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NON-FEDERAL AUDIT OF
THE COOPERATIVE AGREEMENT BETWEEN
USAID AND THE TRANSCENTURY FOUNDATION
UNDER THE COMMUNITY AND ENTERPRISE
DEVELOPMENT PROJECT NO. 685-0260

AUDIT REPORT NO. 7-685-89-04-N

JUNE 6, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
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WASHINGTON, D.C. 20523

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B.P. 49 DAKAR SENEGAL
WEST AFRICA

June 6, 1989

MEMORANDUM FOR Sarah Jane Littlefield, Director, USAID/Senegal

FROM: Paul E. Armstrong, RIG/A/D

SUBJECT: Non-Federal Audit of the Cooperative Agreement Between USAID and The New Transcentury Foundation Under the Community and Enterprise Development Project No. 685-0260

This report presents the results of the subject financial and compliance audit. The accounting firm of Price Waterhouse performed the audit and issued their report on April 24, 1989.

The audit objectives were to: (i) verify the allowability of the local currency expenditures totaling CFA 1,369,571,901 ($4,565,240) reimbursed by A.I.D. to The New Transcentury Foundation from July 1, 1985 through December 31, 1988 under a Cooperative Agreement within the A.I.D.-funded Community and Enterprise Development Project; (ii) review and evaluate the Project's system of internal controls; and (iii) determine whether the Project complied with applicable laws and regulations.

As a result of their review of local currency expenditures, Price Waterhouse reported: (i) questioned costs totaling CFA 14,358,751 ($47,863); (ii) financial irregularities and embezzlement of funds totaling CFA 7,352,669 ($24,509) perpetrated by employees of the New Transcentury Foundation of which CFA 202,450 ($675) was subsequently restituted; and (iii) an unexplained difference of CFA 1,508,779 ($5,029) between local currency expenditures reported and funds received by The New Transcentury Foundation from Washington to finance Project activities. In addition, interest income of CFA 366,843 ($1,223) earned on Project funds was not remitted to A.I.D. by The New Transcentury Foundation as required by the Cooperative Agreement.

Price Waterhouse also reported that the management of The New Transcentury Foundation declined to provide the auditors a representation letter attesting to the fairness of the costs claimed. Generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants require the auditors to obtain such a letter. Refusal by management to furnish written representations constitutes a limitation on the scope of the auditor's examination sufficient to preclude an unqualified opinion on the financial statements audited.

Because of questioned costs, unsatisfactory accounting of Project funds and The New Transcentury Foundation's refusal to provide a representation letter, Price Waterhouse disclaimed an overall opinion on the statement of local currency expenditures reported to A.I.D. by the New Transcentury Foundation.

The auditors' study and evaluation of the Project's internal accounting controls showed several significant weaknesses. In particular, processing of loan contracts, monitoring of loan operations and accounting for loan repayments under the Small Scale Enterprises component of the Project were seriously deficient, contributing to financial irregularities and misappropriation of Project funds by employees of The New Transcentury Foundation. Based on these and other weaknesses, Price Waterhouse concluded that the Projects' internal accounting control system was inadequate to safeguard the assets and funds from irregularities in amounts that may be material to the Project.

In their review of compliance issues, Price Waterhouse reported that the Project's accounting and reporting system for credit revolving funds was not in accordance with the Cooperative Agreement. No other significant compliance issues were reported.

The New Transcentury Foundation (NTF) did not concur with some of the findings, conclusions and recommendations made by Price Waterhouse. NTF declined to accept accountability for frauds and embezzlements perpetrated by its employees, and stated that corrective actions had been initiated or planned during and after the audit which would address the deficiencies identified in the audit report. A full text of the written comments issued by The New Transcentury Foundation is included in Appendix 1 to this report. USAID/Senegal has indicated that they have taken the problems disclosed by this and a prior audit seriously, and has already moved quickly to improve its oversight. A number of actions taken and planned, as well as comments on the audit report, are included as Appendix 2 to this report.

An exit conference was held on May 24, 1989 attended by Price Waterhouse, RIG/A/Dakar and A.I.D. officials. Written comments provided by The New Transcentury Foundation as well as comments of A.I.D. officials on the draft audit report were discussed with the auditors. The attached final audit report was issued by Price Waterhouse after their review of those comments.

Recommendation No. 1

We recommend that:

a. USAID/Senegal require the New Transcentury Foundation to establish within ninety days from issuance of this report an internal accounting control system which provides reasonable assurance that assets and funds of the Project are safeguarded against loss from unauthorized use or disposition and that the project's local currency accounting system permits preparation of accurate and reliable financial reports;

b. the USAID/Senegal Controller certify that such a system has been established by the New Transcentury Foundation;

c. if the USAID/Senegal Controller is unable to provide such certification within ninety days from issuance of this report, USAID/Senegal suspend further project funding to the New Transcentury Foundation under the Cooperative Agreement until appropriate corrective action has been taken.

Recommendation No. 2

We recommend that USAID/Senegal require The New Transcentury Foundation to justify questioned costs totaling CFA 14,358,751 ($47,863), summarized in Schedule B of the attached audit report.

Recommendation No. 3

We recommend that USAID/Senegal require The New Transcentury Foundation to:

a. remit to A.I.D. interest income of CFA 366,843 ($1,223) earned on Project funds;

b. reimburse from its own funds to the project loan revolving fund account CFA 1,475,901 ($4,857) for loan repayments by borrowers not deposited in the bank;

c. recover and restitute to the project funds totaling CFA 5,785,918 ($19,286) embezzled by its employees, or failing this, pay from its own funds for the amounts not recovered; and

d. account for petty cash shortages totaling CFA 90,850 ($366) or failing this, reimburse to A.I.D. from its own funds the petty cash funds not accounted for.

<u>Recommendation No. 4</u>

We recommend that USAID/Senegal require The New Transcentury Foundation to provide a written explanantion for the discrepancy of CFA 1,508,779 ($5,029) between local currency expenditures reported and funds received from Washington to finance project activities under the Cooperative Agreement.

<u>Recommendation No. 5</u>

We recommend that USAID/Senegal require that a financial and compliance audit of The New Transcentury Foundation's local currency expenditure reports be performed annually by an independent firm of public accountants, as a pre-requisite for continued Project funding.

Please advise within 30 days of the actions planned or taken to implement the above recommendations. I appreciate the cooperation and courtesy extended to the non-Federal auditors during the audit.

AUDIT OF THE COOPERATIVE AGREEMENT
BETWEEN USAID AND THE NEW TRANSCENTURY FOUNDATION
UNDER THE COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT
N° 685-0260

ACRONYMS

USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
NTF	NEW TRANSCENTURY FOUNDATION
MSI	MANAGEMENT SYSTEMS INTERNATIONAL
PVO	PROJECT VILLAGE ORGANIZATION
SSE	SMALL SCALE ENTERPRISES
MU	MANAGEMENT UNIT
TVA	VALUE ADDED TAX
TPS	SERVICE TAX
IGR	INCOME TAXES
ABACED	ASSOCIATION DES BACHELIERS CHOMEURS POUR L'EMPLOI ET LE DEVELOPPEMENT
SBA	SMALL BUSINESS ADVISOR
NPC	NATIONAL PROJECT COMMITTEE
GOS	GOVERNMENT OF SENEGAL

AUDIT OF THE COOPERATIVE AGREEMENT BETWEEN USAID AND THE NEW TRANSCENTURY FOUNDATION UNDER THE COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT N° 685-0260

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SECTION I

REPORT ON STATEMENT OF EXPENDITURES

REPORT ON STATEMENT OF EXPENDITURES

A. AUDITOR'S OPINION

1. We have examined the statement of expenditures of the cooperative agreement between USAID and the New Transcentury Foundation under the Community and Enterprise Development Project n° 685-0260 for the period from July 1, 1985 to December 31, 1988. Costs claimed, costs questioned and costs accepted are summarized on schedule B.

Our examination was made in accordance with the Guidelines for Financial and Compliance Audits of AID-financed Agreements, and the provisions of the standards for Audit of Governmental Organizations, Programs, Activities and Functions (1981 Revision) promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination was made primarily for the purpose of expressing an opinion on the statement of costs claimed as summarized in schedule B, and included such tests of the accounting records and as such other auditing procedures as we considered necessary in the circumstances.

2. The statement of expenditures in Schedule A includes both costs incurred in Washington (US Dollars) as well as local currency costs. The supporting invoices and documentation of project expenditures in US Dollars were not available at the Management Unit in Kaolack. Therefore our tests were limited to costs incurred in local currency summarized in schedule B.

3. Costs in local currency, claimed from July 1, 1985 to December 31, 1988 (Schedule B), totalling CFA 1 369 571 901, added to cash balance of CFA 14,644,670 at December 31, 1988 exceeded total cash receipts amounting to CFA 1 382 707 792 transferred from the New Transcentury Foundation Head Office in Washington. The difference of CFA 1 508 779 could not be explained by the Management Unit. Due to weaknesses in control procedures we were unable to identify the source of the excess funds.

4. Our examination identified questioned costs totaling CFA 14 358 751 (US$ 47 863) which are discussed in Findings Nos 1, 4 and 5. In addition, interest income totaling CFA 366 843(US$ 1 223) were not remitted by NTF to USAID as required by the Cooperative Agreement.

