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AUDIT OF
USAID/JAMAICA EMERGENCY
REHABILITATION PROJECT
PART III - NATIONAL DEVELOPMENT FOUNDATION
OF JAMAICA

Audit Report No. 1-532-89-39-N
July 28, 1989

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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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July 28, 1989

MEMORANDUM

TO : USAID/Jamaica, Director, William R. Joslin
FROM : RIG/A/T, *Conrad N. Gothard*
Conrad N. Gothard, Jr.
SURJECT: Audit of USAID/Jamaica Emergency Rehabilitation Project: Part
III, National Development Foundation of Jamaica, Report No.
1-532-89-39-N

This report presents the results of a concurrent non-Federal financial audit of the Emergency Rehabilitation Project, USAID/Jamaica Project No. 532-0185. The draft audit report was submitted to you for comment and your comments are appended to the Part I Report. Because of its size and because Congress requested a detailed accounting of this project, the draft report was divided into five parts. Part I is a consolidated report; Part II reports on the Restoration of Essential Services component; and report Parts III, IV and V contain the results of the audit of the Support for Non-Governmental Organizations Component -- the National Development Foundation of Jamaica, the Kingston Restoration Company Limited, and the Council of Voluntary Social Services/United Way of Jamaica, respectively. The certified public accounting firm of Touche Ross prepared the reports, which are dated May 25, 1989.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement of the project for the period September 28, 1988 to February 25, 1989, (2) the internal control structure, and (3) compliance by the project's implementing entities with applicable laws, regulations, and agreement terms.

Touche Ross disclaimed expressing an opinion on the fund accountability statement of the National Development Foundation (NDF) for the period September 28, 1988 to February 25, 1989, due to certain inadequacies in the National Development Foundation's accounting for disbursements from the grant funds. Their evaluation of the internal control structure disclosed matters that were considered reportable conditions in accordance with generally accepted auditing standards and the U.S. Comptroller General's auditing standards. In their opinion, there was compliance with agreement terms and applicable laws and regulations tested, except for certain instances reported. Nothing came to their attention to indicate non-compliance with items not tested.

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With regard to NDF's accounting for disbursements from grant funds, Touche Ross found that \$665,053 of disbursements and \$638,164 of accrued expenditures were not adequately supported because NDF could not provide a listing of loans approved and disbursed which was directly traceable to A.I.D. funds. NDF had commingled A.I.D. funds with funds from other hurricane relief sponsors and the audit trail for determining which sponsor's funds were used for specific loans was lost. However, NDF was able to provide lists of loans which met A.I.D.'s eligibility criteria even though it could not prove that the specific funds involved were actually A.I.D.'s. A.I.D. considered this attribution method of supporting the funds provided to the organization to be acceptable.

The Touche Ross report does not contain audit recommendations. We attribute this to the concurrent audit approach and your staff's timely work in correcting deficiencies as they were disclosed during the audit.

I appreciate the cooperation and courtesy extended to my staff during the audit.

AUDIT OF THE EMERGENCY REHABILITATION PROJECT

USAID/JAMAICA PROJECT NO. 532-0185

TABLE OF CONTENTS

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

	<u>Page</u>
TRANSMITTAL LETTER AND SUMMARY	
Background	1
Audit Objectives and Scope	1
Results of Audit	3
3.1 FUND ACCOUNTABILITY STATEMENT	
3.1.1 Auditor's Opinion	5
3.1.2 Fund Accountability Statement	6
3.1.3 Notes to the Fund Accountability Statement	7
3.2 INTERNAL ACCOUNTING CONTROL	
3.2.1 Auditor's Opinion	8
3.2.2 Evaluation	10
3.2.3 Other Pertinent Matters	11
3.3 COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS	
3.3.1 Auditor's Opinion	12
3.3.2 Other Pertinent Matters	13

2

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 **Touche Ross**

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TRANSMITTAL LETTER AND SUMMARY

July 14, 1989

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

Dear Mr. Gothard:

This report presents the results of our financial audit of the National Development Foundation (NDF) Component, of the Emergency Rehabilitation Project, USAID/Jamaica Project No. 532-0185 for the period September 28, 1988 to February 25, 1989.

