AUDIT OF COMPONENT II OF THE AGRO-INDUSTRIAL DEVELOPMENT PROJECT WITH AGRO 21 CORPORATION IN JAMAICA

AUDIT REPORT NO. 1-532-88-05-N
May 26, 1988

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May 26, 1988

MEMORANDUM

TO : D/USAID/Jamaica, William R. Joslin

FROM : RIG/A/T, Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-532-88-05-N, "Audit of Component II of the Agro-Industrial Development Project with AGRO 21 Corporation in Jamaica"

This report presents the results of a non-Federal financial and compliance audit requested by your Mission of Component II of the Agro-Industrial Development Project with AGRO 21 Corporation. The certified public accounting firm of Coopers & Lybrand prepared the report, which is dated April 20, 1988.

The purpose of this financial and compliance audit was to report on (1) the fairness of the fund accountability statement of the project for the period from September 1, 1984 to March 31, 1987; (2) the system of internal control of the project, including procurement management, vehicle management, and personnel management systems; and (3) compliance by AGRO 21 with applicable laws, regulations, and agreement terms related to the project.

Coopers & Lybrand disclaimed an opinion on the fund accountability statement as of March 31, 1987 due to scope limitations caused by AGRO 21's limiting the auditor's access to information and AGRO 21's refusal to furnish written representations. For the same reasons, they disclaimed an opinion on the procurement management, vehicle management, and personnel management systems. However, their study and evaluation of internal accounting control revealed a lack of segregation of duties and accounting records which did not adequately reflect the transactions of the project. These conditions, in their opinion, could result in more than a relatively low risk that material errors or other discrepancies may occur and not be detected within a timely period. They determined that for items tested, there was non-compliance with the policy guidelines for control of A.I.D. funded vehicles and the proper maintenance of accounting records. They disclaimed an opinion on the items not tested for compliance because of the imposed restrictions mentioned above. Also, Coopers & Lybrand identified $10,081 in questionable costs charged to the project.

The Coopers & Lybrand report contains two recommendations to improve AGRO 21's system of internal control and one recommendation to improve compliance with applicable laws, regulations, and agreement terms. We believe that the findings are significant and, as a result, we will include the following recommendation in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Jamaica:

a. obtain evidence from AGRO 21 Corporation to demonstrate that it has implemented the two recommendations for internal controls and one recommendation for compliance contained in the Coopers & Lybrand report dated April 20, 1988; and

b. negotiate a settlement with AGRO 21 Corporation concerning the disposition of the $10,081 in costs questioned by the Coopers & Lybrand report dated April 20, 1988.

Please advise this office within 30 days of actions planned or taken to implement this recommendation.

AUDIT OF COMPONENT II OF THE AGRO-INDUSTRIAL DEVELOPMENT PROJECT IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

Coopers & Lybrand

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

TABLE OF CONTENTS

	Page
Transmittal Letter and Summary	
Background	1 - 2
Audit Objectives and Scope	2 - 3
Results of Audit	4
Management Comments	5
Financial Information	
Auditors' Opinion	6
Fund Accountability Statement	7
Notes to the Fund Accountability Statement	8
Internal Accounting Controls	
Auditors' Opinion	9 - 10
Findings	11 - 12
Compliance with Laws, Regulations, and Agreement Terms	
Auditors' Opinion	13
Findings	14 - 15
List of Report Recommendations	16
Appendices	

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April 20, 1988

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras

Dear Mr. Gothard:

This report represents the results of our audit of the fund accountability statement of Component II of the Agro-Industrial Development Project, implemented by Agro 21 Corporation Limited under Project No. 532-0081, for the period from September 1, 1984 to March 31, 1987.

BACKGROUND

Agro 21 Corporation Limited (formerly Agro 21 Secretariat in the Office of the Prime Minister) was created by the Government of Jamaica (GOJ) in October 1983, and incorporated on April 29, 1985, to spearhead the private investment in agriculture, considered critical for the country's economic recovery. Agro 21 Corporation Limited (Agro 21) also has the responsibility for coordinating more intensive land utilization, crop diversification, adoption of improved technology and the attraction of new investment capital and technology into agricultural production. The company is funded by the United States Agency for International Development (USAID) and the GOJ.

Agro 21 is administered by a Board of Directors appointed by the Government of Jamaica. Its day to day operations are controlled by a Managing Director, appointed by the Board, and a Deputy Managing Director, with support from various department managers.

On September 30, 1982 the Government of Jamaica and the Agency for International Development signed Loan Agreement No. 532-T-019 to fund the Agro-Industrial Development Project, USAID/Jamaica Project No. 532-0081. The loan agreement provided US$9,489,000 to be invested in two components. Component I is primarily to provide loans to existing local medium-sized agribusinesses to expand production of traditional crops for the domestic market. Component II, the component audited, has a budget of US$4,619,000 and is primarily to provide funding for strategic planning, promotional activities, and feasibility studies intended to greatly accelerate the investment by large private sector agribusinesses, both foreign and domestic, in agricultural activities which measurably increase the production of non-traditional crops for export.

The borrower is the Government of Jamaica (GOJ). The executing entities are Agro 21 Corporation Limited and two other agencies, Jamaica National Investment Promotion Limited (JNIP) and the Agricultural Credit Bank (ACB).

The agreement provides that:

- ACB would administer all project funds and make disbursements based upon authorization of the appropriate executing agency;

- Agro 21 would prepare strategic plans for agricultural subsectors and groups;

- Information from these plans would be provided by Agro 21 to JNIP, which would act as the marketing arm, or account executives for Agro 21, and which target and attract foreign investors;

- ACB would assist investors by providing Jamaican dollars from counterpart funds.

Our instruction for the engagement confined our examination to the operations of Agro 21, and our scope was restricted by Agro 21 to only such information which it considered to be directly related to the project and by its refusal to furnish written representations in connection with the audit.

From the information and explanations supplied to us by Agro 21, that company had not operated on the basis of the functional relationship outlined above and as set out in Amendment 2 of the project agreement. In addition, it is our understanding that Agro 21's funding was directly from USAID, and the JNIP did not function as its marketing arm.

It is, therefore, uncertain as to when the apparent departure from the agreement terms with respect to these agencies occurred, and due to the restriction imposed by Agro 21 described above, we are unable to obtain corroborative evidence to support its representation on this matter.

AUDIT OBJECTIVES AND SCOPE

The overall objective of the engagement was to perform a financial and compliance audit of Component II of the Agro-Industrial Development Project No. 532-0081, executed by the Agro 21 Corporation Limited, for the period from September 1, 1984 to March 31, 1987. The objectives of this audit were to determine whether:

1. The fund accountability statement of the project fairly presents the project funds advanced and disbursed as of March 31, 1987.

2. The internal controls and accounting practices of Agro 21 are adequate for project purposes, including procurement management, vehicle management, and personnel management systems.

3. Agro 21 complied with applicable laws, regulations, and agreement terms.

Our examination was performed in accordance with generally accepted auditing standards, as well as with the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision), and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, subject to the restriction by Agro 21 in limiting our access to only such information that it considered to be directly related to the project.

The scope of our examination consisted of the following:

1. Review of financial information of the project for the period September 1, 1984 to March 31, 1987.

2. Study and evaluation of the system of internal accounting control, including testing the effectiveness of the system.

3. Evaluation of the procurement management system of Agro 21 for commodities and services.

4. Review of the vehicle management control system of Agro 21, to determine that USAID funded vehicles are used in accordance with agreed procedures.

5. Review of the personnel management system.

6. Determination of whether expenditures were reasonable, allocable and allowable under the terms of the agreement, and identifying costs not considered appropriate for reimbursement.

7. Review of reconciliations of bank accounts that record the receipts and disbursements of USAID funds, and assessment as to the validity of the recorded transactions.

8. Reconciliation of the amounts recorded by Agro 21 of funds advanced under the project, with those reported as having been disbursed by USAID.