5. The Management Unit of NTF declined to furnish us a management representation letter attesting to the fairness of the costs claimed.

6. Because our examination identified significant questioned costs and material deficiencies in accounting for expenditures, we do not express an opinion on the statement of expenditures for the period from July 1, 1983 to December 31, 1988 summarized on schedule B under the Cooperative Agreement between USAID and the New Transcentury Foundation.

Luce Watchman

April 24, 1989
Dakar Sénégal

REPORT ON STATEMENT OF EXPENDITURES

B. FINDINGS

FINDING N° 1 - UNAUTHORIZED LOCAL CURRENCY EXPENDITURES

Condition

NTF subcontracted with a U.S. Consulting firm, Management Systems International (MSI), to provide management services for the SSE program. According to the subcontract, the house rent and security services of the MSI employee, resident in Senegal, were to be paid by MSI. However, the audit showed that those costs, totaling CFA 13 045 000 (US$ 43 485), were paid by NTF out of project funds. NTF officials were unable to provide documentary evidence whether MSI subsequently reimbursed NTF for these costs.

Criteria

Only expenditures expressly authorized in the Cooperative Agreement between USAID and the New Transcentury Foundation should be paid out of project funds.

Cause

Due care was not taken by NTF to ensure that only expenditures authorized by the Cooperative agreement, are incurred and paid for.

Effect

Unauthorized Project expenditures were incurred for CFA F 13 045 000, thereby reducing available resources for Project funding.

Recommendation

We recommend that NTF reimburse the Project for unauthorized expenditures of CFA 13 045 000.

Management Comments

NTF disagreed with this finding. They stated that the expenses were authorized by the Cooperative Agreement and, therefore, allowable. Also, MSI had reimbursed NTF the above costs.

FINDING N° 2 - INTEREST EARNED ON PROJECT FUNDS WAS NOT REMITTED BY NTF TO USAID

Condition

Interest income on bank deposits totaling CFA 366 843 ($ 1,223) was credited to the project account opened at Citibank for the period from July 1, 1985 to December 31, 1988. The amount should have been remitted to USAID.

Criteria

All program funds must be placed in a restricted bank account before disbursement to borrowers. The account should receive interest at the highest legal rate and all interest must be returned to the US Treasury.

Cause

NTF did not comply with agreement terms relating to accounting for interest income.

Effect

USAID lost the use of CFA 366 843 (US$ 1 223) of income generated by the project.

Recommendation

We recommend that the total of interest income of CFA 366 843 (US$ 1 223) be transferred to USAID by NTF.

Management Comments

NTF concurred and agreed to remit a check to USAID for the amount of interest due.

FINDING N° 3 - NON ALLOWABLE BONUSES

Condition

Small Business Advisors were paid bonuses for collecting loan reimbursements in addition to their regular salaries.

Criteria

The Cooperative Agreement between USAID and NTF does not authorize payment of bonuses to small business advisors.

Cause

The Management Unit paid bonuses although these payments were not authorized by the Cooperative Agreement.

Effect

Expenditures not authorized by the Cooperative Agreement were paid by the Project Management Unit, reducing funds available for project use.

Recommendation

We recommend that NTF reimburse USAID total amount of bonuses paid out of project funds.

Management Comments

NTF disagreed. They stated that payment of bonuses was approved by USAID/Senegal and the National Project Committee. Therefore, the costs were allowable.

FINDING N° 4 - UNNECESSARY EXPENSES

Condition

TVA and TPS two local taxes, from which the project was exempted, were paid by the Management Unit. The funds disbursed amounted to CFA 652 473 (US$ 2 175).

Criteria

Project implementation letter (PIL) n° 0260-02 issued by USAID on June 27, 1996 stated that all goods and services financed under the Cooperative Agreement will be free from any taxation or fees imposed under the laws in effect in Senegal.

Cause

An exemption letter from the Ministry of Finance putting into force the Cooperative Agreement was not obtained by NTF.

Effect

Project resources were reduced because of unnecessary payment of taxes.

Recommendation

We recommend that NTF recover from the Government of Senegal the payment of taxes totaling CFA 652 473 from which the project was exempted.

Management Comments

NTF concurred with this finding. They pointed out that extensive efforts were made by them to recover the taxes from GOS authorities. Despite lack of success, this effort is continuing.

FINDING N° 5- NON ALLOWABLE EXPENDITURES

Condition

NTF incurred expenditures totaling CFA 660 778 ($ 2 202), which were not adequate supported by appropriate documentary evidence, or were not project related. These costs are itemized below.

DESIGNATION	AMOUNTS IN CFA
Non-Project Expenditures	
- Consulting fees paid by the MU for services rendered to a PVO	200 000
- Legal fees paid for services rendered to SSE clients	144 000
	-----------
	344 000

Travel expense reimbursements in excess of expenditures reported	52 778
Travel expenses reimbursed without supporting documentation	264 000
TOTAL non allowable expenditures	CFA 660 778
	===========
	US$ 2 202
	===========

Criteria

In order to be allowable, project expenditures should be project related and supported by appropriate documentation.

Cause

Due care was not taken by NTF to ensure that all expenditures were supported by appropriate documentation and all expenditures reported were project related.

Effect

NTF claimed and was reimbursed CFA 660 778 of non allowable costs.

Recommendation

We recommend that the total non allowable costs of CFA 660 778 (US$ 2 202) be questioned pending the provision by NTF of adequate justification.

Management Comments

NTF disputed this finding. They stated that adequate justification and documentation were available to support the above costs, which were, therefore, allowable.

FINDING N° 6 - PROJECT EXPENDITURES IN LOCAL CURRENCY EXCEEDED CASH TRANSFERRED BY NTF FOR THE PERIOD FROM JULY 1, 1985 TO DECEMBER 31, 1988

Condition

The M.U. in Kaolack is funded through cash transfers made by NTF from Washingtor In order to establish the cash position of the Project from July 1,1985 to December 3 1988, we prepared a statement of funds showing all transfers received from NTF Washington less local currency expenses reported. By doing so, we found an exces of expenses over cash receipts of CFA 1 508 779. NTF officials were unable to expl the excess.

	Amount in CFA
Transfers from NTF Washington	1 349 198 459
Cash receipts & adjustments	33 509 333
	1 382 707 792
Expenses in local currency per Schedule B	(1 369 571 901)
Cash on Hand - Dec. 31, 1988	(14 644 670)
	(1 384 216 571)
Unexplained difference	(1 508 779)

Criteria

Since expenses incurred by the M.U. are fully financed by NTF Washington, there should not be an excess of expenses over receipts.

Cause

Weaknesses in the NTF accounting procedures resulted in inadequate record keeping and consequent discrepancies between funds received and expenditures reported.

Effect

There is no assurance whether local currency expenditures reported by NTF to USAID are reasonably stated and reliable.

Recommendation

We recommend that M.U. investigate the difference of CFA 1 508 779, rectify the expenditure reports accordingly and implement control procedures to improve accuracy of project cost reporting.

Management Comments

NTF acknowledged the difference of CFA 1 508 779. Based on their investigations, they concluded that the amount represented repayments of SSE loans that were not deposited to the bank account. NTF stated that they had taken action to prevent differences of this nature in the future.

SECTION II

REPORT ON FRAUDS AND EMBEZZLEMENTS

REPORT ON FRAUDS AND EMBEZZLEMENTS

A. AUDITORS' OPINION

1. We have examined the statement of expenditures of the cooperative agreement between USAID and the New Transcentury Foundation under the Community and Enterprise Development Project n° 685-0260 for the period from July 1, 1985 to December 31, 1988.

Our examination was made in accordance with the Guidelines for Financial and Compliance Audits of AID-financed Agreements, and the provisions of the standards for Audit of Governmental Organizations, Programs, Activities and Functions (1981 Revision) promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination revealed evidence of extensive fraud and embezzlement in the SSE operations. We identified embezzlements totaling CFA 7 352 669 (US$ 24 509) which are itemized in Schedule C of this report.

Although no other evidence of fraud or embezzlement came to our attention, our examination showed serious weaknesses in NTF's accounting systems and internal controls. We are therefore unable to provide assurance whether the instances of fraud and embezzlement of funds reported by us were isolated cases.

Price Waterhouse.

April 24, 1989
Dakar, Sénégal

B. FINDINGS

FINDING N° 1 EMBEZZLEMENTS IN HEAD OFFICE

Condition

In the course of an earlier audit we conducted for NTF relating to the SSE component, a comparison of the loan reimbursement register with the bank deposit slips showed the following irregularities :

. The Project accounting department was unable to provide the details of certain bank deposit slips totaling CFA 27 106 696

We isolated the repayments of clients recorded during the period concerned which was CFA 29 572 516, thus indicating a discrepancy of CFA 2 465 820.

. We then noted sums paid by clients for which we were unable to find any trace on the bank statements which totalled CFA 4 641 833

. We were also unable to find the amount of CFA 1 126 518 in the bank statement although it featured in the preparatory listing of cash payments.

Thus, a total amount of CFA 8 234 171, apparently paid by clients but not banked by NTF was identified.

