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NON-FEDERAL AUDIT OF BUDGETARY SUPPORT TO DEVELOPMENT MINISTRIES IN CHAD, PROJECT NO. 677-0055

Audit Report NO. 7-677-90-03-N

March 25, 1990

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

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March 25, 1990

MEMORANDUM FOR Bernard D. Wilder, Representative USAID/Chad

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

SUBJECT: Non-Federal Audit of Budgetary Support to Development Ministries in Chad, Project No. 677-0055, Audit Report No. 7-677-90-03-N

Attached is the subject report prepared by Price Waterhouse, Abidjan, Ivory Coast.

On May 19, 1988 A.I.D. signed a grant agreement with the Government of Chad (GOC) to provide $7 million for financing payroll and other operating expenses for the civilian ministries in Chad for the period April 1 to December 31, 1988. This assistance is a continuation of A.I.D.'s budgetary support program to Chad that commenced in 1984.

The audit objectives were to determine whether: (i) A.I.D. funds were disbursed by GOC in accordance with the terms of the grant agreement; (ii) GOC internal controls relating to receipts and disbursements of the funds were adequate; and (iii) the project was in compliance with applicable USAID and GOC laws and regulations.

Price Waterhouse reported serious deficiencies in internal controls and widespread non-compliance by GOC officials with terms of the grant agreement. This resulted in financial irregularities such as unauthorized diversion of A.I.D. funds, commingling of the project bank account with non-project funds and questionable payroll accounting practices. These findings are summarized below:

- Statements received from the bank were not reconciled with the project's cash receipts and disbursement records since inception of the program. The audit

identified a discrepancy of CFA 55,394,228 ($184,648) as of December 31, 1988. In a meeting held on July 15, 1989 the auditors notified USAID/Chad and GOC of this discrepancy. However, it was not until November, 1989 that USAID/Chad was able to confirm that GOC had restituted CFA 54,647,482 of the missing funds, still leaving a balance of CFA 746,746 ($2,490) to be accounted for. No satisfactory explanation was provided either by GOC or USAID/Chad as to how such large amounts of project funds could have been diverted with such facility from a restricted bank account and remain undetected for several months until discovered by an audit.

- The project bank account was commingled with funds totaling CFA 1.5 billion ($4.5 million) received from a French Government grant. GOC officials attributed this to an administrative error and stated that the commingled $4.5 million was subsequently utilized for purposes stipulated by the French Government and that USAID funds were not affected.

- Controls relating to payroll processing were seriously deficient. Payroll identification documents (census cards) were not properly accounted for and employees' earnings records did not include number of days worked by each employee. Consequently, the system did not provide adequate assurance that payroll records were accurate and reliable or that salaries were paid only to bonafide employees.

In March, 1987 and January, 1988, Price Waterhouse issued two non-Federal audit reports on A.I.D.'s budgetary support to Chad. Both reports identified GOC's failure to reconcile bank accounts and institute adequate payroll procedures. A more recent audit of expenditures from October 1986 to September 1989 disclosed similar problems. Recommendations were made for corrective action which were apparently not implemented by the GOC. Had those recommendations been implemented, the financial irregularities described above could have been averted and GOC internal controls considerably strengthened.

We note with concern that GOC internal controls on accounting for A.I.D. funds have not improved measurably in spite of the two prior audits. Rather, they have apparently deteriorated to the point where diversions of A.I.D. funds and commingling of bank accounts are taking place, raising serious doubts on the integrity of the program.

Also, recent developments in Chad have raised more doubts in our minds about the soundness and reliability of GOC's financial controls. In September 1989, USAID/Chad notified RIG/A/D by cable that several GOC officials were arrested following discovery of an embezzlement scheme of several hundred million CFA francs. The embezzlements reportedly covered the salary payment process in the GOC Ministry of Finance. While neither Mission officials nor Price Waterhouse uncovered any evidence of a linkage between A.I.D. funds and the embezzlements, we are still concerned that, given the current situation, U.S. Government funds are vulnerable to waste, abuse and fraud.