9. Determination of whether Agro 21 complied with the terms and conditions of applicable laws, regulations and agreements.

However, as also indicated above, the scope of our examination was more limited than would be necessary in the circumstances because of restriction imposed by Agro 21 limiting our access to only such information which it considered to be directly related to the project, and because of its refusal to furnish written representations in connection with the audit.

RESULTS OF AUDIT

1. Fund Accountability Statement:

The audit revealed questionable costs in the amount of US$10,081. Our scope was limited by Agro 21 restricting our access to only such information which it considered to be directly related to the project, and by the corporation not providing written representations requested in connection with the audit. This condition prevents us from expressing, and we do not express, an opinion on the fund accountability statement of Component II of the Agro-Industrial Development Project for the period from September 1, 1984 to March 31, 1987.

2. Internal Control:

Our study and evaluation of the system of internal control of Agro 21, applicable to the project, indicated the following deficiencies:

- There was a lack of segregation of duties with respect to certain of Agro 21 accounting functions affecting the project.

- Accounting records do not adequately reflect the transactions of the project reported to USAID. Our examination revealed that Agro 21's general ledger account balances differed from those contained in the relevant reports sent to USAID by US$324,445. The reconciliation required in the circumstances was carried out and the necessary adjustments included in the fund accountability statement.

Since Agro 21 did not furnish written representations requested in connection with the audit, and due to the further limitations in our scope, referred to in this report, we are unable to, and we do not, express an opinion on the adequacy of the system of internal controls for USAID purposes.

3. Compliance with Applicable Laws, Regulations and Agreement Terms:

Our review of agreement terms revealed that there was non-compliance with the policy guidelines for control of USAID-funded motor vehicles.

Because of the uncertainty concerning compliance with the functional relationship provided for in the agreement between Agro 21, Jamaica National Investment Promotion Limited (JNIP) and Agricultural Credit Bank (ACB), and the uncertainty arising from the restriction in our scope by Agro 21 limiting our access to only such information which it considered to be directly related to the project and by its refusal to furnish written representations in connection with the audit, we are unable to, and we do not, express an opinion on compliance with applicable laws, regulations and agreements for those items not tested.

MANAGEMENT COMMENTS

We provided Agro 21 and USAID-Jamaica with draft copies of the report and we met with officials of both Agro 21 and USAID-Jamaica on January 27, 1988 to discuss the report.

Our opinion on the findings in our report has been amended as a result of Agro 21's refusal to furnish written representations requested in connection with the audit.

We have received, through USAID-Jamaica, a copy of Agro 21's memorandum to Mr. Coinage N. Gothard, setting out their comments to our report. The memorandum is attached as Appendix 2 to this report. We have noted the comments contained therein. We do not agree with them in general and do not consider them to be of significant relevance to our findings.

In general we concur with the observations of the Mission Director, USAID-Jamaica, included as Appendix 1.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT OF THE FUND ACCOUNTABILITY STATEMENT

AUDITORS' OPINION

We have examined the fund accountability statement for the period September 1, 1984 to March 31, 1987 of Component II of the Agro-Industrial Development Project No. 532-0081 implemented by Agro 21 Corporation Limited, and funded by USAID/Jamaica Loan Agreement No. 532-T-019. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision), and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances, except as explained in the second paragraph below.

The scope of our work was restricted by Agro 21 limiting our access to only such information which it considered to be directly related to the project and by its refusal to furnish written representations in connection with the audit. Also, the agreement provides that all funds under the project are to be administered and disbursed by the Agricultural Credit Bank (ACB) upon authorization of the other executing agencies, Agro 21 Corporation Limited (Agro 21) and the Jamaica National Investment Promotion Limited (JNIP); and that JNIP will act as the marketing arm or account executives for Agro 21. However, we saw no evidence that this functional relationship existed during the period under review, and we are uncertain as to possible effects on the fund accountability statement of the project. Additionally, the agreement included a provision for counterpart contributions, but we were unable to obtain satisfactory evidence concerning the timely receipt of the counterpart contributions.

We identified US$10,081 in questionable costs, as described in Note D.

Because of the uncertainties inherent in the matters referred to above, and because of the amount of US$10,081 which we identified as questionable costs, in the third paragraph above, we are unable to, and we do not, express an opinion on the fund accountability statement of Component II of the Agro-Industrial Development Project for the period from September 1, 1984 to March 31, 1987, prepared on the cash basis of accounting as described in Note B.

Coopers & Lybrand
CHARTERED ACCOUNTANTS

April 20, 1988

C&L Coopers & Lybrand

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

FUND ACCOUNTABILITY STATEMENT

FOR PERIOD SEPTEMBER 1, 1984 TO MARCH 31, 1987

(expressed in thousands of US$)

RECEIPTS

Fund received from USAID	$ 1,833

LESS DISBURSEMENTS:

BUDGET CATEGORIES	BUDGETED AMOUNT $	AMOUNT DISBURSED $	QUESTIONABLE DISBURSEMENTS $	NOTE	
Technical assistance	4,012	1,676	10	D	
Commodities	152	128			
Evaluations	75	-			
Rural physical planning unit	380	22			
	4,619	1,826	10		1,826
Bank balance on March 31, 1987					$ 7

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

USAID/JAMAICA PROJECT NUMBER 532-0081

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

PERIOD SEPTEMBER 1, 1984 TO MARCH 31, 1987

A. Identification and Activity:

Agro 21 Corporation Limited (formerly Agro 21 Secretariat in the Office of the Prime Minister) was created by the Government of Jamaica (GOJ) in October 1983, and incorporated on April 29, 1985, to spearhead private investments in agriculture, and to revitalize the Jamaican agricultural sector into a commercially viable operation through application of technological innovations. The company is funded by the United States Agency for International Development (USAID) and the GOJ.

On September 30, 1982, Loan Agreement No. 532-T-019 was signed between the GOJ and the USAID to fund the Agro-Industrial Development Project, USAID/Jamaica Project No. 532-0081. The agreement was amended on July 27, 1983; August 29, 1983; March 28, 1984 and August 29, 1985, to account for changes in the loan and the terms of repayment. The agreement as amended, provided for US$9,489,000 to fund the project. Funds for the project are received from USAID and disbursed by Agro 21.

B. Basis for Accounting:

The books of Agro 21 Corporation Limited are maintained in Jamaican dollars and restated in United States dollars in the accompanying fund accountability statement, which is presented on the cash basis of accounting. Consequently, only amounts advanced and disbursed during the period under review are recognized in the statement.

C. Foreign Currency Translation:

During the period, transactions in foreign currencies were translated at the rate of exchange ruling at the date of the transaction. Outstanding balances are translated at the rate of exchange ruling on March 31, 1987. On March 31, 1987, the rate of exchange was US$1 = J$5.46.

D. Questionable Costs:

This amount represents disbursements categorized as follows:

i)	Payments made in excess of contracted sums	671
ii)	Salaried check reported lost, stop paid but not reversed	9,410
		US$ 10,081

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT ON INTERNAL CONTROL SYSTEM

AUDITORS' OPINION

We have performed a financial and compliance audit of Component II of the Agro-Industrial Development Project No. 532-0081, implemented by Agro 21 Corporation Limited, for the period September 1, 1984 to March 31, 1987 and have issued our report thereon dated April 20, 1988. As part of our examination, we made a study and evaluation of Agro 21 Corporation Limited's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the project's fund accountability statement and to determine the effectiveness of the internal controls for the purpose of the project. Out study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control of the Agro 21 Corporation Limited taken as a whole.

For the purposes of this report we have classified the significant internal accounting controls evaluated as:

i) cash receipt and disbursement cycles,

ii) procurement management cycle,

iii) personnel management cycle,

iv) vehicle management cycle, and

v) reporting

The management of the Agro 21 Corporation Limited is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the sysrem. Accordingly, we do not express an opinion on the system of internal accounting control of the Agro 21 Corporation Limited taken as a whole.