After a detailed investigation conducted by the MU, the above discrepancy was reduced to CFA 1 475 901 (US$ 4 857).

Criteria

All cash receipts should be promptly deposited to the Reimbursement bank account.

Cause

Control procedures regarding loan repayment are not reliable enough to detect errors, omissions or irregularities.

Effect

This situation resulted in fraud and misuse of SSE loan reimbursements made by borrowers.

Recommendation

NTF should reimburse the Project the loan repayments totaling CFA 1 475 901 which were not deposited into the bank.

Management Comments

NTF acknowledged the discrepancy of CFA 1 475 901 but stated that it was an accounting error and not an ambezzlement. They further stated that the Management Unit's accounting and reporting systems were revised to prevent such discrepancies in the future.

FINDING N° 2 - EMBEZZLEMENTS IN SATELLITES

Condition

Several embezzlements totalling CFA 5 785 918 ($ 19 286) had been perpetrated by the Small Business Advisors from the inception of the Project to December 31, 1988, which are itemized below.

The advisor of SOKONE had received loan repayments totaling CFA 267 905 ($ 893) from three borrowers which were not remitted to the M.U. He paid back the above amount and resigned.

The advisor of KAOLACK NORD collected CFA 504 206 ($ 1 680) from five borrowers but did not remit the amount to the M.U. He subsequently returned CFA 202 450 ($ 675) to two of the above borrowers. The remaining amount of CFA 301,756 ($ 1,005) was not accounted for.

The FATICK advisor had misappropriated reimbursements received from clients for CFA 8 495 230 ($ 28 317). Of this amount CFA 4 017 318 was restituted The balance of CFA 4 477 917 (US$ 14 926) remains unpaid.

The former advisor of KAOLACK Centre had misappropriated CFA 803 795 (US$ 2 679).

Criteria

The use of project funds for unauthorized purposes is a fraudulent conduct.

Cause

Due care was not taken by NTF to institute proper and effective loan collection procedures and safeguard project assets.

Effect

Project funds were misappropriated and the effectiveness of SSE program was adversely affected.

Recommendation

We recommend that efforts be undertaken to recover the embezzled funds of CFA 5,785,918 failing which, NTF should be held accountable. Furthermore, control procedures should be implemented to prevent future embezzlement of SSE loan repayments.

We were informed by NTF that lawsuits were being conducted by NTF against the dishonest employees and that new internal control procedures were being implemented.

Management Comments

NTF acknowledged the embezzlements but pointed out that they initiated an audit in 1988 upon becoming aware of the above irregularities. They stated that of the amounts embezzled, CFA 4 477 917 ($ 14 926) remains unpaid and efforts were being made to recover the funds. NTF declined to accept accountabiity for its employees' embezzlements, stating that implementing this large project had been a "natural learning and maturing process".

FINDING N° 3 - PETTY CASH DISCREPANCIES

Condition

The surprise cash counts performed at project sites revealed the following unexplained discrepancies :

Petty cash shortages	Amount in CFA
FATICK	3 465
KAFFRINE	6 725
SOKONE	31 000
KOUNGHEUL	40 660
KAOLACK SOUTH AND CENTER	9 000
Total Shortage	90 850

Petty Cash overage in Head Office

M.U.	31 870

Criteria

Cash count results should always be reconciled to the cash journal balances.

Cause

Due care was not taken by NTF to establish effective petty cash disbursement procedures. The weaknesses of the controls over cash funds resulted in the above discrepancies.

Effect

Project funds totaling CFA 90 850 were misappropriated.

Recommendation

We recommend that above petty cash fund differences be investigated and resolved. Furthermore M.U. should review petty cash control procedures and make necessary improvements. Should M.U. fail to solve the difference, NTF should be held accountable for cash shortages.

Management Comments

NTF acknowledged the above irregularities and stated that the shortages were resolved by November 1988. Revised petty cash procedures had been instituted to strengthen internal controls.

SECTION III

REPORT ON INTERNAL ACCOUNTING CONTROL

REPORT ON INTERNAL ACCOUNTING CONTROL

A. AUDITORS' OPINION

We have performed a financial and compliance audit of the Cooperative Agreement between USAID and the New Transcentury Foundation (NTF) under the Community and Enterprise Development Project n° 685-0260 for the period from July 1, 1985 to December 31, 1988 and we have issued our report thereon dated April 24, 1989.

As part of our examination, we made a study and evaluation of the Project'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 standards for financial and compliance audits 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 fund accountability statement of the project. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control of the Project taken as a whole.

N.T.F. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the contractor are required to assess the expected benefits and related costs of control procedures. The objectives of a control system are to provide the 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 the inherent limitation 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 preriods 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.

Based on our study and the criteria referred to in the first paragraph of this report and taking into consideration the material weaknesses in internal controls as described in the accompanying findings, it is our opinion that the project's internal accounting control system is inadequate for safeguarding the assets and funds of the project from irregularities in amounts that may be material to the Project.

Subsequent to the completion of our field work, NTF prepared an internal control procedures manual in response to our audi findings. We were informed that the new procedures will address the problems identified by this audit and will be implemented shortly.

April 24, 1989
Dakar, Sénégal

B. FINDINGS

FINDING N° 1 - DATA PROCESSING SYSTEM FOR MONITORING SSE LOAN OPERATIONS IS INADEQUATE

Condition

NTF uses a computer program to monitor the SSE loan operations. A review of the system showed the following deficiencies :

The system did not provide the necessary management information for a proper follow-up of the loans, such as a report on delinquent loans at a given date.

The time period required for data entry, processing and printing of information was extremely long.

No editing of the data entered in the system was periodically carried out, such as, a comparison between the computer listing and the loan receipts, or reconciliation between the accounting records and the computer listings. Hence, there was no reconciliation between the accounting records and the reports produced by the computer system.

Criteria

The data processing system to monitor loan activities should provide timely and reliable reports which should be reconciled periodically to the accounting records.

Cause

The software utilized for the computer program was not designed to provide the required information on a timely basis.

Effect

NTF officials were unable to obtain the financial information on a timely basis. This weakness contributed to the embezzlement of loan proceeds by lower-level employees.

Recommendation

We recommend that a system be established so that loan operations and credit management information are integrated with the accounting records.

Management Comments

NTF concurred with this finding. They stated that a new computerized data processing and loan tracking system was introduced in April, 1989 which will provide the required information on a timely basis.

FINDING N° 2 - SSE LOAN AGREEMENTS DO NOT CLEARLY STATE THE TERMS AND CONDITIONS OF LOANS

Condition

Loan agreements between NTF and its clients were not explicit regarding the repayments of loans. The amount of each payment, number of installments to be paid and dates of payments were not specified in these agreements.

Criteria

Loan agreements should be unambiguous and facilitate efficient collection and follow-up by NTF.

Cause

In order to simplify loan contracts and make them easily understandable to SSE clients, NTF did not design an elaborate and comprehensive loan agreement.

Effect

Borrowers were sometimes unable to make correct and timely repayments of the loans and were frequently misinformed by the loan advisors.

Recommendation

The NTF should amend the loan contracts and include repayment schedules to be followed both by borrowers and the loan collectors.

Management Comments

NTF concurred with this finding. They stated that beginning November 1988, loan agreement documents were redesigned to include loan repayment schedules.

FINDING N° 3 - A COMPREHENSIVE OPERATING MANUAL SHOULD BE ESTABLISHED

Condition

There was no written manual on the administrative and financial procedures. Although there were some written guidelines defining the relations between advisors and clients, these documents were not comprehensive.

Criteria

A manual of procedures on the SSE operations and the accounting system is necessary for effective project management.

Cause

Due care was not taken by NTF to establish adequate written procedures before initiating the project activities.

Effect

The project management system was inadequate in several areas thereby resulting in inefficiencies, waste and abuse of project funds.

Recommendation

We recommend that NTF undertake a review of project activities, and establish a comprehensive operating manual.

Management Comments

NTF stated that a comprehensive manual incorporating new control procedures was completed in February, 1989.

FINDING N° 4 - COLLATERALS OFFERED BY BORROWERS ON SSE LOANS ARE NOT LEGALLY ENFORCEABLE

Condition

Collaterals offered as security on the SSE loans were not properly recorded and registered with the authorities in accordance with GOS regulations.

Criteria

Collaterals on loans must be registered in order to be legally enforceable.

Cause

The legal procedures regarding mortgages and other securities were not fully investigated by NTF before granting the loans to SSE clients.

Effect

Loans secured by unregistered and unrecorded mortgages are not enforceable. Therefore, the project has no recourse in the event of defaults by borrowers.

Recommendation

We recommend that the legal requirements with regard to collaterals be complied with and mortgages be registered and recorded by NTF in compliance with applicable laws.

Management Comments

NTF disputed this finding. They stated that SSE credit policies were designed to serve small clients who had no access to loans offered by the organized banking sector. Therefore, less emphasis was given by NTF on borrowers' collaterals and more on cash-flow analyses.

FINDING N° 5 - LOANS ARE GRANTED AND DISBURSED BEFORE COMPLETION OF THE SCREENING PROCESS

Condition

Occasionally, loans were disbursed before the screening of loan applications were completed.

Criteria

Loan approval process must be completed before amounts are advanced to borrowers.