We have a pending request from AID/Chad to initiate yet another non-Federal audit in April, 1990 of the fourth phase of A.I.D.'s budgetary support to Chad. While we would be glad to assist, we strongly emphasize that no useful purpose would be served by these audits if the GOC continues to disregard the audit recommendations. USAID/Chad should therefore take firm action and require immediate and permanent corrective action by the Government of Chad to safeguard A.I.D. funds from waste and abuse.

This report makes two recommendations which will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No.1

We recommend that:

a. **the A.I.D. Representative, Chad, require the Government of Chad to establish within ninety days from issuance of this report an internal accounting control system that includes: preparing monthly bank reconciliations; maintaining and updating a register to account for employee payroll identification documents (census cards); and computing employees' earnings on basis of attendance records which show the number of days worked by each employee;**

b. **the USAID/Chad Controller certify that such a system has been established and is being implemented by the Government of Chad; and**

c. **if the USAID/Chad Controller is unable to provide such certification within ninety days from issuance of this**

report, USAID/Chad suspend further project funding to the Government of Chad until required corrective action has bee taken.

Recommendation No.2

We recommend that the A.I.D. Representative, Chad:

a. require the Government of Chad to restitute CFA 746,746 ($2,490) of missing A.I.D. funds to the project bank account; and

b. require the USAID/Controller to investigate the circumstances of the diversion of CFA 55,394,228 ($184,648) and institute a set of procedures in collaboration with the GOC that would prevent such an occurrence in the future; and

c. suspend further project funding to the Government of Chad until the required restitution of funds, and above investigative actions have been completed.

Please advise within 30 days of actions taken to implement the recommendations. I appreciate the cooperation and courtesy extended to Price Waterhouse during the audit.

AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF EXPENDITURE OF US $ 7,000,000
PROVIDED IN TWO TRANCHES UNDER
THE BUDGETARY SUPPORT TO DEVELOPMENT
MINISTRIES IN CHAD - PROJECT No. 677-0055

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AUDIT OF EXPENDITURE OF US $ 7,000,000
PROVIDED IN TWO TRANCHES UNDER
THE BUDGETARY SUPPORT TO DEVELOPMENT
MINISTRIES IN CHAD - PROJECT No. 677-0055

ACRONYMS

USAID	United States Agency for International Development
GOC	Government of Chad
SDM	Budgetary Support to Development Ministries
RIG/A/D	Regional Inspector General for Audit, Dakar

AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF EXPENDITURE OF US $ 7,000,000
PROVIDED IN TWO TRANCHES UNDER
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MINISTRIES IN CHAD - PROJECT No. 677-0055

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Section I - Transmittal Letter

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Price Waterhouse

July 15, 1989

Mr Paul E. Armstrong
Regional Inspector General for Audit
United States Agency for International Development
Dakar
Senegal

Dear Mr. Armstrong,

1. INTRODUCTION

In accordance with your instructions contained in your letter of June 1, 1989 and the work order attached to it, we have carried out an audit of the expenditure of an amount of US $ 7,000,000 provided in two tranches under the Budgetary Support to Development Ministries in Chad, project No.677-0055.

2. BACKGROUND

2.1 The grant agreement relating to the Budgetary Support to Development Ministries in Chad was signed on May 19, 1988 between The Government of Chad (GOC) and The United States of America acting through the Agency for International Development (USAID). This is a continuation of a budget support program that started in 1984 and is made up of two tranches of US $ 3,500,000 each i.e. a total of US $ 7,000,000, in order to help the GOC finance its projected budget deficits in 1988 by paying salaries and other operating expenses of civilian ministries. According to the terms of the grant agreement, all salaries paid under the grant will be at the level of at least 60 percent of the pay scale of the GOC.