Since Agro 21 did not furnish written representations in connection with the audit, we are unable to, and we do not, express an opinion on the adequacy of the system of internal controls for USAID purposes.

However, our study and evaluation disclosed the conditions explained in audit findings nos. 1 and 2, which could result in more than a relatively low risk that errors and other discrepancies in amounts that would be material to the project may occur and not be detected within a timely period.

As set forth in the Statement of Work for the financial and compliance audit of the project, our evaluation and study of internal controls also included the evaluation of the procurement management, vehicle management, and personnel management systems.

Our scope was more limited than would be necessary in the circumstances because of Agro 21 restricting our access to only such information which it considered to be directly related to the project, and by the corporation's refusal to sign a letter of representation in connection with the audit. This condition prevents us from expressing, and we do not express, an opinion on the adequacy of the procurement management, vehicle management and personnel management systems for USAID purposes. However, our study and evaluation disclosed a deficiency in the vehicle management system as explained in audit finding no. 1 in the report on Compliance with Applicable Laws, Regulations, and Agreement Terms.

This report is intended solely for the use of the Agro 21 Corporation Limited and the Agency for International Development. This restriction is not intended to limit distribution of this report, which upon acceptance by the A.I.D. Regional Inspector General, is a matter of public record.

April 20, 1988

CHARTERED ACCOUNTANTS

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT ON INTERNAL CONTROL SYSTEM

AUDIT FINDINGS

1. LACK OF SEGREGATION OF DUTIES

Condition

Certain accounting functions, especially in relation to transactions affecting the foreign bank account, which are deemed incompatible were being performed solely by the Finance Director, without adequate independent checks by any other individual. These functions include the preparation of check vouchers, the co-signing of checks or transmittal letters, the direct receipt and opening of bank statements, the performance of bank reconciliations, and the preparation of entries for posting to the general ledger.

Criteria

An adequate system of internal control should provide for segregation of duties in relation to the authorization or initiation, processing and recording of transactions in the accounting records.

Cause

There was inadequate implementation of a proper system of internal control in this regard.

Effect

This weakness has resulted in one individual performing incompatible functions, and accordingly errors and other discrepancies could go undetected for a long period of time.

Recommendation

USAID/Jamaica should require Agro 21 to adopt a procedure for ensuring that accounting functions are properly and effectively segregated so that the work of authorization, processing and recording of transactions is prepared, approved, and recorded by different individuals.

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT ON INTERNAL CONTROL SYSTEM

AUDIT FINDINGS

2. ACCOUNTING RECORDS ARE NOT IN AGREEMENT WITH REPORTS SENT TO USAID

Condition

The general ledger accounts in the books of Agro 21 covering advances and expenditures on the project were not in agreement with relevant reports submitted to USAID. For example, the general ledger account balances were more than those contained in the reports sent to USAID by US$324,445.

In addition, the reports submitted to USAID did not include disbursements under the project made directly by USAID, and differed by US$1,220,650 from the total disbursements under the project as of March 31, 1987.

Criteria

For USAID purposes, the accounting records should be maintained to reflect adequately the accumulated receipts and expenditures under the project.

Cause

Agro 21 had not accurately recorded amounts expended directly by USAID, nor effected periodic reconciliation of these amounts with USAID to ensure agreement.

Effect

Accounting records do not adequately reflect the transactions of the project to date, and this could lead to errors and distortions in project accountability.

Recommendation

USAID/Jamaica should require Agro 21 to update and reconcile its accounting records to present fairly the financial position of the project. As a general policy, a statement of periodic reconciliation of accounts should be established to ensure proper presentation of the financial position of the project.

Also USAID/Jamaica should inform Agro 21 of all disbursements it makes on Agro 21's behalf under the project.

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT ON THE COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS

AUDITORS' OPINION

We have examined the fund accountability statement of Component II of the Agro-Industrial Development Project in Jamaica, USAID/Jamaica Project Number 532-0081, executed by Agro 21 Corporation Lirited for the period September 1, 1984 to March 31, 1987, and have issued our opinion thereon dated January 20, 1988. The scope of our audit was limited by Agro 21 restricting our access to only such information which it considered necessary for the purpose of the audit, and also by the corporation's refusal to furnish written representations in connection with the audit. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision), which included additional standards and requirements for the review of compliance with applicable laws, regulations and agreements.

We tested transactions and records to determine Agro 21's compliance with the terms of the Loan Agreement No. 532-T-019 signed September 30, 1982 and amended July 27, 1983; August 29, 1983; March 28, 1984 and August 29, 1985, between the Government of Jamaica and the United States Agency for International Development, and applicable laws and regulations.

The results of our study indicate that, for the items tested, there was non-compliance as described in the accompanying finding No. 1 and as desbribed in finding No. 2 of our report on internal controls. Because of the restrictions referred to in the first paragraph above, and the uncertainty of compliance with the functional relationships, provided for in the agreement, between Agro 21, Jamaica National Investment Promotion Limited (JNIP), and Agricultural Credit Bank, we are unable to, and we do not, express an opinion on compliance with applicable laws, regulations, and agreement terms for those items not tested.

This report is intended solely for the use of Agro 21 Corporation Limited and the Agency for International Development. This restriction is not intended to limit distribution of this report, which upon acceptance by the A.I.D. Regional Inspector General, is a matter of public record.

Coopers & Lybrand

April 20, 1988

CHARTERED ACCOUNTANTS

C&L Coopers & Lybrand

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT ON THE COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS

AUDIT FINDINGS

1. GUIDELINES FOR THE OPERATION OF AGRO 21 VEHICLES FUNDED BY USAID WERE NOT FOLLOWED

Condition

Agro 21 did not adequately maintain motor vehicle logs for control of official and unofficial use of motor vehicles funded by USAID.

Criteria

For USAID purposes and in accordance with USAID policy, usage logs should be prepared periodically for all Agro 21 motor vehicles funded by USAID under the agreement.

Cause

Established guidelines for vehicle operation were not clearly defined and there appeared to be uncertainty as to the requirements in this regard.

Correspondence dated November 1986 showed evidence of an effort to established an agreement on guidelines for the operation of USAID funded motor vehicles, culminating in the issuance of a project implementation letter in early February 1987, long after the project commenced. However, as of March 31, 1987 the procedures set out in the guidelines were still not being complied with.

Effect

We were unable to ascertain whether Agro 21 vehicles funded by USAID were operated only for the project purposes.

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

REPORT ON THE COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS AND AGREEMENT TERMS

AUDIT FINDINGS

Recommendation:

USAID/Jamaica should ensure that vehicle usage logs are completed monthly by Agro 21 for all USAID funded vehicles in accordance with agreed policy.

The log should indicate the following:

a) Official miles travelled

b) Unofficial miles travelled

c) Total miles travelled

Usage logs should reconcile with vehicles' speedometer readings and form a basis for establishing charges to employees for unofficial travel at US$.205 per mile in accordance with the agreed policy. There should be appropriate evidence of approval by the department heads.

COMPONENT II OF THE

AGRO-INDUSTRIAL DEVELOPMENT PROJECT

IN JAMAICA

USAID/JAMAICA PROJECT NUMBER 532-0081

LIST OF RECOMMENDATIONS

INTERNAL CONTROL SYSTEM

1. USAID/Jamaica should require Agro 21 to adopt a procedure for ensuring that accounting functions are properly and effectively segregated so that the work of authorization, processing and recording of transactions is prepared, approved, and recorded by different individuals.

2. USAID/Jamaica should require Agro 21 to update and reconcile its accounting records to present fairly the financial position of the project. As a general policy, a statement of periodic reconciliation of accounts should be established to ensure proper presentation of the financial position of the project.

   Also USAID/Jamaica should inform Agro 21 of all disbursements it makes on Agro 21's behalf under the project.

COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS

1. USAID/Jamaica should ensure that vehicle usage logs are completed monthly by Agro 21 for all USAID funded vehicles in accordance with agreed policy.