Cause

The above practice resulted from over enthusiasm on part of SSE officials to grant loans rapidly.

Effect

This practice exposes the project to the risk of financing borrowers who may not qualify financially for the loans.

Recommendation

We recommend that amounts be advanced to borrowers only when all conditions of the loan contract are met and loan processing is complete.

Management Comments

NTF stated that only 4 out of 380 loans were processed without adequate screening of loan applicants. These were isolated cases during the initial phase of the project activity.

FINDING N° 6 - APPROPRIATE SEGREGATION OF FUNCTIONS IN THE LOAN MANAGEMENT ACTIVITIES SHOULD BE ESTABLISHED

Condition

The duties of the Small Business Advisors located at the SSE satellite offices include : preliminary screening of loan applications, advice to clients, collection of loan installment repayments and remitting these amounts to the NTF office in Kaolack.

Criteria

A sound system of internal control requires an appropriate segregation of duties and responsibilities to prevent misuse of project funds and to safeguard assets.

Cause

NTF did not institute a division of duties, separating the loan management and advisory functions from the loan collection function.

Effect

Concentration of duties in one individual contributed to widespread misappropriation of loan repayment proceeds by the Small Business Advisors at the SSE field offices.

Recommendation

We recommend that NTF reorganize the loan advisory, management and collection functions so as to effect a proper segregation of duties and responsibilities.

Management Comments

NTF disputed this finding. Because of limited staff resources, they did not separate the loan advisory and collection functions in the SSE satellite offices. NTF introduced new procedures in March 1989, which strengthened internal controls relating to loan collections.

FINDING N° 7 - DOCUMENTARY CONTROLS OVER LOAN REPAYMENTS NEED IMPROVEMENT.

Condition

A review of the controls over accounting for loan installment repayments showed the following deficiencies :

- Receipts were prenumbered but there was no sequential control of those documents,

- When payments were made by borrowers, the receipt forms were not countersigned by the borrower attesting to the correctness of the amounts.

- Other pertinent information, such as the loan identification numbers or the installment period to which the payments relate, were not indicated.

Criteria

The receipt form is a vital control document which should include all pertinent information to ensure satisfactory accounting for loan repayments.

Cause

Due care was not taken by NTF to establish proper controls over loan repayments.

Effect

Lack of adequate controls contributed to embezzlements and fraud in the SSE loan operations.

Recommendation

We recommend that the loan repayment receipt format be improved and controls over accounting for receipts be strengthened by instituting the following procedures:

Form and content of receipts

- Receipts should show the signature of the borrower as well as that of the loan collector so that the amounts shown as paid cannot be disputed.

- Loan identification number should be indicated on each receipt form.

- The dates on which the installments were due must be indicated.

Follow-up of receipts

- Blank receipts must be in the custody of a responsible official who is independent of the collection function.

- Receipts must be prenumbered and printed for each satellite office.

- Accounting for numerical sequence must be carried out by a responsible official who is independent of the collection function.

Management Comments

NTF concurred with this finding. New procedures were implemented in March, 1989 incorporating the auditors' recommendations.

FINDING N° 8 - CONTROLS OVER GAS COUPONS NEED IMPROVEMENT

Condition

A review of the use of gas coupons showed that coupons purchased were not always recorded in the inventory register and coupons utilized to purchase gasoline were not always posted in the vehicle log-books.

Criteria

In order to ensure controls over fuel consumption costs, use of gas coupons must be correctly recorded and controlled.

Cause

NTF did not establish a sound control system which would facilitate an adequate monitoring over use of gas coupons.

Effect

Lack of effective controls do not provide adequate assurance about proper utilization of gasoline coupons.

Recommendation

We recommend that :

- All gas coupons used be recorded in the fuel consumption register which should indicate the name of the user and the purpose of the trip.
- Log-books be periodically updated and amount of gas coupons used be related to the distance traveled.
- Unused coupons be periodically inventoried and reconciled to the quantities per the inventory register.

Management Comments

NTF stated that only four out of the several hundred gas coupons were misused over the life of the project. They did not believe that there were any major problems.

FINDING N° 9 - PROJECT BANK ACCOUNT RECONCILIATIONS WERE NOT MADE ON A TIMELY BASIS

Condition

A review of NTF's bank account reconciliations showed the following :

- The reconciling items were not systematically reviewed and followed up.

- No actions were taken to resolve reconciling items several months after these were identified.

- Bank reconciliation statements were not prepared on a timely basis. For example, the reconciliation of the BNDS bank account balance at September 30, 1993 was not prepared until December 31, 199[illegible]. Also the BNDS PVO bank account was not reconciled for six months.

- Bank reconciliations were not reviewed and approved by a responsible official.

Criteria

Bank reconciliation statements should be prepared timely and reconciling items investigated promptly.

Cause

Due care was not taken by NTF to perform timely reconciliations and resolve outstanding items.

Effect

Errors and irregularities on bank accounts may remain undetected and bank accounts may be vulnerable to misuse.

Recommendation

We recommend that statements of reconciliation be prepared for all bank accounts on a timely basis and all reconciling items be promptly investigated and resolved.

Management Comments

NTF concurred with this finding. However, they pointed out that delays in reconciling the bank accounts were largely caused by the unusually long time taken by banks to mail monthly statements to NTF.

FINDING N° 10 PAYROLL ACCOUNTING AND RELATED PERSONNEL PROCEDURES NEED IMPROVEMENT

Condition

Our review of payroll records and related documentation showed that :

- In one case, an employee was underpaid by CFA 10 000.
- Payroll sheets were not initialed or otherwise approved by a responsible official.
- Employee personnel files were incomplete.
- Salary advances or loans were given to employees although such payments are not authorized by the Cooperative Agreement.
- Statements of "déclaration annuelle des salaires" (yearly tax withholding information statement of each employee) were not transmitted to tax authorities.

Criteria

Salaries paid to employees should be supported by employment contracts in the personnel file. Payroll sheets should be approved by a responsible official. The "declaration annuelle des salaires" should be forwarded to tax authorities no later than January 31, of the following year.

Cause

Due care was not taken by NTF to ensure that proper payroll procedures were instituted and statutory requirements were complied with.

Effect

Failure by NTF to submit statutory payroll withholding information could result in assessment of penalties. Also, lack of proper controls over payroll processing could result in unauthorized salary payments.

Recommendation

We recommend that employee personnel files be periodically reviewed and updated. Payroll tax withholding information should be submitted to tax authorities on a timely basis. The Project Chief should approve payroll summary sheets prior to payment of salaries.

Management Comments

NTF did not concur with this finding. They stated that : all employees have contracts; time sheets are approved by supervisors ; salaries are paid on basis of approved time sheets ; and salary advances were made only in case of extreme need. NTF stated that there was only one case of a late submission of annual tax declaration statement to GOS authorities.

FINDING N° 11 CHECK SIGNATORIES

Condition

The NTF chief of party is the sole check signatory for all Project bank accounts.

Criteria

Sound financial management requires that the checks be signed by at least two individuals, or that a system be established requiring separate authorization and expenditure approvals.

Cause

NTF did not consider it necessary to have two or more check signatories.

Effect

There is a potential for diversion of Project funds for unauthorized purposes, and the absence of the sole check signatory creates difficulties in processing payments timely and efficiently.

Recommendation

Dual signatures for all check payments should be introduced and a system of authorization and expenditure approvals should be instituted.

Management Comments

It was NTF's corporate policy to have only one check signatory. This policy did not cause any problems in project management and did not result in any diversion of project funds. NTF considered its current system of payment authorizations and expenditure approvals adequate to meet the needs of the project.

SECTION IV

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

A. AUDITORS' OPINION

We have performed a Financial and Compliance audit of the statement of expenditure of the Cooperative Agreement between USAID and the New Transcentury Foundation under the Community and Enterprise Development Project n° 685-0260 for the period from July 1, 1985 to December 31, 1988, and we have issued our report dated April 24, 1989.

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 includes additional standards and requirements for the review of compliance with agreement terms and applicable laws and regulations.

We tested transactions and records for the period from July 1, 1985 to December 31, 1988 which included cash disbursements and reporting to determine the Project's compliance with applicable laws, regulations and terms of the Cooperative Agreement between USAID and NTF.

The results of our study indicated that for the items tested, the Project complied with agreement terms and applicable laws and regulations, except as described in the accompanying findings N° 1 to 3. Otherwise, nothing came to our attention that caused us to believe that untested items were not in compliance with agreement terms and applicable laws and regulations.

Price Waterhouse

April 24, 1989
Dakar, Sénégal

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

B. FINDINGS

FINDING 1 - PROJECT ACCOUNTING AND REPORTING PROCEDURES FOR THE CREDIT REVOLVING FUNDS WERE NOT IN ACCORDANCE WITH TERMS OF THE COOPERATIVE AGREEMENT

Condition

The accounting procedures implemented and the accounting records used by the Management Unit to monitor the Credit Revolving Funds, as well as the summary statement of costs claimed were not in accordance with agreement terms. For example, a double entry accounting system was not set up and the project financial reports did not include a balance sheet and income statement.

Criteria

The Cooperative Agreement between USAID and NTF stated that a double entry bookkeeping system must be utilized and financial statements should include a balance sheet, a statement of profit and loss, a statement of cash flow and an aged trial balance.