BACKGROUND

Under the NDF Component, USAID/Jamaica granted US\$1,303,260 to establish a fund to provide small business borrowers, who had sustained damages or losses as a result of hurricane "Gilbert", with finances for repairs, improvements, enlargement, replacement or working capital of those businesses.

AUDIT OBJECTIVES AND SCOPE

The overall objective of the examination was to perform a financial audit of the fund accountability statement of the NDF Component for the period September 28, 1988 to February 25, 1989.

Our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision), and accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances, to determine that funds were being properly accounted for and were used in accordance with applicable laws, regulations and agreement terms.

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AUDIT OBJECTIVES AND SCOPE (Cont'd)

July 14, 1989

The scope of our work consisted of the following:

- (a) a review of the fund accountability statement as of February 25, 1989;
- (b) study and evaluation of the internal control structure as considered necessary in the circumstances;
- (c) a review of the agreement under which funds were granted to determine whether USAID/Jamaica and NDF have complied with the applicable laws, regulations and agreements which may have an effect on the fund accountability statement;
- (d) a review of the reconciliation of the special bank account to determine that receipts and disbursements from the funds of the project, are properly accounted for;
- (e) performance of inspections and observations as considered necessary.

The following major audit procedures were carried out in order to meet the stated audit objectives.

1. Obligations

We agreed the total amount of \$1,303,260 to the Grant Agreement and subsequent amendments along with journal vouchers.

2. Earmarks

We compared \$1,303,260 in earmarks to the Project Implementation Orders for Technical Services (PIO/Ts).

3. Commitments

We compared commitments of \$1,303,260 to the commitment documents and to the related PIO/Ts.

4. Disbursements

We examined documentary evidence in support of disbursements totalling \$665,096.

5. Loan Commitments

We reviewed documentation for loans amounting to \$715,804 of total loan commitments of \$1,320,698 presented by NDF.

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AUDIT OBJECTIVES AND SCOPE (Cont'd)

July 14, 1989

6. Bank Account

We traced grant funds to the special bank account. We also obtained a bank confirmation of the bank balance.

RESULTS OF AUDIT

The results of our work are included in the following three reports:

- (a) Report on the fund accountability statement
- (b) Report on the internal accounting controls
- (c) Report on the compliance with applicable laws, regulations and agreement terms

Fund Accountability Statement

As more fully discussed in Sections 3.2.2 and 3.2.3 of this report, there were certain inadequacies in NDF's accounting for disbursements from the grant funds. In addition, we were unable to obtain adequate documentation in support of the amounts of \$665,096 and \$638,164 reflected in the fund accountability statement as disbursements and accrued expenditure respectively. As a result, it was not practicable to extend our auditing procedures to enable us to formulate an opinion on the amounts shown as disbursements and accrued expenditure.

Because of the significance of the matter outlined in the preceding paragraph, we are unable to, and do not, express an opinion on the fund accountability statement.

Internal Accounting Control

Our evaluation was limited to an understanding of the control environment and the flow of transactions through the accounting system in relation to the project activities. As a result, we do not express an opinion on the internal control structure of the NDF taken as a whole.

However, our evaluation disclosed certain matters which came to our attention. Details of these matters are outlined in Sections 3.2.2 and 3.2.3 of this report.

RESULTS OF AUDIT (Cont'd)

July 14, 1989

Compliance with Applicable Laws, Regulations and Agreement Terms

Our review of the applicable agreements and regulations that could have an effect on the fund accountability statement of the project disclosed that NDF complied with the tested terms of such agreements, except for the matters which are described in detail in Section 3.3.2 of this report.

Nothing came to our attention that caused us to believe that items not tested were not in compliance with applicable laws, regulations and agreement terms.

Touche, Ross, Herburn & Co.