   The log should indicate the following:

   a) Official miles travelled

   b) Unofficial miles travelled

   c) Total miles travelled

   Usage logs should reconcile with vehicles' speedometer readings and form a basis for establishing charges to employees for unofficial travel at US$.205 per mile in accordance with the agreed policy. There should be appropriate evidence of approval by the department heads.

MEMORANDUM

DATE: March 4, 1988

FROM: William R. Joslin, Director
USAID/Jamaica

SUBJECT: NON-FEDERAL AUDIT OF AGRO 21
PROJECT NOS. 532-0081 & 532-0123

REF: Agro 21's Response to Coopers & Lybrand Draft Audit Reports

TO: Coinage Gothard, Regional Inspector General/Tegucigalpa

The Management of Agro 21 forwarded their response to the subject draft audit reports through USAID for forwarding to your office. While it was our understanding that the response should have been submitted to Coopers & Lybrand, I would like to take this opportunity to respond in general to Mr. Ralph Thompson's comment and to clarify some of the issues.

It is our general observation that the audit report is fair in dealing with the findings. A few of the issues raised were known to my staff and were incorporated specifically in the Auditor's scope of work. USAID is pleased to note that the audit team discovered no major issues in Agro 21's compliance with AID policies and procedures. In fact, Agro 21 staff should be complimented on their ability to comprehend and perform under AID's stringent procurement and fiscal policies. Agro 21 had no prior experience implementing an AID project when called upon to implement the $18 million CD/I project. Our two staffs devoted many hours to ensure full compliance and the audit report reflects that the efforts were not wasted.

Mr. Thompson's negative response to the audit in general and his unwillingness to address the specific issues only defers attention of the two organizations to initiate actions to resolve the recommendations. Agro 21 staff members have cooperated with AID's project management since the start-up of the project and with the audit team during the course of the audit. The point I would like to make is that Mr. Thompson's staff has responded to AID's concerns prior to the audit and to problems identified by USAID and the audit team during the course of the audit. Mr Thompson has chosen not to comment on this cooperative effort.

Following are comments responding to specific issues highlighted by Agro 21 which require clarification:

A. AUDIT FINDING #2 (CD/I Page 13) - Agro 21 was aware of the loan/grant split and the requirement to report separately the disbursements thereunder. There was some confusion in the early stage in that the Project Implementation Letters did not specify loan/grant funds. The reason being that the initial PIL approved Agro 21's requirements for the first year of operation with subsequent PILS approving sub-activities for that year. This concern has long been resolved. Agro 21's accounting record had to be designed to account for the different sources of funds and they did in that their reimbursement requests listed expenditures under each source. The Financial Department has acknowledged that their reporting had this problem and have a review underway to correct the records.

B. AUDIT FINDING #1 (CD/I Page 18 - Guidelines for Vehicle Operations) - USAID did request Agro 21 to establish guidelines for the use of vehicles provided under the two projects. We acknowledge that the request was not timely but was in sufficient time to be implemented and reveiwed during the audit. The request was submitted under PIL #111.

C. AUDIT FINDING #2 (CD/I Page 20 - Excess Outstanding Loan and Grant Advances.) - USAID's project management and Controller's Office concur that the advance levels at particular times did exceed Agro 21 requirements. This is still a problem and the Controller's Office reviews the advance status during processing of each voucher submission. Staff members of Agro 21 have acknowledged that their projections were optimistic at times and have indicated that they will ensure improved forecasting in the future. It should be pointed out that Agro 21 controls the procurement of goods and services and should have adequate information on hand to develop a cash flow.

I do not anticipate any problems in resolving the recommendations presented in the two audit reports. The responses of Peat Marwick and Mr. Lloyd Foster, which are attached to Mr. Thompson's memorandum, are the first steps in addressing the issues.

I appreciate the help and assistance provided by your Non-Federal Audit Staff in USAID/Jamaica's first non-federal audit undertaking. I look forward to continue cooperation in these types of audits.

APPENDIX 2

AGRO 21 CORPORATION LIMITED

MANAGEMENT MEMORANDUM ON DRAFT PROJECT AUDITS

TO: MR COINAGE N. GOTHARD
REGIONAL INSPECTOR GENERAL FOR AUDIT
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
TEGUCIGALPA, HONDURAS

THROUGH: USAID MISSION DIRECTOR
USAID, KINGSTON, JAMAICA

FROM: RALPH C. THOMPSON
MANAGING DIRECTOR
AGRO 21 CORPORATION LIMITED
KINGSTON, JAMAICA

DATE: FEBRUARY 18, 1988

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1) I refer to letter dated January 26, 1988 to AGRO 21 from Coopers & Lybrand enclosing draft report of their audits of Component II of Agro-industrial Development Project and Crop Diversification and Irrigation Project.

2) Within the 30 day period allowed for management's comments on the draft, we hereby submit the following documentation:

   a) this memorandum which serves as management's overall response to the draft audit, all relevant points thereof to apply mutatis mutandis to points raised both in the AIDPII and the CD/1 sections of the draft audit

   b) letter dated February 10, 1988 to AGRO 21 from Peat, Marwick setting out their rebuttal to the points raised in the draft audit, said letter being incorporated by reference in this memorandum as the official view of management

   c) memorandum dated February 10, 1988 from Mr Lloyd Foster to AGRO 21's Finance Director commenting on certain specific findings in the draft audit, said memorandum being incorporated by reference in this memorandum as the official view of management.

3) For the record we confirm that Peat Marwick have been auditors for AGRO 21 since the inception of the company, the cost of their annual audits being paid for by the Government of Jamaica. Every audit report on AGRO 21 issued by Peat Marwick has been "unconditional" and these unconditional audits cover the period of the project audit by Coopers & Lybrand.

4) Throughout the Coopers and Lybrand report there seems to be a lack of appreciation that in normal English usage phrases have universal applicability even though the word "all" is not used. Hence, the phrase "men are mortal" is accepted to be the equivalent of "all men are mortal". This is a basic rule of logic and would exclude the claim that mortality was only meant to apply to some men.

5) This problem runs through the report like a virus and is manifested as an inconsistency between a particular "condition" described by the auditors, the purported "cause" section which begins to climb towards universality and the "recommendation" section which ends up being so universal that it bears no relationship to the particular "condition" and is therefore misleading or gratuitous.

A good example of this syndrome is <u>AUDIT FINDING #1 (CD/I - page 13): LACK OF SEGREGATION OF DUTIES.</u>

6) Although the "condition" section makes it clear that the only problem area in the opinion of the auditors is reconciliation of the foreign bank accounts, the "recommendation" ends up being a universal pontification that USAID "should require AGRO 21 to adopt a procedure for ensuring that accounting functions (read, "all" accounting functions) are properly and effectively segregated so that the work of authorization, processing and recording of transactions (read, "all" transactions) is prepared, approved and recorded by different individuals. This implies that there is a lack of internal control in <u>all</u> of AGRO 21's procedures which is simply not the case.

7) One has only to recast this particular audit finding in logical terms to demonstrate how easy it would have been to present AID with a fair and balanced picture of the situation.

<u>LACK OF SEGREGATION OF DUTIES IN SOME ACCOUNTING FUNCTIONS</u>

o <u>CONDITION</u>

Although there are a number of internal controls in place at AGRO 21 to ensure segregation of accounting duties, certain accounting functions in relation to

transactions affecting the foreign back account which are deemed incompatible are performed solely by the Finance Director, without adequate independent checks by any other individual. These functions include the preparation of cheque vouchers, the co-signing of cheques or transmittal letters, the direct receipt and opening of bank statements, the performance of bank reconciliations, and the preparation of entries for posting to the general ledger.

o CRITERIA

An adequate system of internal control for the reconciliation of bank accounts should provide for segregation of duties in relation to the authorization or initiation of fund transfers, the receipt of bank statements and the actual performance of monthly bank reconciliations.

o CAUSE

There was an inadequate implementation of a proper system of internal control in this regard.

o EFFECT

This weakness has resulted in one individual performing incompatible functions in connection with foreign bank accounts and accordingly errors and other discrepancies in this area could go undetected.

o RECOMMENDATION

USAID/Jamaica should require AGRO 21 to adopt a procedure for ensuring that the person authorizing or initiating fund transfers in the foreign bank account is not the same person receiving the monthly bank statements and reconciling them. The chief accountant should receive the bank statements, reconcile them and then turn over the results of his work to the Director of Finance for checking.