2.2 The first and second tranches of US $ 3,500,000 each were made available in June and December, 1988 to cover expenditure incurred during the period from April 1, to December 31, 1988.

2.3 Under the grant agreement, GOC is required to submit to USAID a "utilization plan" describing the nature of expenditures the GOC intends to fund from the grant. When the USAID funds are made available to GOC and are disbursed, GOC is required to submit to USAID an expenditure statement for a specific period. This statement is referred to as an "interim utilization report".

2.4 The tranches are mainly utilized to pay the monthly salaries of GOC employees. In order to ensure that salaries are made to bona fide employees, the most reliable evidence is the census card of the employees. The census cards are sequentially numbered and provide summarized personal data of an employee. These cards are also part of the internal control structure of GOC's payroll system.

3. AUDIT OBJECTIVES AND SCOPE

3.1 The objectives of the audit were to determine whether the grants were disbursed:

(a) according to the utilization plan submitted by the GOC;

(b) under adequate financial controls; and

(c) in compliance with the grant agreement terms.

3.2 The audit was conducted in accordance with generally accepted US auditing standards, *Government Auditing Standards* issued by the Comptroller General in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether, in this case, the interim utilization reports are free of material misstatement

3.3 The results of our audit are presented in the following three sections of this report :

(a) Report on statements of expenditure

(b) Report on internal control structure

(c) Report on compliance with agreement terms and applicable laws and regulations.

4. AUDIT PROCEDURES

Our audit procedures included but were not limited to :

4.1 reviewing the grant agreement and related documents between USAID and the GOC;

4.2 examining the statements of utilization plans submitted by the Ministry of Finance and approved by USAID and the interim utilization reports submitted by the GOC, and testing the reasonableness, allowability and propriety of project expenditure from April 1, 1988 to December 31, 1988;

4.3 reviewing and reconciling the GOC's disbursement accounts with BIAT (Banque Internationale pour l'Afrique au Tchad) and Central Bank of Chad;

4.4 determining whether salaries were actually paid to government employees within the Development Ministries and that equipment purchased were delivered;

4.5 determining whether the project has complied with applicable laws and regulations and the grant agreement terms, and being alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures.

5. RESULTS OF AUDIT

5.1 Interim Utilization Reports

(a) We examined the interim utilization reports for the two tranches amounting to US $ 7 million submitted by GOC for the period from April 1, 1988 to December 31, 1988 and established that an undisbursed fund balance of F CFA 55,394,288 was missing from the grant's bank accounts.

Our enquiries revealed that the missing amount was transferred to a GOC bank account. As we were not authorized to examine this bank account, we are unable to determine whether expenditures incurred out of this GOC account would have qualified as allowable expenses under the grant agreement terms.

USAID/Chad has subsequently confirmed that GOC has returned to the USAID bank account an amount of F CFA 54 647 482 towards restoring the amount identified as missing, leaving F CFA 746 746 still outstanding to be reimbursed by the GOC.

(b) The validation of salary statements indicated that in April 1989, six soldiers employed as policemen were paid a total of F CFA 225,000 from the grant funds. As the grant agreement expressly prohibits the payment of salaries to military or paramilitary personnel, this amount is questionable.

5.2. Internal control structure

Our review and evaluation of the internal control structure for the disbursement of the grant revealed the following :

(a) There was one case of a payment totalling F CFA 55 394 288 being made without being recorded in the books. The payment was not discovered early enough because bank reconciliations were not prepared and reviewed on a monthly basis. This relates to the item already covered under paragraph 5.1(a) above.

(b) Two census cards out of a sample of 52 selected for testing could not be located. However, we ascertained that the employees were bona government employees through a review of past salary statements and bank account authentification of the employees.

(c) The GOC's Treasury was not reconciling both the disbursement account and the special bank account on a monthly basis.

(d) The GOC submitted monthly payroll statements do not indicate the actual number of days worked by each employees. This omission has already been reported previously.

