: 22:58  
CN: 11438  
CHRG: AID  
DIST: RIG

AIDAC

PASS TO: TEGUCIGALPA FOR RIG/A/T

L.O. 12356: N/A  
TAGS: NONE  
SUBJECT: ANTIGUA WATER SUPPLY PROJECT (538-0089) -  
AUDIT

REF: (A) BRIDGETOWN 7300  
- (E) BRIDGETOWN 7664  
- (C) BRIDGETOWN 7916  
- (D) BRIDGETOWN 7978  
- (E) BRIDGETOWN 7862

1. THE FOLLOWING IS IN RESPONSE TO GOTHARD/HOLTAWAY  
DRAFT MEMO REPORT, WHICH PRESENTS RESULTS OF SUBJECT  
AUDIT.

(A) RE: RECOMMENDATION NO. 1 (A). MISSION HAS  
RECEIVED REQUEST FROM APUA FOR ASSISTANCE TO HELP  
IMPLEMENT AS QUICKLY AS POSSIBLE THE ACCOUNTING  
RECOMMENDATIONS OF GANNETT FLEMING INC. GIVEN THE  
STATE OF APUA'S ACCOUNTING RECORDS, RDO/C BELIEVES IT  
WOULD BE PRUDENT TO ENGAGE AN ACCOUNTING FIRM TO  
ASSIST THE APUA ACCOUNTS DIVISION TO BRING ALL  
RECORDS AND PROCEDURES UP TO DATE. IT SHOULD BE  
NOTED, HOWEVER, THAT EVEN WITH THIS AID-FUNDED  
ASSISTANCE, IT MAY TAKE UP TO NINE MONTHS BEFORE  
RDO/C CAN OBTAIN FROM APUA QUOTE A CERTIFIED AUDIT OF  
ITS ACCOUNTS AND RECORDS FOR 1985 AND REQUIRE  
CORRECTIVE ACTIONS TO BE TAKEN ON DEFICIENCIES NOTED  
IN THE ACCOUNTING FIRM'S REPORT ON APUA'S FINANCIAL  
STATEMENTS UNQUOTE. MISSION KNOWS OF NO MORE  
EXPEDITIOUS WAY TO ADDRESS THIS RECOMMENDATION.  
FYI-TECHNICAL ASSISTANCE TO BE PROVIDED WILL GO  
BEYOND ADDRESSING THIS SPECIFIC RECOMMENDATION AND  
WILL PROVIDE TRAINING OF APUA ACCOUNTING STAFF AS  
PART OF OUR GENERAL INSTITUTIONAL STRENGTHENING  
COMPONENT OF PROJECT - END FYI.

(B) RE: RECOMMENDATION NO. 1 (B). MISSION, AT ITS  
OCTOBER 14 POLICY DIALOGUE MEETING WITH THE  
GOVERNMENT OF ANTIGUA/BARBUDA (GOAB), LEARNED OF  
APUA'S HISTORICAL EFFORT TO RECRUIT ADDITIONAL,

NECESSARY ACCOUNTING STAFF. APPARENTLY, LOCAL ADVERTISING HAS NOT IDENTIFIED A QUALIFIED ACCOUNTANT. GOAB STANDARD HIRING PROCEDURES REQUIRE AN EXHAUSTIVE, TIME-CONSUMING DOCUMENTATION PROCESS BEFORE IT CAN BE DETERMINED THAT NO QUALIFIED NATIONALS ARE AVAILABLE. IT IS NORMALLY ONLY AFTER THIS PROCESS IS COMPLETE THAT RECRUITMENT MAY BE INITIATED IN OTHER EASTERN CARIBBEAN COUNTRIES. FURTHERMORE, IF RECRUITMENT IS NOT SUCCESSFUL IN THE REGION, ADDITIONAL DELAYS MAY BE EXPECTED BEFORE A SEARCH MAY BE CONDUCTED OUTSIDE THE REGION. MISSION REPRESENTATIVES, SHOWING CONCERN OVER THE DELAYS ALREADY EXPERIENCED BY THESE PROCEDURES AND FURTHER DELAYS WHICH MAY OCCUR, WERE ASSURED BY THE GOAB DEPUTY PRIME MINISTER THAT EVERY EFFORT WOULD BE MADE TO STREAMLINE THE HIRING PROCESS. RDO/C IS HOPEFUL THAT A QUALIFIED ACCOUNTANT WILL SOON BE HIRED AT APUA'S EXPENSE SO THAT ACCOUNTS WILL BE MAINTAINED IN THE FUTURE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. HOWEVER, BECAUSE THE TIMING OF THE FILLING OF THIS NEW POSITION IS STILL UNCERTAIN, IT WOULD SEEM PRUDENT TO INITIATE ASAP THE ASSISTANCE OUTLINED IN PARA 1.