8) Would such a rewording make USAID any less aware of the truth of the situation as perceived by the project auditors?

9) This assumes, of course, that the parties are interested in truth rather than creating a written record designed to shift all blame in one direction. Most civilizations have learned that truth is manifested not only by what is said but also by what is not said. Hence, the classic oath to tell the truth, the whole truth and nothing but the truth. Had the auditors been guided by this fundamental wisdom, the

25

report would have been useful as a management tool. It is in fact so misleading and confusing, that it serves no purpose in the real world and therefore is of little or no value either to AID or to AGRO 21.

10) The reworded "recommendation" section above, because it is logically tied to the "condition" giving rise to the proposed corrective section, serves as a specific agenda for discussion. In the matter of foreign bank account reconciliations the project auditors feel that proper segregation of duties is not in place; Peat, Marwick, Mitchell, AGRO 21's auditors, feel that the system is acceptable. A real issue has been joined which can be debated reasonably. AGRO 21 feels that the reasons set out by Peat Marwick as to why the present procedures should remain as is are cogent and compelling and in the light of them we request that the draft project audit be amended accordingly.

AUDIT FINDINGS # 2 (CD/1 page 14) - INADEQUATE ACCOUNTING PROCEDURES FOR CLASSIFICATION AS LOAN OR GRANT FUNDS

11) The "condition" segment appears to contain an internal contradiction. The first sentence declares categorically that AGRO 21's accounting records do not distinguish between loan and grant funds but the second sentence points out that in certain cases AGRO 21 uses its own discretion in classifying expenditures as loans or grants. Three points should be noted:

a) there is no requirement, either in the project document or in any subsequent instructions from AID, that AGRO 21's accounting records per se must distinguish between loan and grant funds. Indeed, any such requirement by AID would be an unwarranted interference in how AGRO 21's overall accounting system should be structured

b) the obligation to repay the AID loans rests with the Jamaican Government, not with AGRO 21 Corporation Limited which, in any case, would have no funds for this purpose. Hence, there is no reason in the Corporation's books to distinguish between grants and loans

c) for reimbursement reporting purposes, AID can require AGRO 21 to classify expenditures as between loans and grants and it was in an attempt to do this that AGRO 21 exercised the "discretion" mentioned by the project auditors.

12) The "cause" segment of the draft audit report assigns two reasons for the "condition", namely:

a) that AGRO 21 had not set up clearly defined accounting procedures for handling the transactions "in the proper manner"

b) that AID failed to adopt and implement consistent procedures for the classifications of project expenditures as either loan or grant.

13) What the report conveniently by-passes is whether (a) (even assuming it to be a requirement) might not be caused by (b)- a basic linkage which any section dealing with casualty should take into account. If such a linkage does exist then the phrase "in a proper manner" is misleading since what constitutes propriety is not up to AGRO 21 but to AID.

14) The simple truth of the matter is that in the beginning of the project AID never indicated any necessity for a breakdown between loan and grant in the reporting procedures. Since in any case the basis for such an allocation rests with AID they ought to be able to determine the breakdown from their own records. In the recommendation" section points (b) and (c) are acceptable but point (a) should be changed to read: "provided such information is conveyed to AGRO 21 by PIL letters, to require AGRO 21 to establish a proper system of reimbursement requests whereby expenditures are classified as to loan and grant funds, and detailed by budget categories".

AUDIT FINDING #3 (CD/I page 15.) THE TIME KEEPING AND ATTENDANCE REPORTING SYSTEM WAS INADEQUATE FOR LOCALLY CONTRACTED EMPLOYEES

15) The rebuttal of this point in the Peat Marwick reply to the draft audit speaks for itself. We have no problem with the "recommendation" as setting out a new procedure which AID wishes us to initiate. We do take exception to the "cause" section which states that AGRO 21 did not implement "the required system". If there was no such requirement this could not be a cause.

AUDIT FINDING #1 (REPORT ON COMPLIANCE WITH APPLICABLE LAWS, ETC page 17): GUIDELINES FOR THE OPERATION OF AGRO 21 VEHICLES FUNDED BY USAID WERE NOT FOLLOWED

16) The comments in the Peat Marwick reply to the draft audit are germane. This is another clear case of AID not advising AGRO 21 of a set of procedures and then, through the complicity of the audit report, accusing AGRO 21 of non-compliance. If such management details are to be dictated by AID, there comes a point at which de facto management of the project no longer rests with AGRO 21.

17) From a management point of view, if indeed we have any say in the matter, we support the compromise recommendation put forward in the Peat Marwick report and trust that the draft audit will be amended accordingly.

AUDIT FINDING #2 (REPORT ON COMPLIANCE WITH APPLICABLE LAWS, ETC page 19): NO EVIDENCE THAT PROPER PURCHASE ORDER PROCEDURES WERE FOLLOWED

18) Out of total disbursements during the audited period of US$3,983,000, US$43,850 are identified in the draft audit as not having complied with the requirement for three bids. The "condition" section is even gracious enough to mention that this occurred in "the early implementation stage of the project" yet the audit finding is that there is "no evidence" that proper purchase order procedures were followed. This is another classic example of jumping from a minor specific to a gratuitous universal. This corruption of logic distorts all the sections after the "condition" paragraph. The "criteria" paragraph should be changed to read:

"For USAID purposes, all procurement should be done on the basis of soliciting at least three quotations and the issuance of a purchase order for all procurements under US$25,000 UNLESS A WAIVER FOR ALTERNATIVE PROCEDURES IS GIVEN BY AID".

19) The failure of the project auditors to grasp that the AID procedures themselves allow for waivers for some "sole source" transactions leads to further distortions in the "cause" paragraph. This states that there was lack of understanding by project staff responsible for the performance of this function during the early phase of the project. Nothing could be further from the truth.

20) In the early stages of the project, because of time constraints recognised by the then mission director, the following modus operandi by AGRO 21 was approved by AID.

a) formal permission was granted by AID that GOJ funds could be advanced for project expenses, such funds to be reimbursed by AID when the Project Document was completed and US funds became available. On this basis GOJ advanced AGRO 21 J$3.5 million to get on with the work.

b) reimbursement by AID would depend on normal AID procedures having been followed unless, under the circumstances, time constraints did not permit the use of normal procedures and deviations were approved by AID.

28

c) each transaction was cleared with AID and its approval solicited. When it was time for reimbursement, any transactions which did not technically comply with AID procedures but which were proper and businesslike were the subject of waiver letters which are in the files at AID and AGRO 21.

21) It is quite clear that apart from the fact that the "condition" mentioned in the report is de minimus, ignorance was not the "cause" of the "condition" and a general recommendation that AGRO 21 should be obliged to follow purchase order procedures is quite out of order. In fact AGRO 21 has been abiding by proper purchasing procedures over a two year period in a complicated emergency situation involving millions of dollars. In many cases the AID rules themselves are inconsistent and confused or do not apply to situations in a foreign country like Jamaica. Any minor deviations in the early stages of the project were approved by AID and it is patently unfair at this stage to try to shift blame to AGRO 21 under a hysterical headline "no evidence that proper purchase order procedures were followed".

AUDIT FINDING #3 (REPORT ON COMPLIANCE WITH APPLICABLE LAWS, ETC page 20): EXCESS OUTSTANDING LOAN AND GRANT ADVANCES

22) The "condition" identified by the project auditors is that at March 31, 1987 AID had paid over to AGRO 21 US$1,930,000 which exceeded the projected requirements for the next 90 days.

23) The "cause" of this "condition" is said to be "inaccurate cash forecasting by AGRO 21" and the "effect" is that the funds remained "idle in interest free accounts".