5.3 Compliance with applicable laws and regulations and with grant agreement terms

Our study of the applicable laws and regulations and the grant agreement terms revealed that funds provided by USAID were commingled with a grant donated by the French Government.

A French Government grant totalling F CFA 1 500 million was mistakenly deposited in the USAID budgetary support special bank account. Subsequently, a number of disbursements amounting to F CFA 1 500 million were paid out of this account. In other words, the Project bank account was utilized for the transactions on the French Government grant but USAID funds were not utilized.

5.4 Exit conference

At the exit conference on July 15, 1989, the audit findings and recommendations were discussed with GOC's Treasury and with USAID/Chad officials, whose comments are taken into consideration in preparing this report.

* * * * *

We would like to thank the USAID and GOC officials for the assistance extended to us in connection with our examination.

Should you need further information or explanations, please contact Mr. H. Ghazarossian or Mr. A. Diabagate of our office.

Very truly yours,

Price Waterhouse

Section II - Report on Statements of Expenditure

REPORT ON THE TWO INTERIM UTILIZATION STATEMENTS SUMMARIZED AND PRESENTED AS SCHEDULE A

1. AUDITORS' OPINION

We have audited the two interim utilization reports, covering the period from April 1, 1988 to December 31, 1988, summarized and presented as Schedule A, of the expenditure incurred under the Budgetary Support to Development Ministries in Chad, Project No. 677-0055, in connection with a grant of US $ 7,000,000. These reports are the responsibility of the GOC's Treasury. Our responsibility is to express an opinion on these reports based on our audit.

We conducted our audit in accordance with generally accepted US auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim utilization reports are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the reports. In this specific case, it included testing costs claimed against the grant agreement terms. We believe that our audit provides a reasonable basis for our opinion.

Schedule A is not intended to present either the financial results of operations of the project or its financial position in conformity with generally accepted accounting principles.

Under the terms of the grant agreement, salaries should be paid exclusively to employees working in Development Ministries. The agreement expressly prohibits any salary payment to military or paramilitary personnel. On one occasion, salaries amounting to F CFA 225,000 were paid to policemen. This amount is questionable.

In our opinion, except for questionable costs totalling F CFA 225 000, more fully described in the attached finding 2, the interim utilization reports for the two tranches presented on Schedule A covering the period from April 1, 1988 to December 31, 1988 present fairly, in all material respects, the expenditure incurred under the grant agreement.

The first and second interim utilization statements showed total expenditures of F CFA 1,938,675,724, and total receipts of F CFA 1,996,209,488 over the period from April 1, 1988 to December 31, 1988, as detailed on Schedule A. This should have resulted in an undisbursed balance of F CFA 57,533,764 at December 31, 1988. The verification of the grant's accounts at the Central Bank and BIAT revealed that the actual available funds at December 31, 1988 amounted to F CFA 2,139,536 only. The difference of F CFA 55,394,228 between the undisbursed balance and the actual available funds could not be accounted for by the GOC. As more fully described in the attached Finding 1, the GOC has since restored F CFA 54 647 482 out of this leaving F CFA 746 746 unaccounted for.

Price Waterhouse

July 15, 1989

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REPORT ON INTERIM UTILIZATION STATEMENTS

2. REPORTABLE CONDITIONS

Finding 1
Missing cash funds.

CONDITION
Unutilized cash funds amounting to F CFA 55,394,228 were missing in the grant's bank accounts.

Explanation	Amounts in F CFA
Funds provided	1 992 700 000
Interest income	3 509 488
Total funds provided	1 996 209 488
Expenditures incurred in 1988	1 938 675 724
BIAT bank account balance	1 717 284
Central Bank, account balance	422 252
Total	1 940 815 260
Missing funds	55 394 228

Our enquiries revealed that the missing funds were transferred to a GOC bank account to which we had not access. Consequently, it was impossible to us to establish with certainty the ultimate use to which these funds may have been put. Furthermore, the bank transfer was not recorded in the books of account.