Cause

NTF did not comply with the accounting and reporting requirements set forth in the Cooperative Agreement between USAID and NTF. Instead, NTF chose to implement a simplified accounting system.

Effect

The accounting and reporting procedures implemented by the M.U. proved inadequate and inappropriate to fully account for project transactions. Furthermore the control procedures adopted were unreliable to prevent and detect irregularities and errors.

Recommendation

We recommend that the M.U. establish an accounting system in accordance with the requirements set forth by the Cooperative Agreement.

Management Comments

NTF acknowledged that the Cooperative Agreement required a double-entry accounting system. However, for practical reasons, NTF chose not to implement the required accounting system. Plans were underway to instal a double-entry accounting system by the end of 1989.

FINDING N° 2 - NON COMPLIANCE ON STATUTORY REPORTING OF SALARIES

Condition

The project did not submit on the due date the annual employee salary tax declaration as required by GOS regulations.

Criteria

GOS tax regulations require that salary taxes for the year be summarized in a statement and filed by January 31 each year.

Cause

The project did not comply with statutory requirements by not filing the annual payroll tax withholding statements of 1988 on the due date with the GOS authorities.

Effect

The M.U. is liable to penalties as a result of this non-compliance.

Recommendation

The project should comply with the local salary tax regulation and file the delinquent tax statements without further delay.

Management Comments

NTF stated that over the life of the project, only one deliquent tax declaration was filed. No penalty was assessed by the tax authorities as a result of this late filing.

FINDING N° 3 - THE ANNUAL PROJECT REVIEWS DID NOT INVOLVE PVOs AND VILLAGE ORGANIZATIONS AND ENTREPRENEURS

Condition

Project Village Organization (PVO), Village Organisations, and Entrepreneurs did not participate in the Project Review Assemblies held each year as required by the Cooperative Agreement.

Criteria

Annual project Review should involve representatives of the National Project Committee, USAID, Regional and Local authorities, PVOs, Village Organizations and Entrepreneurs.

Cause

Due to their large numbers, the Management Unit for practical reasons excluded PVOs, VOs and Entrepreneurs from annual project review assemblies.

Effect

Because the PVOs, VOs and Entrepreneurs did not fully participate in project progress review discussions, the expected degree of involvement and awareness was not achieved.

Recommendation

We recommend that future annual Project Reviews include PVOs, VOs, and Entrepreneurs, or their representatives.

Management Comments

NTF stated that this issue was beyond the scope of a financial and compliance audit. They therefore believed that the above finding should be deleted from the report.

SCHEDULES

SCHEDULE A

NEW TRANSCENTURY FOUNDATION

STATEMENT OF EXPENDITURES
FROM JULY 1,1985 TO DECEMBER 31, 1988

	BUDGET $	EXPENDITURES $
I. Field Staff Salaries	340,933	296,560.98
II. Home Office Salaries	73,057	72,901.89
III Local Hire Salaries	681,866	668,350.52
IV. Field Staff Fringe at 30%	102,280	88,968.32
V. Home Office Fringe at 30%	21,917	21,870.61
VI. Subtoral (I thru V)	1,220,053	1 148 652.32
VII Field Staff Overhead at 30 %	141,206	115,658.77
Field Staff Overhead at 31.1 % (FY85)		325.82
Field Staff Overhead at 32.7 % (FY86)		3,006.05
Field Staff Overhead at 33.6 % (FY87)		3,920.78
VIII. Home Overhead at 60%	60,127	56,863.51
Home Office Overhead at 62.2% (FY85)		187.22
Home Office Overheat at 65.5% (FY86)		1,236.48
Home Office Overhead at 67.2% (FY87)		2,192.38
IX. Subtotal (VII thru VIII)	201,333	183,391.01
X. Consultants	165,596	220,858.04
XI. Travel & Transportation	136,373	120,960.64
XII Per Diem	194,819	145,427.96
XIII Allowances	238,653	185,049.17
XIV Equipment	170,000	169,879.13
XV. Other Direct Costs	511,866	540,552.68
XVI Subcontract	1,052 022	949,452.91
XVII Subgrants & credits funds	3,604,148	2,692,761.07
XVIII Subtotal	6,073,477	5,024,941.60
XIX Total direct costs plus Overhead	7,494,863	6,356,984.93
XX. G & A at 11.8 %	905,137	748,841.71
G & A at 11.8% (FY85)		60.54
G & A at 13.6% (FY86)		18,177.49
G & A at 13.8% (FY87)		45,341.61
	8,400,000	7,169,406.28

NEW TRANSCENTURY FOUNDATION
STATEMENT OF EXPENDITURE IN LOCAL CURRENCY
FROM JULY 1, 1985 TO DECEMBER 31, 1988

SCHEDULE B

DESCRIPTION	COSTS REPORTED	COSTS QUESTIONED	COSTS ACCEPTED
AIRLINE TICKET	8 667 144		8 667 144
ALL CONSULTANT	31 988 911	344 000	31 644 911
AUTOMOBILE RENTAL	89 500		89 500
BUS MILEAGE	743 701		743 701
DIRECT PERSONNEL COSTS	203 888 180	7 780 500	196 107 680
EDUCATION ALLOWANCE	1 093 000		1 093 000
FREIGHT	7 922 811	40 473	7 882 338
GASOLINE	18 418 586		18 418 586
HOUSE HOLD FURNISHING	17 925 928		17 925 928
INTERNATIONAL COURIER SERVICE	1 338 666		1 338 666
MEETING AND CONFERENCE COSTS	22 169 957		22 169 957
MICROCOMPUTER	18 077 267		18 077 267
MISCELLANEOUS	10 266 938		10 266 938
OFFICE EQUIPEMENT	17 507 945		17 507 945
OFFICE EQUIPEMENT MAINT	1 609 938		1 609 938
OFFICE EQUIPEMENT RENTAL	112 000		112 000
OFFICE FURNITURE	15 372 905		15 372 905
OFFICE SUPPLY	10 863 932		10 863 932
PER DIEM	36 315 987	229 128	36 086 859
PERSONNEL FRINGE BENEFITS	18 696 356		18 696 356
PHOTOCOPY EXPENSES	7 867 619		7 867 619
POSTAGE CHARGES	644 561		644 561
PRINTING	3 843 860		3 843 860
RENT AND REPAIRS	59 978 921	5 877 000	54 101 921
SUBG.CRED.FUNDS(PVO)	268 240 684		268 240 684
SUBG.CRED.FUNDS(SSE)	219 006 492		219 006 492
SUBG.CRED.FUNDS(VO)	291 046 387		291 046 387
TELEPHONE COSTS	27 417 216		27 417 216
TRANSLATION COSTS	3 834 000		3 834 000
TRANSPORTATION	3 615 956		3 615 956
UTILITIES	22 917 201		22 917 201
VEHICULE INSURANCE	2 729 801		2 729 801
VEHICULE MAINTENANCE	6 111 013		6 111 013
VEHICULES	9 248 538		9 248 538
RECORDED WITHOUT LINE ITEM NUMBER		87 650	
TOTAL CFA	1 369 571 901	14 358 751	1 355 213 150
TOTAL US $	4 565 240	47 863	4 517 377

SUMMARY OF QUESTIONED COSTS

	CFA	US $
FINDING N° 1	13 045 500	43 485
FINDING N° 4	652 473	2 175
FINDING N° 5	660 778	2 203
	14 358 751	47 863

NEW TRANSCENTURY FOUNDATION

1724 Kalorama Road, N.W.
Washington, D.C. 20009-2624

JOHN T. RIGBY
PRESIDENT

May 11, 1989

Mr. Desaix Meyers
Project Development Officer
USAID/Senegal
BP 49
Dakar, Senegal

Re: Draft Audit Report of 4-24-89
USAID/NTF Cooperative Agreement
Project No. 685-0260

Dear Mr. Meyers:

We want to provide our response and management comments to the subject audit report. We will appreciate your including our response in the appropriate places of the final report.

We believe it important to give some general observations with regard to the content of the audit report, prior to commenting on specific findings of the report. In the first place, with respect to page 6 of the executive summary, we do not believe the amount of the questioned costs are "significant," nor are there "material deficiencies in accounting for expenditures." Questioned costs reported of $47,863 are 1% of total local currency costs incurred during the life of the project, hardly significant nor material in the context of the total project. Furthermore, as described, [illegible] below, the majority of these noted costs ($43,485) are legitimate and allowable expenses under the cooperative agreement.

Second, the audit report's use of the terms "extensive fraud and embezzlement of funds" in the SSE component of the project is, we believe, misleading and not supported by the report. The six cases reported totaled $19,286, which is 1.3% of total SSE lending volume. Furthermore, we believe that the report should indicate clearly that the subject findings resulted from the Management Unit's own discovery of thefts in two areas, as examined by the auditors in a flash audit at our request earlier in the year. The resulting report, dated February 14, 1989, refers to some "misappropriations," "some troublesome uncertainties," and "anomolies of every kind," all of which we followed up and took action on at the time.