24) It should be pointed out that forecasts by definition are only estimates of what may or may not be accomplished depending on circumstances. It is difficult to see how anyone, short of being a prophet, can literally produce "accurate" forecasts especially if the projected work depends on the speed of AID's approval for the work to proceed. AGRO 21 may have been over optimistic about what could be accomplished and AID may have been too slow in granting the necessary approvals. So what? These are value judgements which can never be precise. The "recommendation" can call for monthly reviews to see if AGRO 21 is too optimistic or AID too slow, but to require AGRO 21 to produce accurate forecasts is linguistically silly. Because most businesses know that forecasting cash needs does not always correspond to reality, surplus cash is made productive by earning interest. But earning interest on cash surpluses is prohibited by AID. Since this is part of the "effect" analysis why isn't this fact mentioned by the project auditors?

AUDIT FINDING #2(AIDP page 12): ACCOUNTING RECORDS ARE NOT IN AGREEMENT WITH REPORTS SENT TO AID

25) This finding results from a basic misunderstanding by the project auditors about what accounting functions AGRO 2 chooses as a Corporation to set up for its own use and what USAID requires by way of information on receipts and disbursements for the particular project. The setting up of a general ledger for AGRO 21 as a Corporation covers its overall business and this ledger can be maintained as it sees fit entirely in its discretion. The keeping of a general ledger is not a sine qua non for accounting for project receipts and disbursements on a cash reporting basis to USAID. So long as the reports to AID are accurate (and the overall audit finding is that they are) it makes no difference whether this agrees with AGRO 21's general ledger or not. We can even go so far, for the purposes of argument, to say that even if AGRO 21 kept its general ledger inaccurately this would have no bearing on the matter if the project reporting of receipts and expenditures submitted to AID was correct.

26) In fact AGRO 21 kept its general ledger in an entirely professional and acceptable way and the "discrepancies" noted by the project auditors are easily explained in the Peat Marwick rebuttal and the memorandum from Lloyd Foster. Not the least ironic result of this misunderstanding is that part of the difference was caused by AID making direct disbursements and not advising AGRO 21.

27) The financial position of the project is confined to reconciling receipts and expenditures. In fact it is nothing but an "imprest account" which does not need a general ledger to substantiate how monies in the imprest have been used.

28) So far this analysis of the draft project audit has dealt with specific audit findings but it remains to comment on some overall points to which AGRO 21 takes exception.

29) Ad nauseam throughout their report Coopers and Lybrand issue the disclaimer that their audit of the project is "subject to the restriction by AGRO 21 in limiting our access to only such information as it considered to be directly related to the project". This is not true and its repetition gives the impression that AGRO 21 has something to hide. The impression is also given that AGRO 21 unilaterally decided to limit access in its sole discretion. This too is false. The limitation of access is contained in the Scope of Work and was mutually negotiated with USAID before commencement of the audit.

30) The objectives and scope of the audit are stated as being to determine whether:

a) the fund accountability statement for the period September 25, 1985 to March 31, 1987 fairly presents the project funds received and disbursed during the period under review

b) the internal controls and accounting practices adopted by AGRO 21 are adequate for project purposes

c) whether AGRO 21 had complied with applicable laws, regulations and the terms of the agreements.

31) The objectives and scope of the audit as stated above clearly restricts the auditors to transactions and accounting matters related to the project.

32) AGRO 21 Corporation Limited is a private limited company under the Jamaica Companies Act and is under no obligation to make its accounts public or to file the accounts with the Registrar of Companies for scrutiny by the public. The accounts of the Corporation are audited annually and reported on to the Board of the Corporation by Peat Marwick Mitchell and Co. a reputed firm of chartered accountants. Their audit covers the totality of the Corporation's activities, namely the transactions and operations funded by the Government of Jamaica and those funded by USAID.

33) As a matter of policy, disclosure of all the Corporation's transactions to a third party, would need prior Government of Jamaica sanction as well as sanction by the Corporation's Board. Disclosure without such sanction would represent a breach of duty by the management and in particular by the Managing Director. For this reason, it was agreed ab initio that Coopers & Lybrand's audit would be restricted to project transactions and the funding by USAID. This is a right conferred by the relevant agreements and management would indeed have been in breach if it had done anything to restrict the auditors in their examination of the project transactions.

34) Given the intrinsically limited nature of the objectives and scope of Coopers & Lybrand's audit, and the fact that all the information and explanations relating to project transactions requested by them were provided freely by the Corporation, we consider the repetitious reference to "restrictions imposed by AGRO 21" to be grossly misleading, possibly implying deliberate concealment of information by the Corporation.

35) The fact is that, with the Fund Accountability statement as the focus of their work, it was completely auditable with the following documents being made available:

a) a statement of funds paid over to AGRO 21 Corporation by USAID during the period under review

b) all payment vouchers, contracts, etc. relating to project transactions

c) the bank statements, cheque books, deposit slips, transmittal letters, files, etc. for the project bank accounts which are separate and specific in the Corporation's accounting set up.

36) We believe that while it is proper to state clearly the nature of the "restriction" in the transmittal letter to you, it should not be used to qualify the auditors' opinion on the Fund Accountability statement .

37) In closing it is also interesting to note that Coopers & Lybrand define their audit as being performed in accordance with generally accepted auditing standards, as well as with the US Comptroller General's "standards for audit of Governmental organizations, Programmes, activities and functions" (1981 revision). While we are happy to be judged by generally accepted standards we are completely ignorant of the US Comptroller General's standards and it seems patently unfair for Coopers & Lybrand to incorporate this into their audit as being a condition of its acceptability. Nor does it help for us to be told verbally that the second standard does not differ from generally accepted standards. If this is true why bring it in; if it is not true AGRO 21 cannot be judged in retrospect by some document that was never disclosed to it by AID. Whether material or not, it is the attempt to create a method of documentation to which AGRO 21 was never a party which shows the unilateral and prejudicial inclination of the audit. Reference to the US Comptroller General's "standards for audit" should be removed from the audit report.

38) We have gone to some trouble to analyse why most if not all of the audit findings are wrong, superfluous or misleading and we look forward to receiving the final audit amended in the light of our comments, the Peat Marwick rebuttal and the memorandum from Lloyd Foster.

Regards

MEMORANDUM

TO: KENNETH C. BRITO
FROM: LLOYD O. FOSTER
DATE: FEBRUARY 10, 1988
SUBJECT: COOPERS & LYBRAND AUDIT REPORT - QUESTIONABLE ITEMS LISTED

I have reviewed and investigated the questionable items listed in the Coopers & Lybrand Audit Report for the US AID Projects and my findings are as follows:

AIDP II (Page 8 of Audit Report)

ITEM (i) - PAYMENTS IN EXCESS OF CONTRACTED SUM - US$671

The amount of US$671.00 indicated in the report is composed of two (2) amounts as follows:

- Overpayment to David Best under Contract no. 532-0081-21: US$210.00

- Overpayment to Earl Parks under Contract no. 532-0081-31: US$461.00

US$671.00
==========

The US$210.00 overpayment to David Best was detected by the Finance Department, March 17, 1987, prior to the Coopers & Lybrand audit and the amount overpaid was recovered from David Best's compensation voucher for March 1987 per your memo to Tommy Easterling dated April 14, 1987.

CONT'D PAGE 2

The overpayment to Earl Parks was also detected by the Finance Department, March 17, 1987, and Stuart Kane was requested to recover the overpayment from Mr. Parks. However, when Inter-Grow (through Ken Brito) eventually tried to recover payment from Earl Parks, he had left the country on termination of his contract. Ken Brito's letter to Earl Parks dated June 1, 1987 refers.

However, Mr. Parks is now back in Jamaica on contract to Inter-Grow and I have sent letters both to Earl Parks and Yehuda Rauer dated January 29, 1988 to recover the overpayment from his current contract with Inter-Grow Ltd.