(C) RE: RECOMMENDATION NO. 2, SEE REFTELS (B), (C) AND (E). ALSO, MISSION FULLY INTENDS TO CONDUCT AN UPDATED ADMINISTRATIVE ANALYSIS OF APUA BEFORE ANY DISBURSEMENT IS MADE UNDER ANY FOLLOW-ON PROJECT. FURTHERMORE, ANY FOLLOW-ON PROJECT WILL INCLUDE CONDITIONS PRECEDENT TO DISBURSEMENT THAT WILL REQUIRE APUA TO CORRECT DEFICIENCIES THAT MAY INHIBIT ITS CAPABILITY TO MANAGE SUCH A PROJECT. GIVEN THIS STATEMENT OF MISSION INTENTION, WE REQUEST THAT RECOMMENDATION NUMBER TWO BE MODIFIED ACCORDINGLY AND A STATEMENT BE MADE IN THE FINAL AUDIT REPORT THAT THIS RECOMMENDATION IS CONSIDERED CLOSED. FURTHERMORE, IN OUR DIALOGUE SESSION WE ADVISED THE GOAB THAT WE HAVE POSTPONED PLANS FOR ANTIGUA WATER II UNTIL FY 98. THIS NEWS WAS DELIVERED IN THE CONTEXT OF OUR DISCUSSION ON THE NEED TO IMPROVE APUA'S ACCOUNTING.

(D) RE: RECOMMENDATION NO. 3, MISSION FINDS THIS RECOMMENDATION ACCEPTABLE AS STATED. IN FACT, THERE

S ALREADY QUOTE EVIDENCE OF A DISBURSEMENT OF FUNDS FROM THE GOAB TO PAY ITS CURRENT WATER BILLS TO THE PUA UNQUOTE. AS PREDICTED IN REFTEL (A), RDO/C AND HE GOAB ADDRESSED THE QUESTION OF GOVERNMENT ARREARAGES TO APUA DURING THE OCTOBER 14 DIALOGUE SESSION (SEE REFTEL (E)). THE ACCUMULATED WATER BILLING ARREARAGES THROUGH APRIL, 1986 WAS REPORTED TO BE EC DOLS6,463,334.12. THE ADDITIONAL BILLINGS FOR MAY THROUGH AUGUST BRINGS THE TOTAL DUE TO EC DOLS7,721,278.12. IN AUGUST, 1986, A FIRST PAYMENT OF EC DOLS608,000.00 WAS MADE TO APUA. ACCORDING TO THE MINISTRY OF FINANCE AND APUA, THE RIG AUDITORS WERE INFORMED OF THIS PAYMENT, ALTHOUGH WE SEE NO ACKNOWLEDGEMENT OF THIS IN THE DRAFT FINDINGS. IN SEPTEMBER, ANOTHER CASH PAYMENT OF EC DOLS3,344,592.08 WAS MADE TO APUA. ALSO, IN SEPTEMBER, AN EC DOLS100,000 TRANSFER (OR CREDIT) WAS EFFECTED IN RELATION TO QUOTE LOAN PAYMENTS RE - ENDS BUILDING UNQUOTE. THIS INVOLVED THE GOAB PAYING OFF A LOAN ON AN APUA BUILDING. IN SUM, THE BALANCE DUE WAS REDUCED TO EC DOLS3,708,686.04. IN ADDITION AN APUA ERROR WAS DISCOVERED IN RELATION TO THE LIABILITY OFFSETS THAT WERE MADE AT THE BEGINNING OF THE U.S.A.I.D. PROJECT TO COMPLY WITH THE CONDITION PRECEDENT ON ARREARAGES. APPARENTLY, THE AMOUNT OF EC DOLS1,879,100 WAS RECORDED IN APUA'S BOOKS AS AN INCREASE IN THE CENTRAL GOVERNMENT'S EQUITY IN PUA, WHEREAS THE INTENT OF THE TRANSACTION WAS TO HAVE THE AMOUNT CREDITED AGAINST WATER BILLINGS. CONSEQUENTLY BOTH MILTON RODGERS OF APUA AND KEITH HURST, FINANCIAL SECRETARY, AGREED THAT THE GOAB BALANCE DUE TO APUA SHOULD BE REDUCED BY EC DOLS1,879,100 TO EC DOLS1,829,586.04. WE WERE ALSO TOLD BY THE DEPUTY PRIME MINISTER, AND THIS WAS CONFIRMED BY KEITH HURST, THAT THIS REMAINING BALANCE WILL BE LIQUIDATED BY THE END OF THE CALENDAR YEAR. EVEN THIS TURN OF EVENTS, WE REQUEST THAT RECOMMENDATION NUMBER 3 BE MODIFIED ACCORDINGLY AND A STATEMENT MADE IN THE FINAL AUDIT REPORT THAT THIS RECOMMENDATION IS CONSIDERED CLOSED.