Third, the audit report does not quantify any of the supporting data for the conclusion that NTF's system of internal control was inadequate. Nor does the report distinguish between internal controls and systems in place at earlier stages of the project and those currently in place. Consequently, we believe it is unfair and unfounded for the auditors to predict irregularities that may be material to the project.

TELEPHONE: 202 328-4400 TELEX: 6491160 TRANSCEN FAX: 202 328-4420

Mr. Desaix Meyers
May 11, 1989
Page 2

Lastly, the report refers to our participation in the exit conference held on March 17, 1989, and that our comments were taken into account in preparing the report. In fact, our comments were not made a part of this report, as noted by an absence of data in the "management comment" section of each of the reported findings.

Our formal repouse to the draft report follows, keyed to each of the audit findings by [illegible]. We appreciate this opportunity of responding to the report, and trust that our comments will be considered as a contribution to a balanced final document.

Very truly yours,

Dale Coleman
Controller

Enclosure

Response to Audit Findings
Draft Audit Report
USAID/NTF Cooperative Agreement
Project No. 685-0260

Section II Finding No. 1 - The report's reference to Multi Services International should be to Management Systems International, our subcontractor on the project.

Further, the report states that $43,485 of project expenses for MSI employees were paid by NTF. In fact, the subject expenses were paid by the Management Unit (MU), the office established by NTF in Kaolack to administer local currency project expenses incurred in assisting village producer groups and in housing the staff needed to assist SSEs in providing goods and services for development.

The $43,485 paid by the MU was for house rent, utilities, household furnishings and security services for MSI employees working on the project. These expenses were authorized by the USAID/NTF Cooperative Agreement, which includes budgets for both NTF and MSI costs incurred in carrying out the project. Consequently, the subject costs are allowable, reasonable and relevant to project activities. The noted payment thereof does not reduce available resources for project funding, as suggested in the report.

MSI did reimburse these costs: From November 1985 through January 1987, payments went to MU, from February 1987 to April 1988 payments went to NTF/Washington; and from May 1988 forward, payments are going to the MU.

Section II, Finding No. 2 - We agree that the $1,692 of interest earned on project funds should be paid to AID. The MU office will forward a check to the USAID in that amount, made payable to the Treasurer of the United States.

We should note that this interest had been paid to us in increments over several years. We had been retaining it for eventual payment to AID in one lump sum.

Section II, Finding #3 - The report does not provide information on names, dates and amounts with respect to the noted bonuses paid to the small business advisors. Nevertheless, the subject of bonuses were authorised as allowable project expenses. Details follow:

Payment of bonuses to business agents for loan payments (netted against a deduction for loan defaults), was an integral part of the Small Enterprise Component's strategy, and was specifically approved by USAID/Senegal and the National Project Committee. The bonus system was singled out by the 1987 evaluation, and acknowledged by USAID/Senegal, as a factor in the emerging success of the SSE Component.

Response to Audit Findings
Draft Audit Report
USAID/NTF Cooperative Agreement
Project No. 685-0260

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Pursuant to NTF's Work Plan for FY 1986, NTF prepared four operational strategies for project implementation. One of these operational strategies was entitled "Details of a Strategy for Small Enterprise Component of the Project", dated February 1986. This paper specifically outlined the terms of bonus payments to business agents.

The Small Enterprise strategy document was approved by the AID Project Committee on March 20, 1986. (See NTF Quarterly Project Report 2, March 31, 1986, p.3). The strategy document was thereafter approved by the National Project Committee (with USAID participation) on April 2, 1986. (See NTF Annual Report for 1986, p.3, and reference to NPC approval in AID PIL 685-02602, dated October 6, 1986, George Carner (USAID) to Abdourahmane Sow (GOS).

USAID/Senegal's Evaluation Summary for this project, approved by USAID Project Officer William Hammink, October 16, 1987, describes the SSE component as a "nascent success," and among the lessons learned with respect to that success was that "a bonus plan can be an excellent incentive."

Consequently, based on the approved work plan and subsequent project evaluation, we consider that the bonuses paid to business agents were fully allowable as expenses of administering the SSE component of the project. Such payments have not reduced funds available for project use.

Section II, Finding No. 4 - The report refers to $2,175 of local taxes paid by the MU, in contravention of USAID's Project Implementation Letter of June 27, 1986, No. 0260-02. We do not agree with the statement that due care was not taken by NTF to insure that invoices were paid net of taxes. (Please see attachments 1.a through 1.i)

The report should note that 85 percent of the taxes were for utility bills. The utilities (SENELEC, SONEES, and SONATEL) have insisted, under threat of service termination, that we pay the taxes and obtain reimbursement for Impot and Domaines.

The other 15 percent of the taxes were incurred and paid during the initial year of the project, July 1, 1985 through June 30, 1986, while NTF was getting mobilized and buying necessary equipment and supplies in Senegal, prior to issuance of the referenced PIL. During that time, suppliers refused to abate the taxes without government authorization to do so. We attempted to obtain such a letter from USAID, and finally succeeded with the June 27, 1986, PIL.

We have continued to attempt to recover the taxes from the Government of Senegal. We will appreciate USAID's suggestions and assistance in the procedures to be employed in recovering the taxes, considering the bilateral relationship between the U.S Government and the GOS. It should be noted that the referenced PIL is a letter from USAID Mission Director Littlefield to the Ministry of Finance, invoking the tax exoneration provisions of the January 4, 1984, Project Agreement between the GOS and USAID. <u>Section II, Finding No. 5</u> - The report provides details of certain non-allowable expenditures totalling CFA 660,778 (although the correct total is CFA 650,778, or US$2,169). The noted "non-project expenditures" can be justified as allowable costs, as explained below:

The "consulting fee paid by the MU for services rendered to a PVO" (200,000 CFA) is an erroneous citation. Check #281207 for 200,000 CFA was issued to a carpenter on behalf of SOS-Sahel on December 14, 1987, for the construction of chairs for a project-financed training activity. The PVO reimbursed this amount on January 11, 1988.

The "legal fees paid for services rendered to SSE clients" - we paid notary fees in connection with securing the collateral for an SSE client, Mr. Ousmane M'Baye (Dossier #KC294). The amount was then included in his loan. (The amount was 130,000 CFA and not 134,000 CFA).

The report provides a summary of "Travel expense reimbursements in excess of expenditures reported" and "Travel expenses reimbursed without supporting documentation" totalling 316,778 CFA, or $1,056. Both cases involve only two situations each, where supporting documents were lost or mis-filed. The Administrative Officer will take the necessary steps to find the mis-filed documents. The lost documents will be replaced.

We believe that adequate documentation and justification is available to support all of the noted costs and will be pleased to provide such support to the auditors.

<u>Section II, Finding No. 6</u> - This finding concludes that there is an excess of expenses over receipts, totaling $5,029. Stated another way, there is an excess of cash available for local currency expenses, over and above the amount of funds which NTF transferred to the MU during the life of the project. The excess is .10 percent (one tenth of one percent) of total local currency expenditures.

Because of the relatively small amount involved, we do not believe the report's conclusion is proper that "there is no assurance whether local currency expenditures reported by NTF to USAID are reasonably stated and reliable."

Nevertheless, we have investigated the difference. We have concluded that the amount represents payments made by SSE borrowers on their loans, but not deposited to the bank. (Refer to following <u>Section III, Finding No.1</u> for details).

We have also taken action to segregate the repayment of SSE loan funds from the MU to avoid differences of this nature in the future.

Section III, Finding No.1 - As noted earlier, we do not agree with the report's use of the terms "embezzlement" and "fraud and misuse" of SSE loan reimbursements. The report finding does not support these charges, but rather leads to a conclusion that the $4,857 discrepancy was due to accounting error at the MU.

In fact, the amount reported is only $712 different from the excess of cash available for local currency expenses, as reported in Section II, Finding No. 6 (see above). We have reviewed the details of loan collections and have concluded that the $4,857 of payments made by clients but not deposited in the bank was used instead to pay local currency costs of the project.

Consequently, the net shortage of $172 is being investigated by us to determine its cause.

In addition, the MU has revised its accounting and reporting systems to preclude a recurrence of these types of accounting errors in the future.

Section III, Finding No. 2 - The report should note that the information contained therein resulted from the MU's discovery of the noted conditions, and that the auditors were requested by NTF to follow up with an examination and report, which they did in November 1988. As a result, we took several immediate actions to rectify the situation. The report should also be changed to clarify the point that the noted conditions did not emanate from the project's inception. This project began in July 1985, the first SSE loans were made in September 1986, and the first diverted funds were discovered in April 1988.

The current status of the reported conditions follows:

Sokone - the advisor returned the funds and resigned.

Kaolack North - When the auditor found that the advisor had cheated clients, we suspended the advisor from his duties pending our review of the situation.
When our project staff contacted the affected clients to determine the extent of claims against the advisor, the clients signed statements to the effect that neither the advisor nor the project owes them any money. (Please see attachments 2a - 2f). We nevertheless terminated the advisor's employment for poor work.

Fatick - A balance of $14,926 remains unpaid by the advisor. A police warrant (No.10RMA) has been issued for his arrest, and we will continue to follow up on the status.

Kaolack Center - The advisor has paid CFA 650,000 of the amount outstanding, leaving a balance of CFA 153,795 ($513) The advisor is to appear in court on June 6 to pay the remaining amount, at which point we will sue her to recover legal fees and interest. In the meantime, she has spent several weeks in jail as part of our collection process.