CRITERIA
Unutilized cash funds should be maintained in the grant's bank accounts and accounted for in the interim utilization reports. All transactions should be recorded.

CAUSE
The GOC's Treasury does not reconcile the project's bank accounts at BIAT and the Central Bank of Chad with statements sent by the banks.

EFFECT
The Project funds were diverted and deposited on a GOC bank account in violation of the grant agreement terms regarding accountability of funds.

RECOMMENDATION
We recommend that the unaccounted funds should be reimbursed by the GOC's Treasury and that disbursements should be carried out in compliance with utilization plan submitted by the GOC. All transactions should be entered in the records of GOC.

MANAGEMENT COMMENTS
GOC Treasury officials agreed with the finding and confirmed that they were not aware of the discrepancy. They indicated that they will take appropriate steps for the restitution of the missing funds.

AUDITORS' COMMENTS
Subsequent to the audit, GOC officials have restored the missing funds to the extent of F CFA 54 647 482. USAID/Chad, in its cable message dated November 30, 1989 identified under reference number "unclass Ndjamena 06658" addressed to RIG/A/Dakar, confirmed that GOC has corrected the situation through a deposit of F CFA 54 647 482 into the USAID budget support account. The message also indicates that the USAID Project manager has obtained a copy of the September 1989 bank statement of the USAID bank account which shows that a sum of F CFA 54 647 482 was redeposited, leaving an unexplained discrepancy of F CFA 746 746.

Finding 2
Questioned costs

CONDITION
The salaries of six military employees totalling F CFA 225,000 were paid out of grant funds.

CRITERIA
The grant funds should be used exclusively to pay salaries of government employees of the Development Ministries.

CAUSE
The six policemen guarded the GOC's Treasury offices during the month of April 1988. It is the practice in Chad for guards to be paid directly by the protected institution.

EFFECT
The GOC has disregarded terms of the grant agreement which expressly exclude salary payment to military or paramilitary personnel.

RECOMMENDATION
We recommend that, in order to comply with the grant agreement terms, project funds should be used for making payments exclusively to civilians employed by Development Ministries. Furthermore, the salaries paid to the police and amounting to F CFA 225,000 should be questioned.

MANAGEMENT COMMENT
GOC officials acknowledged this practice but stated that it is the practice in Chad that guards be paid directly by the protected institution : the six policemen guarded the Centre Treasury premises and were paid by the Central Treasurer.

Section III - Report on Internal Control Structure

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REPORT ON INTERNAL CONTROL STRUCTURE

1. AUDITORS' OPINION

We have audited the two interim utilization reports covering the period from April 1, 1988 to December 31, 1988, summarized and presented as Schedule A, of the expenditure incurred under the Budgetary Support to Development Ministries in Chad, Project No.677-0055, in connection with a grant of US $ 7,000,000 and have issued our report thereon dated July 15, 1989.

We conducted our audit in accordance with generally accepted US auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim utilization reports are free of material misstatement.

In planning and performing our audit of the interim utilization reports of GOC's Treasury for the period from April 1, 1988 to December 31, 1988, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the interim utilization reports and not to provide assurance on the internal control structure.

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

For the purpose of this report, the significant areas of internal control structure are the following:

a) Cash receipts and payments, and
b) Payroll/personnel

For both of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the interim utilization reports.

The reportable conditions are described in the accompanying Findings 1 to 4, presented on pages 16 to 20.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that, except for Finding 1 regarding the missing funds of F CFA 55.4 million, none of the reportable conditions described above is a material weakness.

Price Waterhouse

July 15, 1989

REPORT ON INTERNAL CONTROL STRUCTURE

2. REPORTABLE CONDITIONS

Finding 1
Missing funds.

CONDITION
Unutilized cash funds amounting to F CFA 55,394,228 were missing in the grant's bank accounts.