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.1.1 AUDITOR'S OPINION - FUND ACCOUNTABILITY STATEMENT

We have examined the fund accountability statement of the NDF Component of the Project, for the period September 28, 1988 to February 25, 1989. Except as explained in the second paragraph below, our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision), and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully discussed in Sections 3.2.2 and 3.2.3 of this report, there were certain inadequacies in NDF's accounting for disbursements from the grant funds. In addition, we were unable to obtain adequate documentation in support of the amounts of \$665,096 and \$638,164 reflected in the fund accountability statement as disbursements and accrued expenditure respectively. As a result, it was not practicable to extend our auditing procedures to enable us to formulate an opinion on the amounts shown as disbursements and accrued expenditure.

Because of the significance of the matter outlined in the preceding paragraph, we are unable to, and do not, express an opinion on the fund accountability statement.

This report is intended solely for the use of the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Touche, Ross, Thorburn Co.

Kingston, Jamaica,
May 25, 1989

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.1.2 FUND ACCOUNTABILITY STATEMENT

FEBRUARY 25, 1989
(All amounts in US\$)

<u>ELEMENT</u>	(1) <u>OBLIGATIONS</u> \$	(2) <u>EARMARKS</u> \$	(3) <u>COMMITMENTS</u> \$	(4) <u>DISBURSEMENTS</u> \$	(5) <u>ACCRUED EXPENDITURE</u> \$
National Development Foundation	1,303,260	1,303,260	1,303,260	665,096	638,164

Explanation of Column Headings

- (1) Obligation: is the amount made available by USAID/Jamaica to pay for goods and services for projects and is established by a signed project agreement or amendments to the agreement.
- (2) Earmark: represents an implementation action of a project which involves funding. Earmarks are generally approved bilaterally by signatures on project implementation orders or project implementation letters, including prevalidation of fund availability by USAID/Jamaica.
- (3) Commitment: is the recognition of the execution of a contractual document such as a Purchase Order or Contract for Services.
- (4) Disbursement: is the amount disbursed for goods and services.
- (5) Accrued Expenditure: represents cost incurred during a given period for goods received and services rendered but not billed, or billed but not paid.

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.1.3 NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FEBRUARY 25, 1989

NOTE 1. OBJECTIVE OF PROJECT

USAID/Jamaica provided NDF with a grant to establish a fund to provide small business borrowers, who had sustained damages or losses as a result of hurricane 'Gilbert', with finances for repairs, improvement, enlargement, replacement or working capital of those businesses.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Expenditures of the project are reflected in the fund accountability statement on the accrual basis.

Exchange Rate

The basic records of the project are kept in United States dollars. Disbursements made in Jamaican dollars are translated to United States dollars at the rate of exchange prevailing at transaction date.

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.2.1 AUDITOR'S OPINION - INTERNAL ACCOUNTING CONTROL

In planning and performing the audit of the fund accountability statement of the NDF Component of the Project for the period September 28, 1988 to February 25, 1989, we considered the internal control structure of the NDF in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure. Our evaluation was limited to an understanding of the control environment and the flow of transactions through the accounting system in relation to the project activities.

For the purposes of this report, we considered significant controls in the following areas:

1. Receipt of Grant
2. Approval of Loans
3. Transfer of Funds to Branch Bank Accounts
4. Disbursement of Loans
5. Accounting and Reporting

Our evaluation of the internal control structure disclosed certain matters involving the project's execution that we consider reportable conditions in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Reportable matters involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure of certain implementing entities that, in our opinion, could adversely affect the ability of those entities to record, process, summarise and report financial data consistent with the assertions in the fund accountability statement.

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EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.2.1 AUDITOR'S OPINION - INTERNAL ACCOUNTING CONTROL

- 2 -

Reportable conditions are described in Sections 3.2.2 and 3.2.3 of this report, in which we include all the specific controls evaluated and the results of that evaluation.

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Touche, Ross, Thorburn & Co.