ITEM (ii) TRAVEL EXPENDITURES DISALLOWED FOR TRAVELLING BY NON-US CARRIER - US$1600.00

The amount of US$1,600.00 refers to airfare reimbursed to M.J.F.R. Seneratne for his trip from Sri Lanka to Kingston, Jamaica, paid to him on April 23, 1986 from CD/I Project funds under a CD/I Project Contract no. 532 0123-4 dated February 21, 1986. It was detected by Coopers & Lybrand that Mr. Seneratne travelled by British Airways (a U.K. Carrier) which is not a permissible carrier under a US AID Loan funded contract. I have advised Mr. Seneratne that this amount will have to be repaid by him. I will follow for repayment. Coopers & Lybrand incorrectly grouped this item under AIDP II Questionable Items.

ITEM (iii) - SALARY CHEQUE REPORTED LOST, STOP PAYMENT NOT REVERSED

This item refers to a salary cheque number 155 dated February 6, 1987 paid to Art Bjorlykke from AIDP II FX account which was reported lost by him and "Stop Payment" instruction issued by Finance to Citibank Miami per letter dated March 10, 1987. Coopers & Lybrand claims in their listing of Questionable Items that this "Stop Payment" was not reversed in Agro-21's books. Their allegation is incorrect because the stop paid cheque was reversed per our Journal entry no. JE 3/2 dated March 31, 1987. Coopers & Lybrand apparently overlooked this entry.

CONT'D PAGE 3

CD/I PROJECT - QUESTIONABLE COSTS (PAGE 9 - CD/I SECTION OF AUDIT REPORT)

(a) EMPLOYEE SALARIES INCORRECTLY PAID FROM CD/I PROJECT FUNDS

The amount of US$10,290 indicated as questionable for this item represents the following:

(1) SALARY PAID TO SONIA FRENCH	J$55,749.99 =	US$10,210.00
(2) SALARY PAYMENT WHICH COULD NOT BE IDENTIFIED BY COOPERS & LYBRAND ON REQUEST FOR INFORMATION	438.00 =	80.00
	J$56,187.97	US$10,290.00

The correct amount for Sonia French's compensation is J$56,749.99 but Coopers & Lybrand's Mr. Leighton McKnight advised that he picked up the figure in his audit records J$1,000.00 short.

Sonia French was employed to Agro-21 in June 1985 under a US AID funded Project number 532 0079 called Technical Consultant and Training Grant (TC & TG), a US AID source which fell outside the scope of the normal CD/I and AIDP II funding. As such, Agro-21's new Director of Finance, Lloyd Foster, was unaware of this and since Sonia French worked with the CD/I Project, he assumed the she was a CD/I Contractor. Hence, charges for a portion of her salary totalling J$56,749.99 was charged to the CD/I Project Expenses.

Mr. McKnight of Coopers & Lybrand was not able to give me details of the questioned salary amount of J$438.00 from his files, so I am not able to respond to that item.

I have made correcting Journal Entries to adjust for the Sonia French error (JE no. 2/1 1988).

CON'D PAGE 4

(b) PURCHASE ORDERS NOT IN COMPLIANCE WITH REQUIRED PROCEDURE OF INVITING THREE QUOTATIONS

This conclusion is based on a small "sample" and on checking with George Stephenson who was directly involved in CD/I procurement during its early period, I was advised by him that the transactions being questioned by Coopers & Lybrand can be justified on a "sole source" basis and were approved as such by US AID.

AIDP II - ACCOUNTING RECORDS ARE NOT IN AGREEMENT WITH REPORTS SENT TO US AID

On page 12 of the AIDP II Section of the Coopers & Lybrand Audit report Item 2 Condition", they state that "The general ledger in the books of Agro-21 covering advances and expenditures on the project are not in agreement with relevant reports submitted to US AID. For example the general ledger account balances were more than those contained in the reports sent to US AID by US$324,445".

The Auditors are here addressing a figure of US$604,363.33 (J$3,299,823.78) recorded for total cash disbursments up to 31/3/1987 in the Cash Advance Status Reports (CASR) submitted to US AIP which is a Cash Imprest report.

Correspondingly, the general ledger AIDP II Expenditure Control account balance which includes cash disbursements from the AIDP II FX account as well as other non cash expense items was J$5,082,207.78 (US$930,807.33) as at March 31, 1987 a difference of J$1,782,384.00 (equivalent US$326,444.00) in excess of disbursments reported through the CASR's submitted to US AID.

CONT'D PAGE 5

The difference between the two balances derives basically from the fact that there was J$1,823,374.01 (US$333,951.28) of expenditures made directly by US AID mostly for AIDP II expatriate compensation payments of J$1,784,053.90 (US$326,749.80) prior to Agro-21 taking over the payment responsibility for expatriate compensation in March 1987. Additionally AID made direct expenditures to purchase motor vehicles totalling J$39,320.11 (US$7,201.49) on behalf of Agro-21.

A reconciliation of the total difference of J$1,782,384.00 between the General Ledger and the AID reports is as follows:

*NON-CASH ENTRIES TO AIDP II EXPENDITURE CONTROL ACCOUNT

a.	*Expatriate Compensation paid by US AID:	J$1,784,053.90
b.	*Motor vehicles purchased by US AID:	39,320.11
c.	*Amount advanced to Dr. Frank Ross by Agro-21 for AIDP II sponsored trip:	6,996.60
d.	Cheque no. 113 dated 25/9/86 which was not recorded in CASR disbursments for Sept. 1986 (US$5,583.33) adjusted after March 31, 1987:	30,484.98
e.	Bank charges recorded twice in General Ledger (US$20.80):	113.54
f.	Bank charges recorded in General Ledger but not in CASR until after 31/3/87 (US$40.00):	218.40
g.	US AID disallowed payments not recorded in CASR but recorded in General Ledger (US$1097.10) (Refunded by Agro 21 to AIDP II bank account in January 26, 1988:	5,990.17
h.	*LESS: Peat Marwick Mitchell audit entry of Dec. 1986 made in error duplicating payment made to American Graduate School of Management: (Reversed after Dec. 31, 1987)	(84,793.80)
		J$1,782,384.00
EQUIVALENT		US$ 326,444.00

CONT'D PAGE 6

EQUIVALENT (cont'd)		US$ 326,444.00
Difference indicated in Coopers & Lybrand Audit Report		US$ 324,445.00
Difference to be discussed with Coopers & Lybrand	-	US$ 1,999.00

I trust that this memo responds substantively to the Coopers & Lybrand Questionable Items.

cc. MR RALPH THOMPSON
MR. TOMMY EASTERLING
MR. ALFRED BARNES
MR. GEORGE STEPHENSON
MR. STANLEY RAMPAIR

KPMG Peat Marwick

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February 10 1988

The Managing Director
Agro 21 Corporation Limited
3rd Floor
14-20 Port Royal Street
Kingston

Dear Sir,

Coopers & Lybrand's Report on USAID Funded Projects

We refer to your letter of January 27, 1988 and give below our comments on the matters raised therein.

A.I.D.P. - Component II

1. Lack of Segregation of duties

(a) As mentioned in the project auditors' report (Page 9, Paragraph 3) the objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and are properly recorded. As described below all the critical functions relating to the foreign bank accounts are performed at the highest level of management.

An important factor that should be considered in assessing a system of internal control is the size of the organization. Agro 21 is a small entity and many of the controls that would be relevant to a large enterprise would not be cost-effective, practical, appropriate or necessary. But as in all small entities, management control is strong because of the direct personal involvement of management in the company's operations and accounting. Therefore, the risk that material errors or discrepancies will go undetected is relatively low.

(b) The disbursements under this project heading represented salaries and related expenses of contract staff except for a few miscellaneous expenses for travel and seminars for local staff and the payment for a technical study. All of which amounted to 3.8% of the total disbursements for the period. The number of payments were few and averaged four per month during the first half of the period and eleven during the latter half.