Explanation	Amounts in F CFA
Funds provided	1 992 700 000
Interest income	3 509 488
Total funds provided	1 996 209 488
Expenditures incurred in 1988	1 938 675 724
BIAT bank account balance	1 717 284
Central Bank, account balance	422 252
Total	1 940 815 260
Missing funds	55 394 228

Our enquiries revealed that the missing funds were transferred to a GOC bank account to which we had not access. Consequently, it was impossible to us to establish with certainty the ultimate use to which these funds may have been put. Furthermore, the bank transfer was not recorded in the books of account.

CRITERIA
Unutilized cash funds should be maintained in the grant's bank accounts and accounted for in the interim utilization reports. All transactions should be recorded.

CAUSE
The GOC's Treasury does not reconcile the project's bank accounts at BIAT and the Central Bank of Chad with statements sent by the banks.

EFFECT
The Project funds were diverted and deposited on a GOC bank account in violation of the grant agreement terms regarding accountability of funds.

RECOMMENDATION
We recommend that the unaccounted funds should be reimbursed by the GOC's Treasury and that disbursements should be carried out in compliance with utilization plan submitted by the GOC. All transactions should be entered in the records of GOC.

MANAGEMENT COMMENTS
GOC Treasury officials agreed with the finding and confirmed that they were not aware of the discrepancy. They indicated that they will take appropriate steps for the restitution of the missing funds.

AUDITORS' COMMENTS
Subsequent to the audit, GOC officials have restored the missing funds to the extent of F CFA 54 647 482. USAID/Chad, in its cable message dated November 30, 1989 identified under reference number "unclass Ndjamena 06658" addressed to RIG/A/Dakar, confirmed that GOC has corrected the situation through a deposit of F CFA 54 647 482 into the USAID budget support account. The message also indicates that the USAID Project manager has obtained a copy of the September 1989 bank statement of the USAID bank account which shows that a sum of F CFA 54 647 482 was redeposited, leaving an unexplained discrepancy of F CFA 746 746.

Finding 2
Payroll documents

CONDITION
Two census cards (employee identification cards) out of a selected sample of 52 employees could not be located.

CRITERIA
Census cards, the main documents providing evidence that a person is a genuine government employee, should be adequately safeguarded and filed.

CAUSE
The current payroll system is manual. Consequently, payroll documents are handled by several individuals at the end of each month. The risk of misplacing census cards is high.

EFFECT
Census cards may be lost or temporarily misplaced.

RECOMMENDATIONS
We recommend that a register should be kept to identify the persons who take census cards in the course of performing their duties. The return of the cards should also be noted, thus ensuring a proper follow up of all census cards.

MANAGEMENT COMMENT
GOC officials agreed with the finding and indicated that this condition will be resolved when the payroll system becomes fully automated.

AUDITORS' COMMENT
In the case of the two employees whose census cards could not be located, we established through enquiries that they were genuine employees of the GOC.

Finding 3
Bank reconciliations

CONDITION

The bank balances at BIAT and the Central Bank of Chad were not being reconciled with statements received from the banks, as recommended in the previous non-Federal audit reports.

CRITERIA
A bank reconciliation statement should be prepared, reviewed and approved on a monthly basis by the GOC's Treasury.

CAUSE
The GOC has not undertaken the necessary measures to implement previous audit recommendations.

EFFECT
Unauthorized bank transactions may remain undetected, and commingling of project funds with other government funds could remain undetected and unrectified. In the absence of bank reconciliations, we tested all payments above F CFA 10 million. Our tests did not reveal any case of unauthorized transactions. The missing F CFA 55.4 million reported in Finding 1, came to light when the bank reconciliation was prepared as no record of the transfer to a GOC bank account was available.

RECOMMENDATION
We recommend that, on a monthly basis, a bank reconciliation statement should be prepared, reviewed and approved by a GOC official for each of the two bank accounts.