Kingston, Jamaica,
May 25, 1989

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.2.2 INTERNAL ACCOUNTING CONTROL EVALUATION

<u>Area</u>	<u>Control Feature</u>	<u>Evaluation</u>
1. Receipt of Grant	- Acknowledgement of receipt of funds.	Satisfactory.
	- Funds lodged to special bank account.	Satisfactory.
2. Approval of Loans	- Approval/ratification by Credit Committee.	Satisfactory. However, see Section 3.2.3.
	- Preparation of monthly list of loans approved and disbursed.	Unsatisfactory. No lists prepared.
3. Transfer of Funds to Branch Bank Accounts	- Transfer supported by disbursement list.	Unsatisfactory. No lists prepared.
	- Acknowledgement of receipt of funds.	Substantive approach adopted:-
	- Lodgement to Branch Bank Account.	Cheques drawn on special bank account examined for proper endorsement and evidence of lodgement to branch bank account.
4. Disbursement of Loans	- Supported by relevant documentation.	Satisfactory. However, see section 3.2.3.
5. Accounting and Reporting	- Monthly reconciliation of special bank account.	Reconciliations not prepared as withdrawals are few and represent transfers to branch bank accounts.
	- Federal Cash Advance Status Reports supported by loan listings (commitments and/or disbursements).	Unsatisfactory. Report not supported as described. See Section 3.2.3.

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.2.3 OTHER PERTINENT MATTERS - INTERNAL ACCOUNTING CONTROL

Certain exceptions revealed during the course of our audit are as follows:

1. Approval of Loans

Our review revealed instances of deficiencies in loan documentation:

- (a) Not all minutes of Credit Committee meetings were signed as approved by the Chairman
- (b) There were some instances in which the Statement of Personal Affairs, stating the borrower's assets and liabilities, were either not signed by the borrower, or were not available.
- (c) The financial statements for certain corporate borrowers were not available.

2. Disbursement of Loans

At times, the credit committee approves loans subject to certain conditions being fulfilled. We noted two (2) instances, where disbursements had been made, but we were unable to obtain documentation evidencing that these conditions had been met, eg. formal agreement, land title.

3. Accounting and Reporting

The disbursements as reported on the Federal Cash Advance Status Reports were not in agreement with totals per the loan listings.

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.3.1 AUDITOR'S OPINION -- COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS

We have performed a financial audit of the fund accountability statement of the NDF Component of the Project for the period September 28, 1988 to February 25, 1989, and have issued our report thereon dated May 25, 1989. Our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

In connection with our examination, we selected and tested transactions and records to determine compliance with agreement terms and applicable laws and regulations as considered necessary in the circumstances.

The results of our review indicated that for the items tested, NDF was in compliance with the applicable laws, regulations and agreement terms except as described in Section 3.3.2. Additionally, nothing came to our attention that caused us to believe that items not tested were not in compliance with applicable laws, regulations and agreement terms.

This report is intended solely for the use of the United States Agency for International Development. This restriction is not intended to limit distribution of this report, which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Touche, Ross, Thorburn & Co.

Kingston, Jamaica,
May 25, 1989

EMERGENCY REHABILITATION PROJECT
USAID/JAMAICA PROJECT NO. 532-0185

3.0 NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA (NDF)

3.3.2 OTHER PERTINENT MATTERS - COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS

The following exception was revealed during the course of our audit:

Asset limit for borrowers

We understand that under NDF's normal lending procedures, borrowers should have business assets valued at an amount less than J\$500,000, excluding land and building. We observed, for the loans examined, that -

- (a) Most of the borrowers were evaluated on the basis of gross assets (without deduction of liabilities) whereas in one case, the borrower was evaluated on the basis of net assets (after deduction of liabilities). The definition of "assets" should be clarified.
- (b) In two cases, gross assets exceeded the guideline of J\$500,000. The explanation given in one case was that the business was a partnership and, as the loan was to be given to one partner, the value of the assets should be halved. The other case was not explained.
- (c) In one case, the loan was to be given to a food processing company, (a fairly large company with gross assets of approximately J\$17,000,000) for on - lending to carrot farmers. As this appears to be a sub-project to be administered by the food processing company, steps should be taken to ensure that the loans are properly accounted for.

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