The net result is an unpaid amount of $14,926 which is somewhat in doubt of collection. We will continue to pursue this matter with the local authorities, and attempt to bring it to a conclusion.

As noted elsewhere, we have installed new internal control, accounting and loan repayment procedures for the SSE loan activity. We are confident that these systems will function in a manner to preclude a recurrence of this condition.

Because of the nature of this pilot project, and the concomitant risk involved in lending activities for new categories of clients, we do not believe that NTF should be held accountable for resulting losses on some of those loans. In our opinion, we have used our best efforts in administering this very large activity, and in designing and implementing the required accounting and control procedures to manage it. There has been a natural learning and maturing process inherent in the activity, and we have adapted to the changing needs of the project, including firm and rigorous actions in instances where abuses have been uncovered. We should not be made to assume the risks involved in creating, administering and managing a cutting-edge program such as this. We believe the project has been a success, and problems encountered should be measured in the larger context of what has been attempted and what has been accomplished.

<u>Section III, Finding No. 3</u> - We investigated the reported petty cash shortages in the project sites totaling $302. We determined that the condition was caused by a combination of the advisors not completing monthly reports until they visited the MU, and personal advances taken by the respective business advisors.

The missing amounts were correctly accounted for at the end of November 1988. Furthermore, under new internal control procedures initiated by the MU, the business agents now come to the MU at the end of each week, petty cash is accounted for weekly, and the amount of each petty cash fund has been reduced from CFA 35,000 to CFA 10,000, thus reducing total exposure of funds.

<u>Section IV, Finding No. 1</u> - We agree with the thrust of this finding and recommendation.

The staff of NTF and the MU designed and put in place a new and efficient computerized data processing and loan tracking system, as of April 1, 1989. This system responds to all of the SSE program's lending needs, and, we believe, will provide the necessary data and management information needed on a timely basis. Overall SSE activities should function in a more expeditious and reliable manner in the future. (Please see attachment 3).

Section IV, Finding No. 2 - We agree with this finding and recommendation.
Beginning in November 1988, loan repayment schedules have been attached to each new and existing loan agreement.

Section IV, Finding No. 3 - Our response to this finding and recommendation follows:

There is a comprehensive manual of procedures for loan analysis (in use since 1987) and a field agent's manual (in use since 1985 and upgraded in 1988). An overall manual of procedures (which includes the new internal controls) was completed in February 1989 and is now being tested. All of the manuals are currently being revised where necessary to concur with the new internal controls.

Please see attachment 4 for a copy of this document.

Section IV, Finding No. 4 - Our response to this finding and recommendation follows:

Reference here to GOS regulations is misleading. No GOS law requires collateral against loans. The GOS regulations stipulate how to make collateral legally secure enough so as to enable seizure if needed. The degree of security of a guarantee is a management decision based on an institution's credit policy. This is a pilot project that is testing models and making loans successfully in an area and field where the banks and government lending programs have not been entirely successful. Our credit policies are not like those of the large Dakar-based banks that make loans to big businesses. Our clientele consists of small businesses unreachable by, and unattractive to, the conventional banking system. We are seeking to maximize loan efforts, to gain spread effect, and to minimize costs and losses in order to promote sustainability beyond the project.

A major design question since the beginning of this project has been whether/to what degree collateral should be used at all in this project, under what conditions, at what cost, etc. We have been, in effect, basing credit decisions more on cash flow analysis rather than totally on collateral.

The audit report might note that, in weighing the desireability of more stringent collateral requirements, no lending institution exists in Senegal with a reimbursement rate higher than this project.

We recently contracted a lawyer (Maitre BountaDiallo) for further review of collateral registration procedures relevant to a lending activity of this type, based on our accumulated experience and our project objectives. His report was concluded and submitted in April and is being studied by MU for its policy and procedural implications. We will consult with USAID on any decision with regard to this issue.

Section IV, Finding No. 5 - The report finding should note that there were four instances (of over 380 loan decisions) where the screening of loan applications was incomplete. These isolated cases were processed in the initial start-up phase of the lending activity.

Furthermore, each of these loans has been a learning experience (not always negative) that, collectively, has contributed to the development of the screening process, which is now fully in place and being followed on each loan.

Section IV, Finding No. 6 - We do not agree that the effect of the reported condition was to contribute to "widespread misappropriation of loan repayment proceeds."

We see no reason to separate the advisory and loan collection function with the limited staff we have in the SSE satellite offices. In fact, the small business field agents are not involved in loan management.

However, the new internal control system which we began on March 1 has considerably tightened duties centered on loan collections and reimbursements.

Section IV, Finding No. 7 - We agree with the thrust and intent of this finding and recommendation.

Part of our new internal control system includes new receipt forms which were initiated in March 1989. All of the procedures listed in the recommendations were included in the design, use and management of the receipts.

Section IV, Finding No. 8 - The report does not quantify the support for this finding. Based on our own internal review, we learned that the coupon books in question number about four out of a total of several hundred over the life of the project. Consequently, we do not believe that there has been a major misuse of coupons or gas in the project. Furthermore, the Administrative Support Unit of USAID has reviewed and approved our control system, and we believe it is sound.

Nevertheless, we are reviewing our procedures used in the accounting for gas coupons in the future.

Section IV, Finding No. 9 - We agree with the recommendation that the bank reconciliations should be performed on a timely basis. We should note, however, that no errors or irregularities have occurred in our bank accounts. Also, all reconciling items have been resolved on a regular basis.

The actual condition is that bank statements are submitted by the bank between 45 and 90 days after the end of each month. It then takes weeks to resolve reconciling items, since statements and supporting records are prepared in Dakar instead of at the local branch bank office in Kaolack.

Because the BNDS bank has been lax in forwarding monthly statements, we are in the process of transferring our accounts to another bank. We will continue to monitor and follow up on bank reconciliations in order to maintain them as current as possible.

Section IV, Finding No. 10 - We do not agree with the content of this finding. Our comments follow:

All employees do have contracts.

All timesheets are approved by a supervisor and by the Chief of Party.

All salaries are paid against signed timesheets.

Salary advances are given only in cases of extreme need, must be requested in writing, and must be reimbursed in full no later than the end of the month. Project funds are not used for these advances.

We agree that some personnel files lacked memos supporting yearly salary increases.

Except for one instance since the beginning of the project, we have submitted annual tax withholding statements on time to tax authorities. (This subject is addressed in a later section of the report).

Section IV, Finding No. 11 - We do not agree with the effect and recommendation of this finding.

It is NTF's corporate policy to limit check signatories to NTF expatriate employees. Since there has been only one such employee assigned to the project, this has limited our options. However, there has not been any diversion of funds nor any difficulties in making prompt payments as a result.

We believe that our present system of payment authorization and expenditure approval is adequate to meet the needs of the project.

Section V, Finding No. 1 - We do not agree with the reported effect and recommendation of this finding.

It is correct that the Cooperative Agreement called for a double entry accounting system, and for the financial statements to include a balance sheet, statement of profit and loss, statement of cash flow, and an aged trial balance.

However, because of the nature of this pilot project and the rush to get the lending activities underway, the staffing limitations of the MU office, and the need to set certain priorities, we elected to not initiate such an accounting and reporting system in the field. We do not believe that the project has suffered as a result of this decision. (NTF, of course, does have a double entry accounting system at its home office in Washington.)

In our opinion, a formal double entry accounting system in the MU has not been needed on this project. Nor have the various reports as a part of the financial statements, as noted above. Such reports (with the exception of an aged trial balance) are normally considered components of annual audited financial statements, not necessarily a part of periodic management reporting, especially within the context of a pilot start-up project. We have learned that prompt, accurate, and complete monthly financial reporting of field transactions is the most important link between field offices and the home office. The result is then prompt and accurate reporting to AID.

As a result of the natural growth and maturity of the SSE lending activity, and with a view to turning the program over to local control in the future, we have plans to design and install the required accounting and reporting system before the end of 1989. Eventually, as the activity becomes independent and begins financially supporting itself, then the accounting and reporting system will be the responsibility of new local management.

Section V, Finding No. 2 - The report did not quantify the basis for the noted condition.

In fact, during the life of the project, the employee salary tax declaration for 1988 was the only such document filed late, and then by only one month. The respective tax authorities were aware of our delayed filing, and had informed us that no penalty would be due. We so informed the auditors during the period of their field work.

Section V, Finding No. 3 - We do not agree with the conclusion of the auditors on this finding.

In our opinion, the scope of a financial compliance audit is not designed to include a comment on whether project beneficiaries have achieved "the expected degree of involvement and awareness" simply because they did not participate in an annual meeting. There is no quantitative data with respect to the number of beneficiaries interviewed, their attitude, the resulting effect on lending activities, or other criteria to support a negative condition requiring any substantial procedural changes.

We suggest that this finding be eliminated from the final report.