MANAGEMENT COMMENT
GOC Treasurer agreed with the finding and plans to take such steps as may be necessary in order to prepare a bank reconciliation statement for each bank account on a monthly basis.

Finding 4
Attendance records

CONDITIONS
The payroll statements submitted by the Ministries for the payment of salaries do not mention the number of days worked by the employees.

CRITERIA
The number of days of actual presence in the place of work should be indicated on the payroll statements, in order to ensure that salary computations take account of relevant data.

CAUSE
The GOC has not undertaken the necessary measures to implement the previous non-Federal audit recommendation.

EFFECT
In the absence of adequate information for control purposes, certain overpayments of salaries may pass undetected.

RECOMMENDATION
We recommend that the monthly payroll statements, prepared by Development Ministries for payment of salaries, should mention the actual number of days worked and that the computation of salaries should be made accordingly.

MANAGEMENT COMMENTS
The Government of Chad disagreed with the audit finding and noted that it is GOC practice that salaries are paid to government employees without any consideration of office attendance records.

AUDITORS' COMMENTS
GOC should take appropriate measures to monitor employees attendance in order to pay salaries on the basis of effective presence of employees and thus avoid overpayment of salaries.

Section IV - Report on Compliance with Applicable Laws and Regulations and with Agreement terms

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Price Waterhouse

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

1. **AUDITORS' OPINION**

We have audited the two interim utilization reports covering the period from April 1, 1988 to December 31, 1988, summarized and presented as Schedule A, of the expenditure incurred under the Budgetary Support to Development Ministries in Chad, Project No. 677-0055, in connection with a grant of US $ 7,000,000 and have issued our report thereon dated July 15, 1989.

We conducted our audit in accordance with generally accepted US auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim utilization reports are free of material misstatement.

Compliance with laws, regulations, contracts and grants is the responsibility of the management of GOC's Treasury. As part of obtaining reasonable assurance about whether the interim utilization reports are free of material misstatement, we performed tests of the GOC Treasury's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, GOC's Treasury complied, in all material respects, with the provisions referred to in the preceding paragraph except as described in the accompanying finding 1. With respect to items not tested, nothing came to our attention that caused us to believe that GOC's Treasury had not complied, in all material respects, with those provisions.

Price Waterhouse

July 15, 1989

Société à Responsabilité Limitée
au Capital de 2 000 000 de F CFA
RC 16.987 Abidjan - Côte d'Ivoire

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

2. REPORTABLE CONDITIONS

Finding 1
Commingling of funds

CONDITION
A French Government grant totalling F CFA 1 500 million was mistakenly deposited in the USAID budgetary support special bank account and thereafter, a number of disbursements amounting to F CFA 1 500 million, equivalent to the deposit, were paid out from the special bank account.

CRITERIA
The funds provided for under the grant should not be commingled with funds from other donors. The project's special bank account should receive deposits from USAID only and pay expenditures incurred in connection with the project only.

CAUSE
The project's bank accounts at BIAT and the Central Bank of Chad were not reconciled on a monthly basis as recommended by previous non-Federal auditors.

EFFECT
Had the grant transactions been closely monitored and the funds adequately segregated, fund balances would have been accounted for properly.

RECOMMENDATION
We recommend that the grant transactions should be accounted for separately and USAID bank accounts should not be commingled with funds from other donors.

MANAGEMENT COMMENT
GOC Treasury officials acknowledged that, on one occasion, a French Government grant of F CFA 1 500 million was mistakenly deposited by the Central Bank in the USAID budgetary support bank account, but they noted that the expenditures paid out of the account did not exceed the French Government grant.