The Managing Director
Agro 21 Corporation Limited

February 10, 1988

1. Lack of segregation of duties Cont'd.)

On the basis of monthly invoices and supporting documents submitted by contract officers and approved by the Managing Director or the Deputy Managing Director, numerically controlled payment vouchers are prepared by the secretary to the Finance Director for all disbursements other than direct transfers for which transmittal letters are prepared by her. Requests for other payments originate from various heads of department and form the basis for the preparation of payment vouchers.

Cheques and transmittal letters prepared by the secretary to the Finance Director are signed by the Finance Director and passed on for the second signature to the Managing Director or the Deputy Managing Director along with the payment vouchers and supporting documents.

Since disbursements are few in number and in view of their confidential nature, these are listed monthly under each expense heading by the Finance Director and retained as a permanent record. Cheque numbers are identified against payments and cancelled cheques are noted therein.

Considering the confidential nature of over 96% of the total disbursements and the small number of disbursements involved, the system of internal control including the segregation of duties is adequate since no disbursement could be effected by the Finance Director without the routine intervention of at least one independent person at the highest level of management.

In summary transactions are:

Authorised by	-	Managing Director/Deputy Managing Director
Processed by	-	The security of the Finance Director
Input Prepared by	-	Finance Director
Recorded by	-	Accountant

Any system of internal control can be improved by delegating some of the functions to additional staff. But such delegation should only be done if the cost of delegation does not exceed the benefit that may be derived by additional control and whether the confidentiality of the transactions could be disposed with.

The Managing Director
Agro 21 Corporation Limited

February 10, 1988

2. Accounting records are not in agreement with reports sent to USAID (Page 12)

(a) Agro 21 Corporation's general ledger records total funds received and funds expended for the purpose of internal management control only. Details of funds received are maintained by the Finance Director and reconciled at least annually with the general ledger. The details of funds expended are maintained in a cash book in respect of local currency payments and on monthly listings in respect of foreign currency payments.

The general ledger expenditure control account will not always agree with the USAID report for a variety of reasons including:

(a) Accrual of expenditure which will be reflected on the report only after actual disbursement.

(b) Disbursement of company's funds pending approval of USAID, etc.

The project auditors' condition statement as regards the general ledger and the related recommendations do not appear to reflect the correct position.

(a) As regards the disbursements made directly by USAID, which had not been recorded in the project's books, this should not be considered an internal control weakness of the company since the cause for not recording was the non-provision of the information by USAID, which is external to the company.

Further, the audit objectives and scope as stated on page 1, paragraph 1 of the report refers to the determination of whether the fund accountability statement fairly present the project funds received and disbursed as of March 31, 1987.

3. Guidelines for operating vehicles were not followed (Page 14)

All operating costs of the motor vehicles to date have been absorbed by Agro 21 Corporation Limited and not recovered from USAID project funds. It should be emphasized that in the absence of any laid down USAID policy, it is the company that initiated discussions with USAID to ascertain a basis on which project related operating costs of the vehicles could be recovered from project funds. The guidelines for the maintenance of a log was issued by USAID on February 12, 1987.

3. Guidelines for operating vehicles were not followed (Page 14) (cont'd.)

As regards the recommendation, it is not the practice for employees, especially professional staff to maintain daily logs of miles travelled and to reimburse the company for private use. The implementation of the recommendation would entail the employment of additional staff and thus negate the cost savings envisaged therein.

We therefore recommend that the percentage of project use be estimated in advance in respect of each funded vehicles, based on the duties and functions of the authorised user of the vehicle. The operating costs should be maintained for each vehicle and the applicable project related costs transferred to the project on a monthly basis.

The question whether operating costs relating to private use should be borne by the company per se, or recovered from the employee should in our opinion, be a matter that should be decided by the Board of Directors of the company and not the USAID.

Crop Diversification and Irrigation Project

1. Lack of segregation of duties

Our comment 1(a) on page 1 under AIDP - Component II are relevant here also.

The total disbursements under this project heading amounted to approximately J$21 million during the period of which J$15 million was disbursed through the local currency bank account whilst approximately J$6 million (US$1.1 million) through the foreign bank account.

The disbursements in local currency which represented nearly 70% of the total disbursements are based on numerically controlled payment vouchers prepared by the accounts department on the basis of authorised documentation received from engineering and other operating departments. The payment vouchers are approved by the Finance Director or Chief Accountant after which cheques are prepared by the accountant and recorded in a cash book. The cheques are signed by the Finance Director and the Managing Director or the Deputy Managing Director who reviews the supporting documentation. The monthly bank reconciliation is prepared by the Chief Accountant and reviewed by the Finance Director.

The Managing Director
Agro 21 Corporation Limited

February 10, 1988

4. Lack of segregation of duties (cont'd.)

The disbursements through the foreign bank account which accounted for approximately 30% of the total project disbursements pertained to:

(i) Infra-structure rehabilitation and commodities - 48%.

(ii) Contract salaries and expenses - 41%

(iii) Flood relief designated disbursement - 9%

(iv) Horticultural demonstration project and service - 2%

The number of disbursements averaged seven payments per month during the first seven months and twelve during the balance eight months.

The procedure for contract salaries is identical to that for AIDP II described under (i) above. The requests for other disbursements originate from operating departments, are checked by the accounts department and forwarded to the Finance Director's secretary for preparation of payment vouchers and cheques or transmittal letters. The disbursements through this bank account are also listed monthly under each expense category and retained as a permanent record.

Over 87% of the disbursements under this project heading originate from operating departments and were subjected to procedural checks by the accounts department whilst the balance representing contract salaries and expenses was based on invoices approved by the Managing Director or Deputy Managing Director.

Considering the sensitive nature of contract salaries and expenses and the management objective of maintaining strict confidentiality over this area and the fact that the Financial Director cannot complete a transaction without the intervention of at least one independent person at the highest level of management, the accounting system in operation is considered adequate to achieve the internal control objective of safeguarding the assets and the prevention and/or detection of irregularities or fraud, in the absence of collusion.

5. Inadequate procedures for classification as loan or grant funds (Page 14)

The company maintains a record to total funds received and total funds expended in the general ledger. In addition, total funds disbursed are summarised monthly for USAID reporting purposes between loan and grant funds on the basis of fiscal data provided in USAID Project Implementation Letters (PILs) or on the basis of guidelines set out by USAID where such PILs are not issued.

The Managing Director
Agro 21 Corporation Limited

February 10, 1988

5. Inadequate procedures for classification as loan or grant funds (Page 14) (cont'd.)

The disbursement of funds are not separated between loan and grant in the general ledger but should be maintained, if USAID does not consider the monthly summaries an adequate record.

6. The time-keeping and attendance reporting system (Page 15)

Most of the locally contracted employees are in managerial and professional categories. In Jamaica, this category of employees do not maintain daily attendance and time records. Further, a review of the project agreement or the related PILs or the contracts themselves did not indicate a requirement for maintenance of such records. However, the company ensured that local staff were paid only for time worked, by the maintenance of:

(a) Attendance register for contract secretaries and

(b) Properly approved documentation for absence from work for all contract employees.

7. Guidelines for the operation of vehicles (Page 17)

Our comments under AIDP II are relevant here too.

8. No evidence that proper purchase order procedures were followed (Page 19)

As mentioned in the report this relates to the early implementation stage of the project only and was corrected subsequently as indicated in the audit report.

9. Long outstanding loan and grant funds (Page 20)

The company prepares cash forecasts on the basis of work plans and budgets prepared by the engineers. The forecasting of future cash requirements is by nature difficult and is compounded by:

(i) The delays of two to three months, experienced in obtaining USAID approval for expenditure over US$25,000.

(ii) Delays in completion of contracts due to unforeseen circumstances.

The Managing Director
Agro 21 Corporation Limited

February 10, 1988

We understand that steps have been taken by the company to monitor more closely its cash requirements but the problem stated in (i) must be successfully addressed before any given periods are determined to be optimal.

Yours faithfully,

JJ:vm

APPENDIX 3

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