E) RE: RECOMMENDATION NO. 4, 4290 WATER METERS WERE PURCHASED AND DELIVERED IN ANTIGUA ON 21 MARCH 1986. A REPLACEMENT OF FAULTY METERS IS UNDER WAY. ALSO INSTALLATION OF METERS WHERE NONE HAD BEEN PREVIOUSLY INSTALLED IS IN PROGRESS. OVER TWO HUNDRED OF THE NEW METERS HAVE BEEN INSTALLED. THE INSTALLATION/REPLACEMENT PROGRAM IS TO INCREASE CONSIDERABLY OVER THE NEXT SIX MONTHS. STEPS HAVE BEEN TAKEN TO IMPROVE THE METER READING PROCESS. THE GENERAL MGR. HAS PUT THE DEPT. ON NOTICE, THAT ALL METERS WILL BE READ WHEN SCHEDULED ETC. OR A MAJOR SHAKEUP IN PERSONNEL WILL TAKE PLACE. THE GENERAL MANAGER OF APUA HAS HELD A SERIES OF MEETINGS WITH THE CHIEF ACCOUNTANT AND ALSO SENT HIM A VERY CONCISE MEMORANDUM THAT NOTED THE BILLINGS/COLLECTION EFFICIENCIES WITH EXPLICIT INSTRUCTIONS TO GET THEM CORRECTED AS QUICKLY AS POSSIBLE. DESPITE THE ABOVE

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APPENDIX A  
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PROGRESS. RDO/C HAS REQUESTED THAT THE APUA GENERAL  
MANAGER SUBMIT A FORMAL ACTION PLAN IN ACCORDANCE  
WITH THE LANGUAGE OF THE RECOMMENDATION. CARPENTER  
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LIST OF REPORT RECOMMENDATIONS

PAGE No.

Recommendation No. 1

3

We recommend that the Regional Development Office/Caribbean obtain from the Antigua Public Utility Authority:

- a) a certified audit of its accounts and records for 1985 and require corrective actions to be taken on the deficiencies noted in the accounting firm's report on APUA's financial statements;
- b) evidence that it has hired a qualified accountant responsible for maintaining its accounts in accordance with generally accepted accounting principles.

Recommendation No. 2

5

We recommend that the Regional Development Office/Caribbean continue monitoring the Government's accounts receivable balance to ensure that payments continue to be made on a timely basis.

Recommendation No. 3

7

We recommend that the Regional Development Office/Caribbean obtain from the Antigua Public Utility Authority an action plan scheduling when procedures recommended by its technical advisors will be implemented.

Recommendation No. 4

9

We recommend that the Regional Development Office/Caribbean perform an updated capability assessment of Antigua Public Utility Authority before beginning phase two of the project and require it to correct any deficiencies before disbursement

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