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Embassy of the United States of America

USAID/Senegal
BP 49
Dakar, Senegal

June 5, 1989

Mr. Paul E. Armstrong
Regional Inspector General, Dakar
RIG/A/D

SUBJECT: Non-Federal Audit of the Cooperative Agreement between USAID and the New Transcentury Foundation under the Community and Enterprise Development Project (685-0260)

Dear Mr. Armstrong:

This letter provides the USAID/Senegal response to your draft cover letter dated May 31, 1989 and to the non-federal financial compliance audit dated April 24, 1989, of the Cooperative Agreement between USAID and the New Transcentury Foundation (NTF) under the Community and Enterprise Development project (685-0260). As discussed, we ask that these comments be incorporated into the final audit report issued by RIG.

Responding first to your recommendations, I would like to state our intention to move swiftly to close them as soon as possible. In fact, concerning recommendation no. 3, USAID assures RIG that we will organize annual financial and compliance audits of the NTF local currency expenditure reports by an independent firm of public accountants. We hope that this will close recommendation no. 3.

Recognizing the seriousness of the auditor's comment that NTF declined to provide the auditors a representation letter, we have discussed the matter with NTF and with Price Waterhouse. The letter originally submitted to NTF was a handwritten rough draft. NTF has stated that they are willing to review the letter with the intention of signing.

Referring to the audit report itself, we draw a distinction between the two local currency control systems covered by the audit. The NTF management unit operated two fundementally separate internal control and accounting systems: one for reimbursements of project-provided credit under the small scale enterprise (SSE) credit program; a second for expenditures of USAID project funds. A flash audit ordered by NTF and carried out by Price Waterhouse in November 1988 identified and documented significant internal control problems within the SSE credit program. These problems were restated in the current audit, and 13 of the 23 findings in the current audit relate to the control system of the SSE component.

USAID has taken these problems seriously. In November 1988, even before the results of the flash audit were issued formally, USAID and NTF moved to change procedures, tighten management oversight and install appropriate and adequate internal control and accounting systems for the SSE credit component. When the flash audit was issued in March 1989, USAID instructed NTF to withhold all new SSE loans until the new internal control system was operational and until this audit was issued. New loans have not started again. As mentioned in the management comments, NTF designed and installed a completely revised internal control and accounting system for the SSE credit reimbursements. NTF put the new system into use as of April 1, 1989. The USAID/Senegal Controller has visited Kaolack (his staff has taken five trips to Kaolack since March 1989), reviewed the revised internal control system and procedures manual and certified that the revised system is fully adequate to safeguard and account for the credit reimbursements. USAID will hire a local accounting firm before the end of September 1989 to conduct an internal control review to assure that the control system is functioning properly. In summary, NTF and USAID have moved to bring the internal control system of the small enterprise credit component into conformance with the recommendations presented in this non-federal audit.

Referring to the internal control and accounting system for expenditures of USAID project funds, however, it is our view that the audit has not provided sufficient documentation to warrant the conclusion that this system lacks adequate controls and accounting for "safeguarding the assets and funds of the project from irregularities in amounts that may be material to the project" (p. 23). The findings presented by the auditor concerning the accounting system for project expenditures deal mainly with management issues; expenditures not adequately supported by documentation (Section I, finding no. 5) represent a small percentage of total NTF local currency expenditures. Although the audit did find a discrepancy between the funds received from NTF/Washington and the local currency funds disbursed (Section I, finding no. 6), there is no discussion of systemic problems that would justify the conclusion.

Perhaps more importantly, omissions and inaccuracies detract from the overall substance of the audit report. For example, the current audit fails to note changes in the internal control system of the small enterprise credit component which had occured prior to this audit and of which the auditor was aware. In at least two cases, Section II finding no. 3, and Section III finding no. 2, NTF states that the recommendations were actually carried out in November 1988 and that the stated conditions no longer existed as of December 31, 1988--within the timeframe of the audit. The auditor does not verify or justify the stated findings in light of management comments. Moreover, the discrepancy between management comments and the auditor's findings was pointed out to the auditor during the meeting on May 24, 1989, but no corrections or explanations were offered in the final audit report.

We make the following comments on specific findings in the audit report:

<u>Section I, Finding No. 1</u>: The <u>Condition</u> states: "NTF officials were unable to provide documentary evidence whether MSI subsequently reimbursed NTF for

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these costs." NTF claims that all local-currency costs of MSI employees paid by NTF were reimbursed, and at the meeting on May 24, 1989, NTF officials produced documentation available to the auditor at the time of the audit in Kaolack showing that part of the NTF expenditures made on behalf of MSI were reimbursed into the Management Unit's local currency account. The auditor refused to acknowledge this documentation, nor that documentation existed at the time of the audit and was easily accessible.

In any case, expenses for MSI staff in Kaolack were clearly authorized project expenditures. The cooperative agreement authorizes, under level of effort (Section II, B, p. 34), project expenditures for the training specialist and small enterprise specialist (the two MSI long-term employees in Kaolack) for 24 and 54 months respectively. The cooperative agreement does not specifically state which expenditures are the responsibility of NTF and which are for MSI. The Criteria, Cause, Effect and Recommendation inaccurately refer to these expenditures as "unauthorized project expenditures".

Finding No. 3: The cooperative agreement authorizes NTF to hire "a number of Business Management Extension Advisors" (p. 10, attachment II) as part of the SSE component staff. The SSE component strategy, approved by USAID and the National Project Committee in a Memorandum dated March 25, 1986, distinguished payment of bonuses as an important incentive which is part of the total remuneration package for the advisors. Payment of bonuses was approved by USAID and is not an unauthorized expense in the cooperative agreement.

Section II: Finding No. 1: This finding is entitled "Embezzlements in head office" although the first paragraph under condition mentions "irregularities" and the last paragraph mentions "discrepancy". It has not been proven nor even claimed in the discussion that the irregularities or the discrepancies are in fact embezzlements. It would be more accurate to title the finding "irregularities in the head office".

Finding No. 2: The condition statement concerning the advisor at Kaolack Nord implies that his case is similar to the others; namely embezzlements from the project itself. This case should be more accurately stated since this advisor repaid the project the correct amount but charged the clients more than he should have, thus cheating the clients.

In addition, the condition correctly states that the former advisor of Kaolack centre misappropriated CFA 803,795 in reimbursements. It fails to indicate that the former advisor of Kaolack Centre by the time of the audit had already paid back a total of CFA 650,000 to the revolving credit fund, leaving an outstanding balance of CFA 153,795. As a result, the total outstanding amount of embezzled funds as shown in the recommendation is inaccurate.

In addition, under the management comments section, the audit report inaccurately states that NTF "stated that of the amounts embezzled, CFA 4,477,917 ($14,926) remains unpaid" whereas NTF actually stated that "The net result is an unpaid amount of $14,926 which is somewhat in doubt of collection." (page 7 of Appendix 1) On page 6 of appendix 1, NTF acknowledges that total unpaid amount is the $14,926 remaining to be paid by the former advisor in Fatick and the CFA 153,795 ($513) remaining to be paid by the former advisor in Kaolack centre. The ambiguity results from NTF's expectation that the former advisor in Kaolack centre will repay following the court proceeding scheduled for June 6, 1989.

Finding No. 3: NTF stated that the petty cash discrepancies were investigated and resolved and that new procedures instituted in November 1988, thereby making the condition no longer valid as of December 31, 1988. After receiving NTF's written comments questioning the continued validity of this finding within the timeframe of the audit, the auditor did not go back to verify NTF's statement nor address this discrepancy in the finding.

Section III, Finding No. 2: As mentioned in the management comments (p. 27), NTF advises that this recommendation was actually implemented as of November 1988 as a result of the initial flash audit findings. The Mission representative provided the auditor a copy of one loan agreement dated November 1938 at the May 24, 1989 meeting which included the changes as recommended by the auditor in this finding. However, the auditor kept this finding in the audit with no indication whether the condition still existed although he was given proof of at least one case that the condition no longer existed as of November 1988.

Finding No. 10: One point in the condition states: "Salary advances or loans were given to employees although such payments are not authorized by the Cooperative Agreement." However, the Cooperative Agreement does not and cannot provide authorization for all types of project expenditures. The provision of salary advances or loans tied to salaries is an NTF management decision. It would only be relevant to the provisions of the Cooperative Agreement if, for some specific reason, the Cooperative Agreement specifically prohibited such salary advances.

Finding No. 11: The management comments are stated inaccurately. The audit report (p. 39) quotes from management comments: "It was NTF's corporate policy to have only one check signatory." However, the NTF comments (p. 10 of appendix 1) clearly state that "It is NTF's corporate policy to limit check signatories to NTF expatriate employees. Since there has been only one such employee assigned to the project, this has limited our options."

In summary, therefore, we recognize that serious deficiencies existed in the internal control and accounting systems for SSE credit reimbursements but have addressed them in a completely revised and Mission Controller-approved internal control system. On the other hand, the audit raised the spector of inadequate internal control and accounting for USAID project funds but did not provide adequate evidence to support this opinion. In order to assure that an adequate internal control and accounting system exists for the NTF expenditures side and in conformance with your Recommendation No. 1, the NTF accountant is arriving this week and a trip to Kaolack with the USAID Controller is planned next week to review closely the system and to make any necessary changes. We want to move ahead quickly to assure that completely adequate systems are in place for safeguarding all project funds. I appreciate the opportunity to have these remarks appended to the audit report.

Sincerely

S. J. Littlefield
Director

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