SCHEDULE A

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
BUDGETARY SUPPORT TO DEVELOPMENT MINISTRIES PROJECT
No. 677 00 55
For the period from April 1, 1988 to December 31, 1988

	US $	AMOUNT F.CFA
FUNDS PROVIDED		
Fund Provided for 1st tranche	3 597 750	1.025.000.000
Fund Provided for 2nd tranche	3 402 250	967.700.000
Interest income	12 314	3.509.488
Total Fund Provided	7 012 314	1.996.209.488
FUNDS APPLIED		
Salary disbursements		1.068.551.536
Salary disbursements		863.979.188
Purchase of non-expendable commodities		6.345.000
Total Funds Applied		1.938.675.724
FUNDS BALANCE at December 31, 1988		57.533.764
FUNDS AVAILABLE at December 31, 1988		2.139.536
FUNDS MISSING*		55.394.228

* See subsequent events as reported by USAID/Chad. GOC has deposited F CFA 54 647 482 in the USAID bank account, leaving an unexplained discrepancy of F CFA 746 746.

STATEMENT OF EXPENDITURES /// ITUATION DES PAIEMENTS EFFECTUES AU TITRE DE LA SUBVENTION USAID POUR L'ANNEE 1988

Prepared by GOC to account for grant donated under Project No.677 0055 - Period from April 1 to December 31, 1988

SCHEDULE B

DEPART.MINIST.	SECT.	ENCAIS.I°TR.	ENC.2°TRANC.	INT.RECUS.	TOTAL DES ENCAISSEMENTS	PPAI.EFF.I°TR.	PAIE.EFF.2°TR.	PAIE.EN PERIODE COMPL.	TOTAL DES PAIEMENTS	DISPONIBILITE SEMENTS
		1.025.000.000	967.700.000	3.509.488	1.996.209.488					
S. G. G.	2					27.691.699	21.912.989		49.604.688	
C. N. C.	3					37.329.599	29.840.776		67.170.375	
Plan-Coopérat.	4					28.705.549	23.710.098		52.415.647	
Information	5					69.970.385	55.737.234		125.707.619	
I. G. C. E.	6					32.512.472	33.569.911		66.082.383	
Finances-Inf.	9					159.743.309	125.804.055		285.547.364	
Fonction Publi.	10					15.587.766	12.194.987		27.782.753	
Justice-Gde-Se.	11					44.669.555	35.547.961		80.217.516	
Ed.Nationale	14					210.825.239	166.225.669		377.050.908	
Santé Publique	15					106.876.592	86.607.868		193.484.460	
Aff.Sociales	16					22.850.494	18.907.321		41.757.815	
Travil.Emploi	17					11.714.460	9.778.095		21.492.555	
Sécurité Alim.	18					10.124.343	7.718.958		17.843.301	
Agriculture	19					73.733.160	59.978.549		133.711.709	
Elevage-Hydr.	20					52.401.746	41.064.540		93.466.286	
Tourisme-Art;s.	21					39.850.887	32.789.324		72.640.211	
Culture-Jeun.	22					23.522.615	22.511.412		46.034.027	
Commerce_Indust	23					26.787.432	21.075.810		47.863.242	
Mines - Energie	24					14.520.977	12.160.415		26.681.392	
Travaux Publics	25					44.112.667	33.915.961		78.028.628	
Postes & Téles.	26					5.812.631	4.542.647		10.355.278	
Transport Aér.	27					9.007.959	8.384.608		17.392.567	
Equipement Finances								5.000.000	5.000.000	
Recenst.Fonctionnaires								1.345.000	1.345.000	
TOTAL		1.025.000.000	967.700.000	3.509.488	1.996.209.488	1.068.351.536	863.979.168	6.345.000	1.938.675.724	57.533.7
Solde en Banque										1.717.2
Total Disponible										59.251.

Certifié Exact la présente Situation

Le Trésorier Général

- CHENI KODRIMI

(/U Le Directeur du Budget

- P.ELICIEN MAINGAR

(/U Le Directeur C.Financier I.G. C.E.

- CHETIMA ALI HASSAN

(/U Le Ministre Délégué à la Présidence de la République chargé de l'ISCE

- KOROM AHMED

(/U Le Ministre des Financ de l'Informatique

- NGARNAYAL MBAILEDANA

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